

CONSOLIDATED FINANCIAL STATEMENTS

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Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight, control and reporting responsibilities for Desjardins Group. It also oversees the organization's cultural shift, where the focus is on doing what's best for members and clients. The AIC's mandate consists primarily of:

- Analyzing the financial statements and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor
- Ensuring that a compliance management framework is applied

The AIC reviews the Federation's interim and annual financial statements and Management's Discussion and Analysis, its prospectuses, and its annual information form. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the Federation. The AIC analyzes the information resulting from this financial governance process every quarter.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to the Federation's Board of Directors, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of key stakeholders. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Federation's entities.

The AIC works with the Federation's Board of Ethics and Professional Conduct (BEPC) to ensure the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC must issue an annual notice to the BEPC confirming that the Chief Monitoring Officer performed their internal audit duties without any obstruction from management. The AIC also works with the BEPC on the process to recommend the appointment or removal of the Chief Monitoring Officer as head of the monitoring function to the Federation's Board of Directors. The AIC analyzes the internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to the Federation's relations with the *Autorité des marchés financiers* (AMF) in Québec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group; the Executive Vice-President of Finance, Treasury and Administration and Chief Financial Officer of Desjardins Group; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, every two years the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of six independent directors, four of whom are elected and two of whom are co-opted by the Board of Directors. There are also four observers: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc., the chair of the Federation's Risk Management Commission, and a caisse general manager who sits on the Federation's Board of Directors. Except for this general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards, personal information protection, information security and issues related to the COVID-19 pandemic. All AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter.

The AIC held six meetings and one training session for its members in fiscal 2020. As at December 31, 2020, the six independent directors who are members of the AIC are: Johanne Charbonneau, FCPA, FCGA; Lisa Baillargeon, CPA, CMA; Sonia Corriveau; Louis Babineau; Stéphane Corbeil and Jean-François Laporte. The four observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; Benoit Bélanger and Michel Doré. Pierre Perras also participated in the AIC's activities until the end of his mandate on April 30, 2020.

Johanne Charbonneau, FCPA, FCGA

Chair

Montréal, Québec
February 22, 2021

Management’s Responsibility for Financial Reporting

The Consolidated Financial Statements of the *Fédération des caisses Desjardins du Québec* (the Federation) and all information included in its annual Management’s Discussion and Analysis are the responsibility of management, which is responsible for ensuring reporting integrity and accuracy.

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of the Autorité des marchés financiers (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada’s generally accepted accounting principles. These Consolidated Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the relevant segments. All financial information in the annual Management’s Discussion and Analysis is consistent with these audited Consolidated Financial Statements.

Management is responsible for the accuracy of the Federation’s Consolidated Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. They include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of the Federation, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2020, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of the Federation on a regular basis.

For the purposes of approving the financial information contained in the annual report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The commission is mandated by the Board of Directors to review the Federation’s Consolidated Financial Statements and its Management’s Discussion and Analysis. The Audit and Inspection Commission comprises 6 independent directors, 4 elected and 2 co-opted board members and 4 observers, who help ensure necessary alignment with the Risk Management Commission, insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Consolidated Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation’s General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Alain Leprohon, CPA, CA
Executive Vice-President, Finance, Treasury, Administration and
Chief Financial Officer
Desjardins Group

Lévis, Québec
February 24, 2021

Independent auditor's report

To the Members of the *Fédération des caisses Desjardins du Québec*

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the *Fédération des caisses Desjardins du Québec* and its subsidiaries (together, the Federation) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Federation's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes to the consolidated financial statements. These disclosures are cross-referenced from the consolidated financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Federation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Federation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Federation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Federation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Federation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Federation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Federation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Federation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Linda Beauparlant.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.⁽¹⁾

⁽¹⁾CPA auditor, CA, public accountancy permit No. A117693

Montréal, Québec
February 24, 2021

Consolidated Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2020	As at December 31, 2019
ASSETS			
Cash and deposits with financial institutions		\$ 11,513	\$ 3,084
Securities			
	6		
Securities at fair value through profit or loss		34,958	35,167
Securities at fair value through other comprehensive income		40,361	12,650
Securities at amortized cost		29	1,616
		75,348	49,433
Securities borrowed or purchased under reverse repurchase agreements		11,592	11,352
Loans			
	7 and 8		
Residential mortgages		3,440	4,183
Consumer, credit card and other personal loans		19,091	20,567
Business and government		33,777	40,827
		56,308	65,577
Allowance for credit losses	7	(639)	(464)
		55,669	65,113
Segregated fund net assets	9	19,093	17,026
Other assets			
Clients' liability under acceptances		328	380
Premiums receivable		2,807	2,689
Derivative financial instruments	20	6,975	4,795
Amounts receivable from clients, brokers and financial institutions		2,508	2,239
Reinsurance assets		1,962	2,001
Right-of-use assets	10	291	298
Investment property	11	910	944
Property, plant and equipment	11	907	840
Goodwill		156	121
Intangible assets	12	424	381
Investments in companies accounted for using the equity method	13	1,189	1,034
Deferred tax assets	27	1,013	1,015
Other	14	2,387	1,668
		21,857	18,405
TOTAL ASSETS		\$ 195,072	\$ 164,413
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
	15		
Individuals		\$ 4,331	\$ 3,715
Business and government		53,169	48,924
Deposit-taking institutions		14,906	6,333
		72,406	58,972
Other liabilities			
Acceptances		328	380
Commitments related to securities sold short		9,353	10,615
Commitments related to securities lent or sold under repurchase agreements		19,152	10,562
Derivative financial instruments	20	6,753	4,827
Amounts payable to clients, brokers and financial institutions		6,810	5,552
Lease liabilities	10	346	350
Insurance contract liabilities	16	34,871	31,637
Segregated fund net liabilities	9	19,089	17,002
Net defined benefit plan liabilities	17	1,984	1,956
Deferred tax liabilities	27	273	277
Other	18	5,649	5,373
		104,608	88,531
Subordinated notes	19	1,493	1,398
TOTAL LIABILITIES		178,507	148,901
EQUITY			
Capital stock	22	8,884	8,884
Undistributed surplus earnings		5,442	5,276
Accumulated other comprehensive income	23	738	249
Reserves		751	330
Equity – Group's share		15,815	14,739
Non-controlling interests	13	750	773
TOTAL EQUITY		16,565	15,512
TOTAL LIABILITIES AND EQUITY		\$ 195,072	\$ 164,413

The accompanying notes are an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,

Guy Cormier
Chair of the Board

Serge Rousseau
Vice-Chair of the Board

Consolidated Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2020	2019
INTEREST INCOME			
Loans		\$ 2,229	\$ 2,806
Securities		377	216
		2,606	3,022
INTEREST EXPENSE			
Deposits		821	1,327
Subordinated notes		57	72
Other		100	123
		978	1,522
NET INTEREST INCOME	25	1,628	1,500
NET PREMIUMS	16	10,028	9,525
OTHER INCOME			
Assessments		394	393
Service agreements		818	773
Lending fees and credit card service revenues		634	782
Brokerage and investment fund services		954	886
Management and custodial service fees		648	610
Net investment income	25	2,926	2,970
Overlay approach adjustment for insurance operations financial assets		(42)	(192)
Foreign exchange income		103	70
Other	21	258	557
		6,693	6,849
TOTAL INCOME		18,349	17,874
PROVISION FOR CREDIT LOSSES	7	539	310
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	16	9,257	9,149
NON-INTEREST EXPENSE			
Remuneration and other payments		669	660
Salaries and fringe benefits		2,662	2,443
Premises, equipment and furniture, including depreciation		636	556
Service agreements and outsourcing		260	359
Communications		223	221
Other	26	2,786	2,733
		7,236	6,972
OPERATING SURPLUS EARNINGS		1,317	1,443
Income taxes on surplus earnings	27	305	212
SURPLUS EARNINGS BEFORE DIVIDENDS TO MEMBER CAISSES⁽¹⁾		1,012	1,231
Dividends to member caisses		113	115
Tax recovery on dividends to member caisses	27	(30)	(31)
NET SURPLUS EARNINGS FOR THE YEAR AFTER DIVIDENDS TO MEMBER CAISSES		\$ 929	\$ 1,147
of which:			
Group's share		\$ 845	\$ 1,101
Non-controlling interests' share	13	84	46

⁽¹⁾ The Group's share of "Surplus earnings before dividends to member caisses" is presented in Note 30, "Segmented Information".

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Comprehensive income

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
Net surplus earnings for the year after dividends to member caisses	\$ 929	\$ 1,147
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	18	(272)
Share of associates and joint ventures accounted for using the equity method	-	(3)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	4	8
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(3)	-
	19	(267)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	610	152
Reclassification of net gains to the Consolidated Statements of Income	(173)	(36)
	437	116
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	60	198
Reclassification of net gains to the Consolidated Statements of Income	(25)	(41)
	35	157
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	21	(7)
Reclassification to the Consolidated Statements of Income of net losses on derivative financial instruments designated as cash flow hedges	3	2
	24	(5)
	496	268
Total other comprehensive income, net of income taxes	515	1
COMPREHENSIVE INCOME FOR THE YEAR	\$ 1,444	\$ 1,148
of which:		
Group's share	\$ 1,349	\$ 1,095
Non-controlling interests' share	95	53

The accompanying notes are an integral part of the Consolidated Financial Statements.

Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	\$ 6	\$ (98)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	(1)	3
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(1)	-
	4	(95)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	218	55
Reclassification of net gains to the Consolidated Statements of Income	(64)	(13)
	154	42
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains	15	49
Reclassification of net gains to the Consolidated Statements of Income	(8)	(14)
	7	35
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	8	(2)
Reclassification to the Consolidated Statements of Income of net losses on derivative financial instruments designated as cash flow hedges	1	1
	9	(1)
	170	76
Total income tax expense (recovery)	\$ 174	\$ (19)

Consolidated Statements of Changes in Equity

For the years ended December 31

	Capital stock (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Reserves			Equity - Group's share	Non-controlling interests (Note 13)	Total equity
				Stabilization reserve	General and other reserves	Total reserves			
(in millions of Canadian dollars)									
BALANCE AS AT DECEMBER 31, 2018	\$ 8,779	\$ 4,764	\$ (9)	\$ 417	\$ (146)	\$ 271	\$ 13,805	\$ 748	\$ 14,553
Net surplus earnings for the year after dividends to member caisses	-	1,101	-	-	-	-	1,101	46	1,147
Other comprehensive income for the year	-	(264)	258	-	-	-	(6)	7	1
Comprehensive income for the year	-	837	258	-	-	-	1,095	53	1,148
Issuance of F capital shares	105	-	-	-	-	-	105	-	105
Redemption of shares of capital stock	-	(1)	-	-	-	-	(1)	-	(1)
Payments to member caisses	-	(1)	-	-	-	-	(1)	-	(1)
Remuneration on capital stock	-	(115)	-	(152)	-	(152)	(267)	-	(267)
Issuance of share capital	-	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	-	(35)	(35)
Transfer between surplus earnings to be distributed and reserves	-	(211)	-	-	211	211	-	-	-
Other	-	3	-	-	-	-	3	-	3
BALANCE AS AT DECEMBER 31, 2019	\$ 8,884	\$ 5,276	\$ 249	\$ 265	\$ 65	\$ 330	\$ 14,739	\$ 773	\$ 15,512
Net surplus earnings for the year after dividends to member caisses	-	845	-	-	-	-	845	84	929
Other comprehensive income for the year	-	15	489	-	-	-	504	11	515
Comprehensive income for the year	-	860	489	-	-	-	1,349	95	1,444
Net buy-out of non-controlling interests	-	-	-	-	-	-	-	(93)	(93)
Loss on dilution of non-controlling interest	-	(14)	-	-	-	-	(14)	-	(14)
Remuneration on capital stock	-	(250)	-	-	-	-	(250)	-	(250)
Dividends	-	-	-	-	-	-	-	(25)	(25)
Transfer between surplus earnings to be distributed and reserves	-	(423)	-	-	423	423	-	-	-
Equity transactions relating to related party transactions	-	(7)	-	-	(2)	(2)	(9)	-	(9)
BALANCE AS AT DECEMBER 31, 2020	\$ 8,884	\$ 5,442	\$ 738	\$ 265	\$ 486	\$ 751	\$ 15,815	\$ 750	\$ 16,565

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 1,317	\$ 1,443
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	267	251
Net change in insurance contract liabilities	3,234	2,873
Provision for credit losses	539	310
Net realized gains on securities classified as at fair value through other comprehensive income	(228)	(45)
Net gain on disposal of property, plant and equipment, intangible assets and investment property	(113)	(3)
Overlay approach adjustment for insurance operations financial assets	42	192
Other	203	(79)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	209	1,747
Securities borrowed or purchased under reverse repurchase agreements	(240)	2,734
Loans	8,905	(3,586)
Derivative financial instruments, net amount	(256)	1,101
Net amounts receivable from and payable to clients, brokers and financial institutions	989	695
Deposits	13,434	915
Commitments related to securities sold short	(1,262)	(214)
Commitments related to securities lent or sold under repurchase agreements	8,590	(5,671)
Other	(557)	(94)
Payment of the contingent consideration	(206)	(209)
Income taxes paid on surplus earnings	(245)	(137)
Dividends paid to member caisses	(115)	(70)
	34,507	2,153
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	997	-
Redemption of subordinated notes	(899)	-
Repayment of lease liabilities	(47)	(30)
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	(4)	20
Issuance of F capital shares	-	105
Payments to member caisses	-	(1)
Redemption of share capital	-	(1)
Remuneration on capital stock	(267)	(260)
Issuance of share capital	-	7
Net buy-out of non-controlling interests	(107)	-
Dividends paid	(25)	(35)
	(352)	(195)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(58,452)	(48,777)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	14,853	13,513
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	18,102	33,944
Payment of the contingent consideration recognized at acquisition date	(2)	(35)
Business acquisition, net of cash and cash equivalents acquired	(57)	-
Acquisitions of property, plant and equipment, intangible assets and investment property	(325)	(280)
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	155	23
	(25,726)	(1,612)
Net increase in cash and cash equivalents	8,429	346
Cash and cash equivalents at beginning of year	3,084	2,738
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 11,513	\$ 3,084
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,045	\$ 1,311
Interest received	3,089	3,430
Dividends received	193	233

The accompanying notes are an integral part of the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – INFORMATION ON THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

Nature of operations

The *Fédération des caisses Desjardins du Québec* (the Federation) is the cooperative entity which is responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. Its role is also to protect the interests of Desjardins Group members. The Federation provides its member caisses with a variety of services, including certain technical, financial and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence over the Federation.

In addition, the Federation is the parent company of several financial services subsidiaries. The various business segments in which the Federation operates are described in Note 30, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

Pursuant to the *Act Respecting Financial Services Cooperatives* (the Act), these Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Consolidated Financial Statements for the current year. Accordingly, an amount of \$39 million was moved from the "Other income – Other" to the interest income and expense items in the "Net interest income" heading, resulting in a change to these items by \$107 million and \$68 million respectively. In addition, amounts of \$34 million and \$11 million has been moved from the heading "Non-interest expense" and "Other income – Other" to the heading "Claims, benefits, annuities and changes in insurance contract liabilities". These reclassifications had no impact on net surplus earnings.

The Consolidated Financial Statements for the year ended December 31, 2020 were approved by the Board of Directors of the Federation on February 24, 2021.

The significant measurement and presentation rules applied to prepare these Consolidated Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, impairment of financial instruments, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, dividends to member caisses, employee benefits as well as intangible assets. Consequently, actual results could differ from those estimates and assumptions.

The COVID-19 pandemic created new sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Consolidated Financial Statements. The Federation closely monitors the development of the pandemic and its impact on its profit and loss and financial position:

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

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

Principles of consolidation

The Consolidated Financial Statements of the Federation include the assets, liabilities, operating results and cash flows of the Federation and its subsidiaries. The financial statements of all subsidiaries have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

The Federation administers various funds in accordance with the provisions of the Internal By-laws adopted at the General Meeting. For the purposes of the Consolidated Financial Statements of the Federation, these funds have been grouped together and are designated as a Group.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give the Federation control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

Subsidiaries

An entity is considered as a subsidiary when it is controlled by the Federation. The Federation controls an investee if and only if it has all the following:

- Power over the investee.
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by the Group. They are presented separately in the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income and in equity, in the Consolidated Balance Sheets.

Associates

An associate is an entity over which the Federation exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. The Federation investments in associates are presented under "Investments in companies accounted for using the equity method" in the Consolidated Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in the Federation's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which the Federation has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. The Federation's investments in joint ventures are presented under "Investments in companies accounted for using the equity method" in the Consolidated Balance Sheets.

Presentation and functional currency

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

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

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date the Federation becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business models

The Federation's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how the Federation manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to the Federation at the date of the assessment.

The Federation's business models are defined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

The classification and measurement of financial assets can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial assets	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
	At fair value through other comprehensive income (iv)	Classified as at fair value through other comprehensive income (v)	Fair value	Fair value
		Designated as at fair value through other comprehensive income (vi)	Fair value	Fair value
	Amortized cost (vii)		Fair value	Amortized cost

(i) Financial assets included in the "At fair value through profit or loss" class comprise financial assets "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of financial assets included in this class are recorded under "Net investment income" in the Consolidated Statements of Income.
- Interest income calculated using the effective interest method and dividend income from securities included in the "At fair value through profit or loss" class of the Personal and Business Services segment and the Other category are recognized under "Interest income – Securities" and, for the other segments, such income is mainly recognized under "Net investment income".

(ii) Financial assets "Classified as at fair value through profit or loss" include the following:

- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Section n), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

Certain financial assets "Classified as at fair value through profit or loss" are designated for the overlay approach. For more information, see the "Application of the overlay approach to insurance operations financial assets" section of this note.

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

(iii) Financial assets “Designated as at fair value through profit or loss” are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

The Federation’s financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the “At fair value through other comprehensive income” class comprise financial assets “Classified as at fair value through other comprehensive income” and “Designated as at fair value through other comprehensive income”. Therefore:

- Changes in fair value of financial assets included in this class, except for changes related to the loss allowance for expected credit losses and exchange gains and losses on financial assets “Classified as at fair value through other comprehensive income”, are recorded in the Consolidated Statements of Comprehensive Income as net unrealized gains and losses. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Consolidated Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Consolidated Statements of Income and are reclassified immediately to undistributed surplus earnings.
- Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category. For the other segments, they are mainly recognized under “Net investment income”.

(v) Financial assets “Classified as at fair value through other comprehensive income” include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

(vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that are held on a long-term-basis.

(vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

Securities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Consolidated Statements of Income when it is recognized by the Personal and Business Services segment and the Other category. For the other segments, it is recognized mainly under “Net investment income”.

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

Application of the overlay approach to insurance operations financial assets

The Federation elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”. To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, “Financial Instruments: Recognition and Measurement”.
- It is held in respect of an activity connected with contracts within the scope of IFRS 4.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Consolidated Statements of Income under IFRS 9 and the amount that would have been reported if the Federation had continued to apply IAS 39. As a result, net surplus earnings related to designated financial instruments reported in the Consolidated Statements of Income correspond to the amount that would have been reported if the Federation had continued to apply IAS 39.

Reclassifications under the overlay approach are presented under “Overlay approach adjustment for insurance operations financial assets” in the Consolidated Statements of Income and under “Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets” in the Consolidated Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2023 or until the adoption of IFRS 17, if earlier.

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers the following accounting policies as well as foreign currency fair value hedge accounting for equity instruments under IAS 39.

“Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are initially recognized at fair value. They are subsequently measured at fair value, and gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Consolidated Statements of Comprehensive Income until the financial asset is derecognized. Premiums and discounts on the purchase of “Available-for-sale” securities as well as transaction costs are amortized using the effective interest method and recognized in the Consolidated Statements of Income. Foreign exchange gains and losses on securities included in this class are recognized in the Consolidated Statements of Income, except for unrealized foreign exchange gains and losses on non-monetary financial instruments, which are recognized in the Consolidated Statements of Comprehensive Income.

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

Impairment of “Available-for-sale” securities under IAS 39

Under IAS 39, “Available-for-sale” securities are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer would enter bankruptcy or a restructuring, and the disappearance of an active market for the asset.

Debt securities are assessed individually to determine whether there is any objective evidence of impairment. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss has been recognized in the Consolidated Statements of Income, the impairment loss is reversed through the Consolidated Statements of Income.

For equity securities, when evidence of impairment exists, the cumulative loss is transferred out of other comprehensive income and recognized in the Consolidated Statements of Income. Impairment losses on equity securities are not reversed to the Consolidated Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded in other comprehensive income. Any impairment loss on securities previously impaired is directly recognized in the Consolidated Statements of Income.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the “At fair value through profit or loss” class comprise financial liabilities “Classified as at fair value through profit or loss” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of financial liabilities included in this class are recorded under “Net investment income” in the Consolidated Statements of Income. However, for financial liabilities designated as at fair value, the change in fair value that is attributable to the Federation’s own credit risk is recognized in other comprehensive income that will not be reclassified subsequently to the Consolidated Statements of Income and is reclassified immediately to undistributed surplus earnings.
- Interest expense related to financial liabilities included in the “At fair value through profit or loss” class is presented under “Net investment income”.

(ii) Financial liabilities “Classified as at fair value through profit or loss” are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as held for trading.

Section n), “Derivative financial instruments and hedging activities”, of this note specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities “Designated as at fair value through profit or loss” are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Financial liabilities included in this measurement category comprise deposits containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

(iv) Financial liabilities that are not in the “At fair value through profit or loss” class are included in the “Amortized cost” class.

Financial liabilities included in this class are initially recognized at fair value in the Consolidated Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the “Amortized cost” class is recognized under “Interest expense” in the Consolidated Statements of Income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under “Net investment income” in the Consolidated Statements of Income.

Determination of the fair value of financial instruments

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

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

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

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

Loans

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

Deposits

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

Subordinated notes

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

Derivative financial instruments

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

Financial instruments whose fair value equals their carrying amount

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

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method. However, for financial instruments classified or designated as "At fair value through profit or loss", these costs are expensed as incurred.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and the Federation intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

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

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

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

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

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

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

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Consolidated Statements of Income.

b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

The classification and measurement of securities are determined using the criteria stated in section a), "Financial assets and liabilities", above.

Securities purchased under reverse repurchase agreements and securities borrowed

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets.

As part of securities borrowings, the Federation pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Consolidated Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

Securities sold under repurchase agreements and securities lent

Securities sold under repurchase agreements and securities lent are not derecognized from the Consolidated Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets.

As part of securities loans, the Federation receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Consolidated Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Securities sold short

Securities sold short as part of trading activities, which represent the Federation's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized under "Net investment income" in the Consolidated Statements of Income.

d) Loans

Loans are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

Fees collected and direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loans. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities, shares, etc.) or cash.

Restructured loans are loans for which the Federation renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured.

When the modification of the terms of a loan has no significant impact on contractual cash flows, the renegotiated loan is not derecognized. At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the effective interest rate (prior to the restructuring), which may result in a gain or loss on modification.

When the modification of the terms of a loan has a significant impact on contractual cash flows, the initial loan should be derecognized, which may result in a gain or loss on derecognition. In addition, a new loan should be recognized based on the new contractual terms.

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

When the modification of the terms of a loan does not result in the derecognition of such loan, the date of initial recognition of the loan remains unchanged for purposes of applying the impairment model. The default risk based on the modified contractual terms is then compared to the default risk based on the initial terms to determine whether there has been a significant increase in credit risk since initial recognition.

When the modification of the terms of a loan results in the derecognition of such loan and the recognition of a new loan, the date of the modification should become the date of initial recognition of the new loan for purposes of applying the impairment model. A new loan is usually considered as being in Stage 1 of the impairment model, but it may have to be considered as credit-impaired upon origination.

e) Impairment of financial instruments

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

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

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, the Federation bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, the Federation compares the probability of default (PD) of the financial instrument at the reporting date with its PD at the date of initial recognition. In addition, it considers reasonable and supportable information indicating a significant increase in credit risk since initial recognition, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk vary depending on the groups of financial instruments with shared credit risk characteristics and are mainly based on a relative change combined with an absolute change in the PD. They also include absolute PD thresholds and certain other criteria. All instruments that are more than 30 days past due are transferred to Stage 2 of the impairment model.

For securities at "Amortized cost" or "Classified as at fair value through other comprehensive income", the Federation elected to use the low credit risk exemption. Consequently, when credit risk is equivalent to the credit risk of the "investment grade" category at the reporting date, the credit risk on the securities is deemed to not have significantly increased since initial recognition.

Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. It considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant.

Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of the contract, and total cash flows that the Federation expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. The LGD of certain loans and off-balance sheet items is estimated at 0% due to the nature of the credit enhancement obtained. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics. The following table presents the main aggregation variables for the applicable parameters.

PD	LGD	EAD
<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> • Type of clients • Risk level • Type of instrument • Industry 	<i>Loans, loan commitments and financial guarantees:</i> <ul style="list-style-type: none"> • Type of clients • Type of collateral • Type of guarantor • Risk level • Type of instrument • Industry 	<i>Loans:</i> <ul style="list-style-type: none"> • No aggregation⁽¹⁾ <i>Loan commitments and financial guarantees⁽²⁾:</i> <ul style="list-style-type: none"> • Type of clients • Risk level • Utilization rate • Authorized amount • Type of product • Industry

⁽¹⁾ No aggregation variable is required to determine the EAD for loans, as it represents the anticipated balance of each loan.

⁽²⁾ To determine the EAD for loan commitments and financial guarantees, a credit conversion factor is applied.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, the Federation uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. The Federation uses three scenarios (base, upside and downside) to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. The Federation may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters. It is instead based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions. In some cases, the Federation may not recognize any loss allowance when the probability of the collateral realization scenario is 100% and the estimated realizable value of the collateral exceeds the gross carrying amount of the loan.

Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which the Federation is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

Recognition of the loss allowance for expected credit losses

The loss allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income.

The loss allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income.

The loss allowance for expected credit losses on securities at "Amortized cost" is recorded against "Securities – Securities at amortized cost" in the Consolidated Balance Sheets and under "Provision for credit losses" in the Consolidated Statements of Income. The loss allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Net unrealized gains on debt securities classified as at fair value through other comprehensive income" in the Consolidated Statements of Comprehensive Income and under "Provision for credit losses" in the Consolidated Statements of Income.

Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. For secured loans, balances are generally written off once the collateral has been realized. Loans for which a consumer proposal or bankruptcy proceedings are ongoing but for which the Federation has no reasonable expectation of recovery are written off, but they may continue to be subject to recovery measures by an insolvency trustee. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement activity during a certain period after they have been written off. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Consolidated Statements of Income.

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

f) Leases

The Federation analyzes contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The manner in which a lease is accounted for differs depending on whether the Federation is the lessee or the lessor.

Lessee

The Federation mainly leases premises that are used in the normal course of its operations. A right-of-use asset and a lease liability are recognized in the Consolidated Balance Sheets at the commencement date of the lease, except for short-term and low-value leases. The commencement date of the lease is the date on which the lessor makes the leased asset available for use by the lessee. The Federation elected to apply the exemption provisions for short-term and low-value leases. Accordingly, lease payments associated with those leases are recognized as a lease expense in the Consolidated Statements of Income based on the terms of the lease. In addition, the Federation applies the practical expedient which allows not to separate non-lease components from lease components for a contract.

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liability, plus prepaid lease payments less lease incentives received. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shortest of the lease term and the useful life of the underlying asset. The lease term is the non-cancellable period and includes any renewal options if the Federation is reasonably certain to exercise those options and any termination options if the Federation is reasonably certain not to exercise those options. The right-of-use asset is periodically adjusted to reflect certain reassessments of the lease liability.

Right-of-use assets are presented in the Consolidated Balance Sheets and the depreciation of right-of-use assets is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

The lease liability is initially measured at the present value of the lease payments for the lease term that have not yet been paid, calculated using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee’s incremental borrowing rate. Generally, the Federation uses its incremental borrowing rate as discount rate. Payments included in the measurement of the lease liability comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, based on the index or the rate as at the commencement date of the lease, an estimated amount for any guaranteed residual value as well as amounts the Federation is reasonably certain to pay for the exercise price of a purchase option or a termination penalty.

The lease liability is subsequently adjusted to reflect interest on the lease liability and lease payments made. It is remeasured when there is a change in future lease payments mainly as a result of a change in an index or a rate, or a change in the amounts expected to be payable by the Federation under a residual value guarantee, when there are lease modifications, or when the Federation revises its assessment of the potential exercise of a purchase, renewal or termination option.

Lease liabilities are presented in the Consolidated Balance Sheets and interest expense on lease liabilities is recognized under “Interest expense” in the Consolidated Statements of Income.

Lessor

Leases in which the Federation is the lessor are leases for premises. The Federation classifies the leases in which it is the lessor as either finance leases or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset and as an operating lease if it does not. The Federation mainly enters into operating leases.

When the Federation is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net investment income” and the leased asset remains recognized in the Consolidated Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

g) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. They are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Consolidated Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the “Investment property” category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the “Investment property” category to the “Buildings” category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by the Federation becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

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

The depreciation expense for investment properties is recognized under “Net investment income” in the Consolidated Statements of Income.

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	2 to 10 years
Furniture, fixtures and other	2 to 20 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Consolidated Statement of Income for the year in which they are realized under “Premises, equipment and furniture, including depreciation” for property, plant and equipment and under “Net investment income” for investment property.

h) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

The Federation assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years.

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under “Non-interest expense – Other” in the Consolidated Statements of Income upon derecognition of the asset.

i) Impairment of non-financial assets

The Federation assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm’s-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Consolidated Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Consolidated Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

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

Goodwill

Goodwill is tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill is performed based on the recoverable amount of each CGU (or each group of CGUs) to which goodwill is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each CGU.

When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized in the Consolidated Statement of Income for the year and is first recorded as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU or group of CGUs must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

j) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of the Federation under acceptances is recognized under "Acceptances", in "Other liabilities". The Federation has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

k) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by these subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries. They are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheets of the assets that back them.

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

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

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Consolidated Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Consolidated Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

l) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Consolidated Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders’ rights to the segregated fund net assets is also recognized separately.

m) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management’s best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant uncertainties and risks. Management must make significant judgments in determining whether a present obligation exists and in estimating the timing and amount of any outflow of resources. The Federation regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Federation or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably.

n) Derivative financial instruments and hedging activities

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Federation’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 20, “Derivative financial instruments and hedging activities”.

Derivative financial instruments, including embedded derivatives which are required to be accounted for separately, are recognized at fair value on the Consolidated Balance Sheets. Changes in fair value of embedded derivatives required to be accounted for separately are recognized under “Net investment income” in the Consolidated Statements of Income.

Hybrid financial instruments

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Consolidated Statements of Income.

Objectives of holding derivatives

The Federation uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of member caisses and clients, and to allow the Federation to generate income on its own trading activities. These instruments are recognized at fair value in the Consolidated Balance Sheets, and changes in their fair value are recognized under “Net investment income” in the Consolidated Statements of Income.

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

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. They enable the Federation to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Consolidated Balance Sheets, as well as firm commitments and forecasted transactions.

Hedging activities

The Federation elected to continue applying the requirements of IAS 39 for hedge accounting instead of adopting the provisions of IFRS 9.

The Federation mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, the Federation must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

The Federation may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting.

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or the Federation terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

In a fair value hedge transaction, changes in fair value of the hedging derivative financial instrument are recognized under “Net investment income” in the Consolidated Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under “Net investment income” in the Consolidated Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Previously recorded adjustments to the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under “Net investment income” in the Consolidated Statements of Income.

Cash flow hedges

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized under “Net losses on derivative financial instruments designated as cash flow hedges”, in other comprehensive income, until the hedged item is recognized in the Consolidated Statements of Income, at which time such changes are recognized in net interest income in the Consolidated Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized under “Net investment income” in the Consolidated Statement of Income.

When a cash flow hedging relationship no longer qualifies for hedge accounting, the Federation discontinues hedge accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Consolidated Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under “Net investment income”.

o) Financial guarantees

A financial guarantee is a contract that could contingently require the Federation to make specified payments to the guaranteed party to repay a loss that such party incurred as a result of a default by a specified third party to make a payment upon maturity in accordance with the original or modified terms and conditions of a debt security.

Financial guarantees are initially recognized as liabilities in the Consolidated Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, except in cases where it must be measured at fair value through profit or loss, the guarantee is measured at the higher of the following amounts:

- i) The amount initially recorded less, when appropriate, accumulated amortization recognized in the Consolidated Statements of Income;
- ii) The amount of the allowance for credit losses.

If a financial guarantee meets the definition of a derivative, it is measured at fair value through profit or loss at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

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

The carrying amount of guarantees does not reflect the maximum potential amount of future payments under guarantees. The Federation considers the difference between these two amounts as off-balance sheet credit instruments.

p) Reserves

The Federation's stabilization reserve consists of amounts appropriated from the annual surplus earnings. Amounts appropriated to the Federation's stabilization reserve are essentially used to pay interest on F capital shares it issued.

The general reserve is essentially made up of amounts appropriated by the Federation. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on F capital shares.

Other reserves are mainly made up of amounts that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized.

q) Revenue recognition

In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Recognition criteria

Revenue is recognized when the Federation has transferred control of a good or service (the performance obligation is satisfied). Management must use its judgment to determine when performance obligations are satisfied and establish the transaction price and the amounts allocated to such obligations.

Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at "Amortized cost", for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, the Federation estimates cash flows considering all contractual terms of the financial instruments, but it does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the loss allowance for expected credit losses.

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as they are recognized, an actuarial provision is established and recognized under "Insurance contract liabilities". Premiums are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. They are presented, net of premiums ceded under reinsurance treaties, under "Net premiums" in the Consolidated Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under "Insurance contract liabilities" in the Consolidated Balance Sheets.

Service charges, commissions, brokerage fees and other

The Federation earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its member caisses and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by the Federation is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under "Brokerage and investment fund services" in the Consolidated Statements of Income. Income from lending fees and credit card service revenue is recorded under "Lending fees and credit card service revenues" in the Consolidated Statements of Income.

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

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under "Management and custodial service fees" in the Consolidated Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under "Management and custodial service fees" in the Consolidated Statements of Income.

Fees for service agreements related to technical, financial and administrative support are recognized once the service has been provided or the product has been delivered. This income is recognized under "Service agreements" in the Consolidated Statements of Income.

Dividend income is recognized when the Federation's right to receive payment of the dividend is established.

r) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Consolidated Balance Sheets of the Federation. Income from these management services is recognized under "Management and custodial service fees" in the Consolidated Statements of Income when the service is provided.

s) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized under "Foreign exchange income" in the Consolidated Statements of Income. However, the following items are presented in other comprehensive income in the Consolidated Statements of Comprehensive Income.

- Translation gains and losses on financial assets "Designated as at fair value through other comprehensive income".
- Gains and losses on derivatives designated as cash flow hedging instruments.

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Federation's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that the Federation expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

Deferred income taxes

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Consolidated Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

- i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the difference reverses can be controlled and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these differences, tax loss carryforwards and tax credits can be utilized, except in the following cases:

- i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).

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

- ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which such difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

u) Dividends to member caisses

Dividends to member caisses recognized in the Consolidated Statements of Income reflect management's best estimate. They are based on the distribution of the Federation's surplus earnings and on a resolution of the Board of Directors to recommend to the annual general meeting that payment of these dividends be approved. The dividends paid are determined and recognized when approved by the member caisses.

v) Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

The Federation offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Consolidated Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Consolidated Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Consolidated Statements of Income and are immediately reclassified to undistributed surplus earnings. These remeasurements include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Consolidated Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The Federation participates in defined benefit group plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Federation's share in the cost of the group other post-retirement benefit plan of Desjardins Group is determined based on the number of eligible insureds of the Federation as a percentage of the total number of active insureds for Desjardins Group as a whole.

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

FUTURE ACCOUNTING CHANGES

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which will replace the current standard, IFRS 4, “Insurance Contracts”. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 provides a general model for measuring insurance contracts, but also includes a simplified method for contracts with a period of one year or less as well as a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

IFRS 17 will be applied retrospectively to each group of insurance contracts. If retrospective application is impracticable, the modified retrospective approach or the fair value approach could be applied to the financial statements for the annual periods beginning on or after January 1, 2023.

In June 2020, the IASB issued amendments to IFRS 17, including the two-year deferral of the initial application date of IFRS 17 to the annual periods beginning on or after January 1, 2023. The Federation is currently assessing the impact of adopting this standard (and its amendments) on its financial statements.

IFRS 9, “Financial Instruments”, IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”

On January 1, 2020, the Federation adopted amendments to IFRS 9, IAS 39 and IFRS 7 arising from Phase 1 of the benchmark interest rate reform project. Phase 1 amendments providing relief with respect to applying hedge accounting during the period before the replacement of benchmark interest rates had no impact on the Federation’s profit or loss or financial position.

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform project. The amendments focus on the impact on the financial statements of the replacement of an interest rate benchmark.

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

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

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity’s progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Amendments to these standards, which will apply to annual periods beginning on or after January 1, 2021, will not have any material impact on the Federation’s profit or loss or financial position.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income		Amortized cost ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
As at December 31, 2020						
Financial assets						
Cash and deposits with financial institutions	\$ 1	\$ 174	\$ 719	\$ -	\$ 10,619	\$ 11,513
Securities	13,719	21,239	40,295	66	29	75,348
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,592	11,592
Loans	-	-	-	-	55,669	55,669
Other financial assets						
Clients' liability under acceptances	-	-	-	-	328	328
Derivative financial instruments ⁽³⁾	6,975	-	-	-	-	6,975
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,508	2,508
Other	2	-	-	-	1,261	1,263
Total financial assets	\$ 20,697	\$ 21,413	\$ 41,014	\$ 66	\$ 82,006	\$ 165,196
Financial liabilities						
Deposits ⁽⁴⁾⁽⁵⁾⁽⁶⁾	\$ -	\$ 206	\$ -	\$ -	\$ 72,200	\$ 72,406
Other financial liabilities						
Acceptances	-	-	-	-	328	328
Commitments related to securities sold short	9,353	-	-	-	-	9,353
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	19,152	19,152
Derivative financial instruments ⁽³⁾	6,753	-	-	-	-	6,753
Amounts payable to clients, brokers and financial institutions	-	-	-	-	6,810	6,810
Other	155	-	-	-	2,220	2,375
Subordinated notes	-	-	-	-	1,493	1,493
Total financial liabilities	\$ 16,261	\$ 206	\$ -	\$ -	\$ 102,203	\$ 118,670

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

⁽²⁾ As at December 31, 2020, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$4 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

⁽³⁾ Include derivative financial instruments designated as hedging instruments amounting to \$604 million in assets and \$145 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

⁽⁴⁾ The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

⁽⁵⁾ As at December 31, 2020, the cumulative amount of change in fair value attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss was \$5 million.

⁽⁶⁾ The amount recognized in other comprehensive income attributable to changes in the credit risk of liabilities designated as at fair value through profit or loss that was realized at derecognition during the year was insignificant.

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

As at December 31, 2019	At fair value through profit or loss		At fair value through other comprehensive income		Amortized cost ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
Financial assets						
Cash and deposits with financial institutions	\$ -	\$ 273	\$ 1,395	\$ -	\$ 1,416	\$ 3,084
Securities	16,712	18,455	12,591	59	1,616	49,433
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,352	11,352
Loans	-	-	-	-	65,113	65,113
Other financial assets						
Clients' liability under acceptances	-	-	-	-	380	380
Derivative financial instruments ⁽³⁾	4,795	-	-	-	-	4,795
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,239	2,239
Other	-	-	-	-	936	936
Total financial assets	\$ 21,507	\$ 18,728	\$ 13,986	\$ 59	\$ 83,052	\$ 137,332
Financial liabilities						
Deposits ⁽⁴⁾	\$ -	\$ 84	\$ -	\$ -	\$ 58,888	\$ 58,972
Other financial liabilities						
Acceptances	-	-	-	-	380	380
Commitments related to securities sold short	10,615	-	-	-	-	10,615
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,562	10,562
Derivative financial instruments ⁽³⁾	4,827	-	-	-	-	4,827
Amounts payable to clients, brokers and financial institutions	-	-	-	-	5,552	5,552
Other	268	-	-	-	2,421	2,689
Subordinated notes	-	-	-	-	1,398	1,398
Total financial liabilities	\$ 15,710	\$ 84	\$ -	\$ -	\$ 79,201	\$ 94,995

⁽¹⁾ An amount of \$2,976 million corresponds to financial assets designated for the overlay approach.

⁽²⁾ As at December 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled \$1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$3 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

⁽³⁾ Include derivative financial instruments designated as hedging instruments amounting to \$241 million in assets and \$318 million in liabilities. Detailed information on derivatives designated as hedging instruments is presented in Note 20, "Derivative financial instruments and hedging activities".

⁽⁴⁾ The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

During the years ended December 31, 2020 and 2019, there were no material reclassifications of financial instruments.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

Fair value measurement is determined using the following three-level fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based primarily on observable market data;
- Level 3 – Valuation techniques not based primarily on observable market data.

Transfers between levels

Transfers between hierarchy levels for instruments measured at fair value are made at the reporting date.

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ 11	\$ 164	\$ -	\$ 175
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,698	-	-	5,698
Provincial governmental entities and municipal corporations in Canada	16,785	771	-	17,556
School or public corporations in Canada	16	95	-	111
Foreign public administrations	248	-	-	248
Other securities				
Financial institutions	-	1,278	10	1,288
Other issuers	59	4,327	735	5,121
Equity securities	3,901	71	964	4,936
	26,718	6,706	1,709	35,133
Derivative financial instruments				
Interest rate contracts	-	3,710	-	3,710
Foreign exchange contracts	-	465	-	465
Other contracts	-	2,800	-	2,800
	-	6,975	-	6,975
Other assets	-	2	-	2
Total financial assets at fair value through profit or loss	26,718	13,683	1,709	42,110
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	1	718	-	719
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,424	4,022	-	6,446
Provincial governmental entities and municipal corporations in Canada	26,850	1,963	-	28,813
School or public corporations in Canada	-	17	-	17
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	28	4,128	-	4,156
Other issuers	3	780	69	852
Equity securities	-	2	64	66
Total financial assets at fair value through other comprehensive income	29,317	11,630	133	41,080
Financial instruments of segregated funds	7,113	11,861	127	19,101
Total financial assets	\$ 63,148	\$ 37,174	\$ 1,969	\$ 102,291
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	\$ -	\$ 206	\$ -	\$ 206
Other liabilities				
Commitments related to securities sold short	8,671	682	-	9,353
Other	-	-	155	155
	8,671	888	155	9,714
Derivative financial instruments				
Interest rate contracts	-	3,350	-	3,350
Foreign exchange contracts	-	712	-	712
Other contracts	-	2,691	-	2,691
	-	6,753	-	6,753
Total financial liabilities	\$ 8,671	\$ 7,641	\$ 155	\$ 16,467

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

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ 9	\$ 264	\$ -	\$ 273
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,487	-	-	8,487
Provincial governmental entities and municipal corporations in Canada	15,680	785	-	16,465
School or public corporations in Canada	15	89	-	104
Foreign public administrations	133	-	-	133
Other securities				
Financial institutions	17	810	55	882
Other issuers	1	3,494	771	4,266
Equity securities	3,447	589	794	4,830
	27,789	6,031	1,620	35,440
Derivative financial instruments				
Interest rate contracts	-	1,515	-	1,515
Foreign exchange contracts	-	286	-	286
Other contracts	-	2,994	-	2,994
	-	4,795	-	4,795
Total financial assets at fair value through profit or loss	27,789	10,826	1,620	40,235
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	1,386	-	1,395
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,020	1,907	-	3,927
Provincial governmental entities and municipal corporations in Canada	6,017	593	-	6,610
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	5	1,451	-	1,456
Other issuers	-	517	70	587
Equity securities	-	2	57	59
Total financial assets at fair value through other comprehensive income	8,062	5,856	127	14,045
Financial instruments of segregated funds	6,588	10,351	81	17,020
Total financial assets	\$ 42,439	\$ 27,033	\$ 1,828	\$ 71,300
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	\$ -	\$ 84	\$ -	\$ 84
Other liabilities				
Commitments related to securities sold short	10,193	422	-	10,615
Other	-	-	268	268
	10,193	506	268	10,967
Derivative financial instruments				
Interest rate contracts	-	1,396	-	1,396
Foreign exchange contracts	-	528	-	528
Other contracts	-	2,903	-	2,903
	-	4,827	-	4,827
Total financial liabilities	\$ 10,193	\$ 5,333	\$ 268	\$ 15,794

During the years ended December 31, 2020 and 2019, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE**

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following tables present those instruments by hierarchy level.

As at December 31, 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	\$ 29	\$ 29	\$ -	\$ 29	\$ -
Loans	55,669	56,044	-	21,781	34,263
Financial liabilities					
Deposits	72,200	72,539	1,616	70,923	-
Subordinated notes	1,493	1,592	-	1,592	-
<hr/>					
As at December 31, 2019	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Securities	\$ 1,616	\$ 1,617	\$ -	\$ 1,617	\$ -
Loans	65,113	65,156	-	34,738	30,418
Financial liabilities					
Deposits	58,888	58,724	1,351	57,352	21
Subordinated notes	1,398	1,433	-	1,433	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3**Valuation process for financial instruments categorized within Level 3**

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by the Federation are mortgage bonds, equity securities and the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, the Federation developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

The Federation measures the majority of equity securities and other debt securities based on net values published by the fund administrator. If needed, these values are adjusted based on more recent information, when such information is available and appropriate. These models are examined and approved by the Federation.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), the Federation recognized a contingent consideration resulting from the price adjustment clause of the agreement. Under such clause, State Farm will compensate the Federation for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while the Federation will give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

Changes in fair value of financial instruments categorized within Level 3

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

	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
For the year ended December 31, 2020								
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	\$ 55	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (45)	\$ 10
Other issuers								
Hedge funds	2	2	(1)	-	-	-	-	3
Asset-backed term notes	4	-	-	-	-	-	(1)	3
Mortgage bonds	710	-	25	-	-	-	(67)	668
Other debt securities	55	-	-	-	-	9	(3)	61
Equity securities	794	(2)	49	-	-	137	(14)	964
Total financial assets at fair value through profit or loss	1,620	-	73	-	-	146	(130)	1,709
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	70	-	-	2	-	-	(3)	69
Equity securities	57	-	-	3	-	4	-	64
Total financial assets at fair value through other comprehensive income	127	-	-	5	-	4	(3)	133
Financial instruments of segregated funds	81	-	1	-	-	50	(5)	127
Total financial assets	\$ 1,828	\$ -	\$ 74	\$ 5	\$ -	\$ 200	\$ (138)	\$ 1,969
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 268	\$ -	\$ 95	\$ -	\$ -	\$ -	\$ (208)	\$ 155
Total financial liabilities	\$ 268	\$ -	\$ 95	\$ -	\$ -	\$ -	\$ (208)	\$ 155

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

For the year ended December 31, 2019	Balance at beginning of year	Realized gains / losses recognized in profit or loss ⁽¹⁾	Unrealized gains / losses recognized in profit or loss ⁽²⁾	Unrealized gains / losses recognized in other comprehensive income ⁽³⁾	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ 55
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	(1)	4
Mortgage bonds	736	-	12	-	-	-	(38)	710
Other debt securities	-	-	(1)	-	-	56	-	55
Equity securities	698	(12)	(9)	-	-	193	(76)	794
Other assets	13	-	-	-	-	-	(13)	-
Total financial assets at fair value through profit or loss	1,509	(12)	3	-	-	249	(129)	1,620
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	-	-	-	(19)	70
Other	8	-	-	-	-	-	(8)	-
Equity securities	-	-	-	-	57	-	-	57
Total financial assets at fair value through other comprehensive income	97	-	-	-	57	-	(27)	127
Financial instruments of segregated funds	72	-	5	-	-	4	-	81
Total financial assets	\$ 1,678	\$ (12)	\$ 8	\$ -	\$ 57	\$ 253	\$ (156)	\$ 1,828
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 319	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ (244)	\$ 268
Total financial liabilities	\$ 319	\$ -	\$ 193	\$ -	\$ -	\$ -	\$ (244)	\$ 268

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2020	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Mortgage bonds	\$ 747	Discounted cash flows	Credit spread ^(B,C) Comparable inputs ^(B,C)	0 bp to 15 bp 10 bp to 153 bp
	956	Adjusted net asset value	Adjusted net asset value ^(A,C)	- - (1)
	64	Market prices for comparable instruments	Enterprise value/revenue ratio ^(B,C)	- - (1)
Equity securities and other debt securities	69	Discounted cash flows	Discount rate ^(B,C) Liquidity premium ^(B,C)	6.6% to 9.6% 10.0% to 40.0%
Financial instruments of segregated funds	127	Adjusted net asset value	Adjusted net asset value ^(A,C)	- - (1)
Other financial assets	6			
Total financial assets	\$ 1,969			
Financial liabilities				
Other liabilities - Other				
Financial liability related to the contingent consideration	155	Actuarial techniques ⁽²⁾	Provision for claims and adjustment expenses ^(B)	- - (1)
Total financial liabilities	\$ 155			

As at December 31, 2019	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Mortgage bonds	\$ 835	Discounted cash flows	Credit spread ^(B,C) Comparable inputs ^(B,C)	0 bp to 300 bp 37 bp to 243 bp
	789	Adjusted net asset value	Adjusted net asset value ^(A,C)	- - (1)
Equity securities and other debt securities	57	Discounted cash flows	Required rate of return ^(B,C)	6.0% to 6.8%
	60	Recent transactions and bids	Paid/bid price	- - (1)
Financial instruments of segregated funds	81	Adjusted net asset value	Adjusted net asset value ^(A,C)	- - (1)
Other financial assets	6			
Total financial assets	\$ 1,828			
Financial liabilities				
Other liabilities - Other				
Financial liability related to the contingent consideration	268	Actuarial techniques ⁽²⁾	Provision for claims and adjustment expenses ^(B)	- - (1)
Total financial liabilities	\$ 268			

(1) Due to the nature of these financial instruments, no input value range is presented.

(2) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 16, "Insurance contract liabilities".

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

(C) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Consolidated Balance Sheets when, and only when, the Federation has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Federation has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Consolidated Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Consolidated Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Consolidated Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, the Federation pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Consolidated Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the normal course of business.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Consolidated Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement.

	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets ⁽²⁾	Associated amounts not set off in the Consolidated Balance Sheets ⁽¹⁾		
				Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2020						
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 16,262	\$ 4,670	\$ 11,592	\$ 5,771	\$ 5,821	\$ -
Derivative financial instruments	6,915	-	6,915	3,001	3,698	216
Amounts receivable from clients, brokers and financial institutions and other	41	20	21	5	-	16
Total financial assets	\$ 23,218	\$ 4,690	\$ 18,528	\$ 8,777	\$ 9,519	\$ 232
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 23,822	\$ 4,670	\$ 19,152	\$ 5,771	\$ 13,379	\$ 2
Derivative financial instruments	4,126	-	4,126	3,001	116	1,009
Amounts payable to clients, brokers and financial institutions and other	60	20	40	5	-	35
Total financial liabilities	\$ 28,008	\$ 4,690	\$ 23,318	\$ 8,777	\$ 13,495	\$ 1,046

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

⁽³⁾ Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES (continued)

The following table presents information about financial assets and liabilities that are set off and not set off in the Consolidated Balance Sheets and are subject to a master netting agreement or a similar agreement (continued).

As at December 31, 2019	Gross recognized amounts	Set off amounts	Net amounts presented in the Consolidated Balance Sheets ⁽²⁾	Associated amounts not set off in the Consolidated Balance Sheets ⁽¹⁾		
				Financial instruments ⁽³⁾	Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 16,549	\$ 5,197	\$ 11,352	\$ 4,156	\$ 7,192	\$ 4
Derivative financial instruments	4,782	-	4,782	1,688	2,936	158
Amounts receivable from clients, brokers and financial institutions and other	37	25	12	4	-	8
Total financial assets	\$ 21,368	\$ 5,222	\$ 16,146	\$ 5,848	\$ 10,128	\$ 170
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 15,759	\$ 5,197	\$ 10,562	\$ 4,156	\$ 6,400	\$ 6
Derivative financial instruments	2,024	-	2,024	1,688	79	257
Amounts payable to clients, brokers and financial institutions and other	52	25	27	4	-	23
Total financial liabilities	\$ 17,835	\$ 5,222	\$ 12,613	\$ 5,848	\$ 6,479	\$ 286

⁽¹⁾ Any over-collateralization is excluded from the table.

⁽²⁾ The difference between the net amounts presented in this table and balances appearing in the Consolidated Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

⁽³⁾ Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – SECURITIES

MATURITIES OF SECURITIES

The following tables present an analysis of the maturities of the Federation's securities.

As at December 31, 2020	Terms to maturity						No specific maturity	Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years			
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Debt securities issued or guaranteed by								
Canadian governmental entities	\$ 834	\$ 844	\$ 1,438	\$ 1,310	\$ 1,272	\$ -	\$ 5,698	
Provincial governmental entities and municipal corporations in Canada	753	1,750	1,672	2,499	10,882	-	17,556	
School or public corporations in Canada	-	-	4	8	99	-	111	
Foreign public administrations	190	12	5	19	22	-	248	
Other securities								
Financial institutions	100	246	418	284	240	-	1,288	
Other issuers	252	474	298	912	3,124	61	5,121	
Equity securities	-	-	-	7	4	4,925	4,936	
Total financial assets at fair value through profit or loss	2,129	3,326	3,835	5,039	15,643	4,986	34,958	
Financial assets at fair value through other comprehensive income								
Securities								
Debt securities issued or guaranteed by								
Canadian governmental entities	580	2,047	3,653	166	-	-	6,446	
Provincial governmental entities and municipal corporations in Canada	1,196	4,780	5,467	16,632	738	-	28,813	
School or public corporations in Canada	17	-	-	-	-	-	17	
Foreign public administrations	11	-	-	-	-	-	11	
Other securities								
Financial institutions	1,553	1,803	539	258	3	-	4,156	
Other issuers	40	127	243	412	30	-	852	
Equity securities	-	-	-	-	-	66	66	
Total financial assets at fair value through other comprehensive income	3,397	8,757	9,902	17,468	771	66	40,361	
Financial assets at amortized cost								
Securities								
Debt securities issued or guaranteed by								
Provincial governmental entities and municipal corporations in Canada	1	3	2	6	1	-	13	
Foreign public administrations	-	-	1	3	12	-	16	
Total financial assets at amortized cost	1	3	3	9	13	-	29	
Total securities	\$ 5,527	\$ 12,086	\$ 13,740	\$ 22,516	\$ 16,427	\$ 5,052	\$ 75,348	

NOTE 6 – SECURITIES (continued)**MATURITIES OF SECURITIES (continued)**

The following table presents an analysis of the maturities of the Federation's securities (continued).

As at December 31, 2019	Terms to maturity					No specific maturity	Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years		
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	\$ 1,382	\$ 1,938	\$ 1,996	\$ 1,244	\$ 1,927	\$ -	\$ 8,487
Provincial governmental entities and municipal corporations in Canada	892	1,553	1,418	2,465	10,137	-	16,465
School or public corporations in Canada	-	-	-	15	89	-	104
Foreign public administrations	86	12	10	1	24	-	133
Other securities							
Financial institutions	275	174	163	161	109	-	882
Other issuers	202	305	477	660	2,620	2	4,266
Equity securities	-	-	-	6	4	4,820	4,830
Total financial assets at fair value through profit or loss	2,837	3,982	4,064	4,552	14,910	4,822	35,167
Financial assets at fair value through other comprehensive income							
Securities							
Debt securities issued or guaranteed by							
Canadian governmental entities	339	1,845	1,613	130	-	-	3,927
Provincial governmental entities and municipal corporations in Canada	393	2,183	1,658	1,454	922	-	6,610
Foreign public administrations	11	-	-	-	-	-	11
Other securities							
Financial institutions	714	366	275	101	-	-	1,456
Other issuers	45	66	187	266	23	-	587
Equity securities	-	-	-	-	-	59	59
Total financial assets at fair value through other comprehensive income	1,502	4,460	3,733	1,951	945	59	12,650
Financial assets at amortized cost							
Securities							
Debt securities issued or guaranteed by							
Provincial governmental entities and municipal corporations in Canada	199	2	2	6	-	-	209
School or public corporations in Canada	30	-	-	-	-	-	30
Foreign public administrations	-	-	1	6	21	-	28
Other securities							
Financial institutions	1,329	-	-	-	-	(1)	1,328
Other issuers	20	-	-	1	-	-	21
Total financial assets at amortized cost	1,578	2	3	13	21	(1)	1,616
Total securities	\$ 5,917	\$ 8,444	\$ 7,800	\$ 6,516	\$ 15,876	\$ 4,880	\$ 49,433

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

At each reporting date, loans and off-balance sheet items are classified based on their credit quality using their 12-month PD adjusted to take into consideration relevant forward-looking information over their lifetime. This is the PD used to determine whether credit risk has significantly increased since initial recognition or identify financial instruments in regulatory default.

The following tables present PD tranches in relation with risk levels for loans and off-balance sheet items.

Residential mortgages, consumer, credit card and other personal loans

Risk levels	PD tranches
Excellent	0.00% to 0.08%
Very low	0.09% to 0.33%
Low	0.34% to 2.09%
Moderate	2.10% to 7.32%
High	7.33% to 99.99%
Default	100.00%

Business and government

Risk levels	PD tranches
Acceptable risk:	
Investment grade	0.00% to 0.36%
Other than investment grade	0.37% to 4.50%
Under watch	4.51% to 99.99%
Default	100.00%

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)**EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS (continued)**

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which the Federation estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified.

Loans

As at December 31, 2020	Non-credit impaired		Credit-impaired ⁽¹⁾	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Excellent	\$ 510	\$ -	\$ -	\$ 510
Very low	962	-	-	962
Low	1,504	37	-	1,541
Moderate	137	205	-	342
High	5	69	-	74
Default	-	3	8	11
Total gross residential mortgages	\$ 3,118	\$ 314	\$ 8	\$ 3,440
Allowance for credit losses	(5)	(2)	(4)	(11)
Total net residential mortgages	\$ 3,113	\$ 312	\$ 4	\$ 3,429
Consumer, credit card and other personal loans				
Excellent	\$ 1,405	\$ -	\$ -	\$ 1,405
Very low	1,938	-	-	1,938
Low	7,540	293	-	7,833
Moderate	4,226	1,387	-	5,613
High	383	1,732	-	2,115
Default	-	-	187	187
Total gross consumer, credit card and other personal loans	\$ 15,492	\$ 3,412	\$ 187	\$ 19,091
Allowance for credit losses	(117)	(271)	(108)	(496)
Total net consumer, credit card and other personal loans	\$ 15,375	\$ 3,141	\$ 79	\$ 18,595
Business and government loans⁽²⁾				
Acceptable risk				
Investment grade	\$ 25,869	\$ -	\$ -	\$ 25,869
Other than investment grade	5,599	907	-	6,506
Under watch	385	1,119	-	1,504
Default	-	-	226	226
Total gross business and government loans	\$ 31,853	\$ 2,026	\$ 226	\$ 34,105
Allowance for credit losses	(22)	(35)	(75)	(132)
Total net business and government loans	\$ 31,831	\$ 1,991	\$ 151	\$ 33,973

⁽¹⁾ As at December 31, 2020, 80.6% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

⁽²⁾ Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)**EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS (continued)****Loans (continued)**

As at December 31, 2019	Non-credit impaired		Credit-impaired ⁽¹⁾	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Excellent	\$ 515	\$ -	\$ -	\$ 515
Very low	1,970	-	-	1,970
Low	1,527	8	-	1,535
Moderate	46	83	-	129
High	1	21	-	22
Default	-	4	8	12
Total gross residential mortgages	\$ 4,059	\$ 116	\$ 8	\$ 4,183
Allowance for credit losses	(5)	(1)	(4)	(10)
Total net residential mortgages	\$ 4,054	\$ 115	\$ 4	\$ 4,173
Consumer, credit card and other personal loans				
Excellent	\$ 1,558	\$ -	\$ -	\$ 1,558
Very low	3,610	-	-	3,610
Low	8,459	139	-	8,598
Moderate	3,515	1,313	-	4,828
High	23	1,701	-	1,724
Default	-	-	249	249
Total gross consumer, credit card and other personal loans	\$ 17,165	\$ 3,153	\$ 249	\$ 20,567
Allowance for credit losses	(103)	(186)	(130)	(419)
Total net consumer, credit card and other personal loans	\$ 17,062	\$ 2,967	\$ 119	\$ 20,148
Business and government loans⁽²⁾				
Acceptable risk				
Investment grade	\$ 32,946	\$ -	\$ -	\$ 32,946
Other than investment grade	7,662	220	-	7,882
Under watch	101	164	-	265
Default	-	-	114	114
Total gross business and government loans	\$ 40,709	\$ 384	\$ 114	\$ 41,207
Allowance for credit losses	(12)	(3)	(20)	(35)
Total net business and government loans	\$ 40,697	\$ 381	\$ 94	\$ 41,172

⁽¹⁾ As at December 31, 2019, 79.4% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit Risk Mitigation" section of the Management's Discussion and Analysis.

⁽²⁾ Includes clients' liability under acceptances.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

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

Off-balance sheet items⁽¹⁾

As at December 31, 2020	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 14,341	\$ -	\$ -	\$ 14,341
Very low	5,213	-	-	5,213
Low	23,207	87	-	23,294
Moderate	2,573	1,636	-	4,209
High	258	955	-	1,213
Default	-	-	35	35
Total gross off-balance sheet items	\$ 45,592	\$ 2,678	\$ 35	\$ 48,305
Allowance for credit losses	(45)	(8)	-	(53)
Total net off-balance sheet items	\$ 45,547	\$ 2,670	\$ 35	\$ 48,252
Business and government				
Acceptable risk				
Investment grade	\$ 15,126	\$ -	\$ -	\$ 15,126
Other than investment grade	7,662	461	-	8,123
Under watch	209	420	-	629
Default	-	-	29	29
Total gross off-balance sheet items	\$ 22,997	\$ 881	\$ 29	\$ 23,907
Allowance for credit losses	(5)	(2)	-	(7)
Total net off-balance sheet items	\$ 22,992	\$ 879	\$ 29	\$ 23,900

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

As at December 31, 2019	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 13,159	\$ 3	\$ -	\$ 13,162
Very low	19,690	2	-	19,692
Low	7,525	16	-	7,541
Moderate	3,786	1,188	-	4,974
High	14	722	-	736
Default	-	-	32	32
Total gross off-balance sheet items	\$ 44,174	\$ 1,931	\$ 32	\$ 46,137
Allowance for credit losses	(24)	(2)	-	(26)
Total net off-balance sheet items	\$ 44,150	\$ 1,929	\$ 32	\$ 46,111
Business and government				
Acceptable risk				
Investment grade	\$ 13,000	\$ -	\$ -	\$ 13,000
Other than investment grade	9,057	78	-	9,135
Under watch	36	53	-	89
Default	-	-	2	2
Total gross off-balance sheet items	\$ 22,093	\$ 131	\$ 2	\$ 22,226
Allowance for credit losses	(6)	-	-	(6)
Total net off-balance sheet items	\$ 22,087	\$ 131	\$ 2	\$ 22,220

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
For the year ended December 31, 2020				
Residential mortgages				
Balance at beginning of year	\$ 5	\$ 1	\$ 4	\$ 10
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	2	(2)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	(1)	1	-	-
Changes in model inputs ⁽³⁾	-	2	-	2
New originations or acquisitions ⁽⁴⁾	1	-	-	1
Derecognition and maturities ⁽⁵⁾	(1)	-	-	(1)
Net drawdowns (repayments) ⁽⁶⁾	-	-	-	-
Other	-	(1)	1	-
	-	1	1	2
Write-offs and recoveries	-	-	(1)	(1)
Balance at end of year	\$ 5	\$ 2	\$ 4	\$ 11
Consumer, credit card and other personal loans⁽⁷⁾				
Balance at beginning of year	\$ 133	\$ 188	\$ 130	\$ 451
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	243	(225)	(18)	-
Stage 2	(72)	150	(78)	-
Stage 3	(1)	(39)	40	-
Net remeasurement due to transfers ⁽²⁾	(26)	28	230	232
Changes in model inputs ⁽³⁾	(139)	187	184	232
New originations or acquisitions ⁽⁴⁾	61	43	-	104
Derecognition and maturities ⁽⁵⁾	(20)	(33)	(59)	(112)
Net drawdowns (repayments) ⁽⁶⁾	(12)	(18)	(12)	(42)
Other	-	-	1	1
	34	93	288	415
Write-offs and recoveries	-	-	(310)	(310)
Balance at end of year	\$ 167	\$ 281	\$ 108	\$ 556
Business and government				
Balance at beginning of year	\$ 12	\$ 3	\$ 20	\$ 35
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	6	(6)	-	-
Stage 2	(10)	10	-	-
Stage 3	(1)	(3)	4	-
Net remeasurement due to transfers ⁽²⁾	(1)	7	58	64
Changes in model inputs ⁽³⁾	6	25	16	47
New originations or acquisitions ⁽⁴⁾	12	1	-	13
Derecognition and maturities ⁽⁵⁾	(4)	(5)	-	(9)
Net drawdowns (repayments) ⁽⁶⁾	2	3	1	6
Other	-	-	1	1
	10	32	80	122
Write-offs and recoveries	-	-	(25)	(25)
Balance at end of year	\$ 22	\$ 35	\$ 75	\$ 132
Total balances at end of year	\$ 194	\$ 318	\$ 187	\$ 699
Composed of:				
Loans	\$ 144	\$ 308	\$ 187	\$ 639
Off-balance sheet items ⁽⁸⁾	50	10	-	60

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

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

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

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

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

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

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

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

ALLOWANCE FOR CREDIT LOSSES (continued)

For the year ended December 31, 2019	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of year	\$ 4	\$ 1	\$ 5	\$ 10
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	-	-	-	-
Changes in model inputs ⁽³⁾	-	-	-	-
New originations or acquisitions ⁽⁴⁾	-	-	-	-
Derecognition and maturities ⁽⁵⁾	-	-	-	-
Net drawdowns (repayments) ⁽⁶⁾	-	-	-	-
Other	1	-	-	1
	1	-	-	1
Write-offs and recoveries	-	-	(1)	(1)
Balance at end of year	\$ 5	\$ 1	\$ 4	\$ 10
Consumer, credit card and other personal loans⁽⁷⁾				
Balance at beginning of year	\$ 129	\$ 259	\$ 110	\$ 498
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	241	(223)	(18)	-
Stage 2	(54)	99	(45)	-
Stage 3	(1)	(36)	37	-
Net remeasurement due to transfers ⁽²⁾	(54)	35	214	195
Changes in model inputs ⁽³⁾	(165)	70	218	123
New originations or acquisitions ⁽⁴⁾	73	72	-	145
Derecognition and maturities ⁽⁵⁾	(32)	(66)	(49)	(147)
Net drawdowns (repayments) ⁽⁶⁾	(4)	(22)	2	(24)
	4	(71)	359	292
Write-offs and recoveries	-	-	(339)	(339)
Balance at end of year	\$ 133	\$ 188	\$ 130	\$ 451
Business and government				
Balance at beginning of year	\$ 9	\$ 5	\$ 6	\$ 20
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	4	(4)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	(2)	1	9	8
Changes in model inputs ⁽³⁾	(2)	1	(4)	(5)
New originations or acquisitions ⁽⁴⁾	6	-	-	6
Derecognition and maturities ⁽⁵⁾	(4)	(1)	(1)	(6)
Net drawdowns (repayments) ⁽⁶⁾	2	-	7	9
Other	-	-	3	3
	3	(2)	14	15
Write-offs and recoveries	-	-	-	-
Balance at end of year	\$ 12	\$ 3	\$ 20	\$ 35
Total balances at end of year	\$ 150	\$ 192	\$ 154	\$ 496
Composed of:				
Loans	\$ 120	\$ 190	\$ 154	\$ 464
Off-balance sheet items ⁽⁸⁾	30	2	-	32

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

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

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

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

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

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

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

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

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)

KEY DATA AND ASSUMPTIONS

Estimating the loss allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

- Changes in the borrowers' credit risk rating (or PD)
- Determination of significant increases in credit risk
- Incorporation of forward-looking information
- Estimated life of revolving credit facilities

The development of the COVID-19 pandemic and its future resolution give rise to uncertainty. Management therefore had to make complex judgments to estimate the loss allowance for expected credit losses in the current situation, which increases the risk of adjustments in future periods.

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.0, "Risk Management", of the Management's Discussion and Analysis. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses.

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

Determination of significant increases in credit risk

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

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

Significant judgments had to be made to estimate the negative impact of the unprecedented current COVID-19 pandemic situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance. With respect to the use of the payment deferral program that it offers its members and clients, the Federation considered that it was not, taken individually, an indication of an increase in the risk of default over the life of the financial instrument. Accordingly, the use of such program was not considered to be, on its own, a sufficient criterion for concluding to a significant increase in credit risk and transferring a financial instrument to Stage 2 of the impairment model. Furthermore, the use of such program does not result in additional days past due.

Incorporation of forward-looking information

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

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the allowance, while a deterioration will result in an increase in the allowance.

The major uncertainty resulting from the COVID-19 pandemic makes it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty, which relates in particular to the duration and magnitude of the impact of the COVID-19 pandemic on the various macroeconomic variables used in the models and to the positive effect of support measures by central banks and governments, required management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management applied expert credit judgment as to the degree of correlation between input data related to forward-looking indicators and expected credit losses. Expert credit judgment was also applied to consider the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the outset of the pandemic, as well as the temporary impact of the payment deferral programs offered by financial institutions.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (*continued*)KEY DATA AND ASSUMPTIONS (*continued*)Incorporation of forward-looking information (*continued*)

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

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

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

⁽²⁾ Macroeconomic variables related to the Canadian economy.

As at December 31, 2019	Base scenario		Upside scenario		Downside scenario	
	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables⁽¹⁾						
Gross domestic product (annualized change)	1.3%	1.5%	2.3%	1.9%	(1.0)%	1.3%
Unemployment rate (average)	4.5%	4.5%	4.1%	3.5%	6.1%	7.1%
Consumer Price Index (annualized change)	1.9%	1.7%	3.8%	2.6%	(1.9)%	1.5%
Housing prices (annualized change)	1.5%	0.7%	6.3%	1.9%	(5.8)%	(0.4)%
Corporate credit spread ⁽²⁾ (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index ⁽²⁾ (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

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

⁽²⁾ Macroeconomic variables related to the Canadian economy.

The economic activity experienced a steep drop during the first two quarters of 2020, followed by a strong rebound in the third quarter. This rebound in economic activity observed during the summer gave way in the last quarter of 2020 to new challenges related to the COVID-19 second wave and the new health measures that had to be gradually reintroduced.

The base scenario forecasts that the economic activity will remain weak in the first quarter of 2021. Afterwards, with the gradual reopening of the economy, helped by the acceleration of the vaccination campaign, real GDP growth is expected to sharply increase in spring and summer 2021. We will however have to wait until early 2022 to see real GDP exceed its pre-pandemic high. After a significant decrease during summer 2020, the unemployment rate should be more stable in the first quarter of 2021 due to the weak short-term economic growth, but should quickly revert to its downward trend to end 2021 at approximately 6.4%. In addition, the housing market would remain quite strong and there would therefore not be any major correction in house prices.

In the downside scenario, real GDP would considerably decline in the first quarter of 2021. Afterwards, the economic recovery would be slower than under the base scenario. The economic setback in the first quarter of 2021 would be accompanied by an unemployment rate going back to over 9%. The unemployment rate would then decrease at a slower pace than in the base scenario. With respect to the housing market, this scenario expects a decrease of approximately 10% in house prices.

The upside scenario essentially assumes that the economic recovery will be faster than in the base scenario and would occur by the end of the first quarter of 2021. This recovery would be supported by a faster withdrawal of health restrictions as well as the acceleration and effectiveness of the vaccination campaign. The unemployment rate would continue to decrease quite rapidly to 5.5% by the end of 2021. The increase in house prices would remain quite strong in 2021, but the faster increase in interest rates under this scenario would eventually temper the housing market in future years.

The development of the economic outlook after December 31, 2020 will be considered in estimating the loss allowance for expected credit losses in future periods.

NOTE 7 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

KEY DATA AND ASSUMPTIONS (continued)

Estimated life of revolving credit facilities

To determine the life of revolving credit facilities, the Federation determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. In making this estimate, the Federation, considers the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the risk on the financial instruments has increased.

The determination of the estimated life of revolving credit facilities has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving credit facilities in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving credit facilities gives rise to an increase in expected credit losses.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2020	As at December 31, 2019
Under IFRS 9	\$ 512	\$ 342
Weighting of 100% assigned to the scenario		
Base	\$ 482	\$ 344
Upside	470	327
Downside	611	346

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2020	As at December 31, 2019
Under IFRS 9	\$ 512	\$ 342
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	\$ 465	\$ 332

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of Desjardins Group's liquidity and capital management strategy, the Federation participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, the Federation acquires interests in securitized mortgage loans from Desjardins Group member caisses. It creates pools of residential mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC) that back mortgage-backed securities. These mortgage-backed securities are issued under the *National Housing Act* (NHA MBSs). The Federation originates from time to time such securities and retains them as holder or transfers them from time to time to the Canada Housing Trust (CHT). NHA MBSs give their holders a property right on the pools of loans backing them. In addition, in the context of the COVID-19 pandemic, the Canadian government, through CMHC, modified its Insured Mortgage Purchase Program (IMPP). Under this second program, the Federation sold NHA MBSs to CMHC.

In these transactions, the acquired interests in securitized mortgage loans do not meet the recognition criteria as member caisses retain substantially all the risks, including prepayment and interest rate risks. Furthermore, the Federation treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and the Federation to allow the monthly receipt of all cash flows related to the mortgage loans underlying the NHA MBSs. The Federation pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, the Federation must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

Under this same program, the Federation creates pools of CMHC-insured residential mortgage loans that back mortgage-backed securities and transfers them to a related party. As part of these transactions, the Federation retains substantially all the risks, including prepayment and interest rate risks. As a result, these loans continue to be recognized in the Consolidated Balance Sheets. Furthermore, the Federation treats the transfers as collateralized financing transactions and recognizes a liability in that respect. This liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, the Federation transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Consolidated Balance Sheets as the Federation retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by the Federation but not derecognized as well as the related liabilities recognized in the Consolidated Balance Sheets.

	As at December 31, 2020		As at December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	\$ 22	\$ 22	\$ 33	\$ 33
Securities sold under repurchase agreements	1,202	1,202	3,566	3,566
Securities lent	12	12	6	6
	\$ 1,236	\$ 1,236	\$ 3,605	\$ 3,605
Related liabilities	\$ 1,221	\$ 1,221	\$ 3,583	\$ 3,583

FINANCIAL ASSETS TRANSFERRED AND DERECOGNIZED

Canada Emergency Business Account federal program

The Federation participates in the Canada Emergency Business Account (CEBA) federal program, implemented in collaboration with Export Development Canada (EDC). Under this program, we grant loans that are funded by the government. We have determined that these loans qualified for derecognition as all cash flows are remitted to EDC and, in addition, substantially all the risks and rewards of ownership of the loans have been transferred. The Federation has a continued involvement with these derecognized loans as it services them. As at December 31, 2020, loans outstanding amounting to \$3 million have been granted to the Federation's members and clients under the CEBA program.

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2020	As at December 31, 2019
Investments		
Bonds	\$ 607	\$ 650
Shares and mutual fund units	18,463	16,330
Money market securities	30	40
Derivative financial instruments	1	-
Securities borrowed or purchased under reverse repurchase agreements	12	46
Other assets	116	93
Commitments related to securities lent or sold under repurchase agreements	(8)	(22)
Other liabilities	(90)	(76)
Net assets held for segregated fund contract holders	\$ 19,131	\$ 17,061
Assets held for the insurer	(38)	(35)
Total segregated fund net assets⁽¹⁾	\$ 19,093	\$ 17,026

⁽¹⁾ The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to \$4 million as at December 31, 2020 (\$24 million as at December 31, 2019).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. The Federation classifies these instruments using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, "Fair value of financial instruments".

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Securities borrowed or purchased under reverse repurchase agreements", "Other assets", "Commitments related to securities lent or sold under repurchase agreements" and "Other liabilities".

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 317	\$ 290	\$ -	\$ 607
Shares and mutual fund units	6,773	11,563	127	18,463
Money market securities	23	7	-	30
Derivative financial instruments	-	1	-	1
Total financial instruments recognized at fair value	\$ 7,113	\$ 11,861	\$ 127	\$ 19,101
As at December 31, 2019	Level 1	Level 2	Level 3	Total
Investments				
Bonds	\$ 335	\$ 315	\$ -	\$ 650
Shares and mutual fund units	6,219	10,030	81	16,330
Money market securities	34	6	-	40
Total financial instruments recognized at fair value	\$ 6,588	\$ 10,351	\$ 81	\$ 17,020

During the years ended December 31, 2020 and 2019, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

NOTE 9 – SEGREGATED FUNDS (continued)**Derecognition of financial assets**

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Consolidated Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2020, the carrying amount and the fair value of such transferred financial assets and related liabilities recognized in the Consolidated Balance Sheets were \$7 million and \$7 million, respectively (\$40 million and \$40 million as at December 31, 2019).

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to \$7 million as at December 31, 2020 (\$40 million as at December 31, 2019). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled \$2 million (\$3 million as at December 31, 2019). No financial assets held as collateral had been sold or repledged in 2020 and 2019. These financial assets were received as collateral in transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

The Federation is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2020	As at December 31, 2019
Balance at beginning – Net liabilities to segregated fund contract holders	\$ 17,037	\$ 13,243
Additions		
Amounts received from contract holders	2,368	3,557
Net investment income	1,915	2,190
	4,283	5,747
Deductions		
Withdrawals and redemptions	2,045	1,805
Management fees	148	148
	2,193	1,953
Balance at end – Net liabilities to segregated fund contract holders	\$ 19,127	\$ 17,037
Liabilities to the insurer	(38)	(35)
Total segregated fund net liabilities⁽¹⁾	\$ 19,089	\$ 17,002

⁽¹⁾ The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Federation's scope of consolidation. These eliminations amounted to \$4 million as at December 31, 2020 (\$24 million as at December 31, 2019).

NOTE 10 – LEASES

LEASES – AS LESSEE

The following table presents the carrying amount of right-of-use assets by class of underlying asset.

	As at December 31, 2020	As at December 31, 2019
Buildings	\$ 282	\$ 290
Other ⁽¹⁾	9	8
	\$ 291	\$ 298

⁽¹⁾ The "Other" category mainly comprises vehicles.

During fiscal 2020, the Federation entered into leases that increased right-of-use assets by \$29 million (\$25 million in 2019).

The following table presents the depreciation of right-of-use assets by class of underlying asset.

	2020	2019
Buildings	\$ 32	\$ 29
Other ⁽¹⁾	3	1
	\$ 35	\$ 30

⁽¹⁾ The "Other" category mainly comprises vehicles.

The following table presents amounts recognized in the Consolidated Statement of Income for the year ended December 31.

	2020	2019
Interest expense on lease liabilities	\$ 13	\$ 13
Short-term leases	5	12

LEASES – AS LESSOR

Operating leases

Lease income is presented in Note 11, "Property, plant and equipment and investment property", and includes fixed lease payments.

For the years ended December 31, lease payments to be received under non-cancellable operating leases for premises and equipment are as follows:

	2020	2019
Under 1 year	\$ 67	\$ 74
1 to 2 years	63	64
Over 2 to 3 years	57	64
Over 3 to 4 years	52	57
Over 4 to 5 years	45	51
Over 5 years	282	318
Total future lease payments	\$ 566	\$ 628

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at December 31, 2018	\$ 32	\$ 614	\$ 341	\$ 152	\$ 299	\$ 1,438	\$ 215	\$ 1,006	\$ 1,221
Additions	-	17	62	10	53	142	9	44	53
Disposals	-	(1)	(96)	(10)	(15)	(122)	(7)	(12)	(19)
Other	-	-	1	(11)	(1)	(11)	-	1	1
As at December 31, 2019	\$ 32	\$ 630	\$ 308	\$ 141	\$ 336	\$ 1,447	\$ 217	\$ 1,039	\$ 1,256
Additions	-	20	106	13	49	188	22	24	46
Disposals	-	(1)	(66)	(11)	(7)	(85)	(7)	(75)	(82)
Other	-	-	(2)	(1)	-	(3)	-	(1)	(1)
As at December 31, 2020	\$ 32	\$ 649	\$ 346	\$ 142	\$ 378	\$ 1,547	\$ 232	\$ 987	\$ 1,219

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at December 31, 2018	\$ -	\$ 197	\$ 244	\$ 66	\$ 120	\$ 627	\$ -	\$ 278	\$ 278
Depreciation	-	20	49	12	21	102	-	36	36
Disposals	-	(1)	(95)	(10)	(15)	(121)	-	(1)	(1)
Other	-	-	1	(3)	1	(1)	-	(1)	(1)
As at December 31, 2019	\$ -	\$ 216	\$ 199	\$ 65	\$ 127	\$ 607	\$ -	\$ 312	\$ 312
Depreciation	-	21	58	13	23	115	-	40	40
Disposals	-	(1)	(66)	(8)	(7)	(82)	-	(43)	(43)
As at December 31, 2020	\$ -	\$ 236	\$ 191	\$ 70	\$ 143	\$ 640	\$ -	\$ 309	\$ 309

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2020	\$ 32	\$ 413	\$ 155	\$ 72	\$ 235	\$ 907	\$ 232	\$ 678	\$ 910
As at December 31, 2019	\$ 32	\$ 414	\$ 109	\$ 76	\$ 209	\$ 840	\$ 217	\$ 727	\$ 944

For the years ended December 31, 2020 and 2019, the Federation had no amounts representing costs related to buildings under construction. In addition, as at December 31, 2020 and 2019, the Federation had no commitments related to the acquisition of these buildings.

As at December 31, 2020, the fair value of investment property was \$1,759 million (\$1,876 million as at December 31, 2019). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, "Fair value of financial instruments", as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by management, mainly by using the work of independent real estate appraisers with recognized and relevant professional qualifications and any other significant information that may be deemed relevant. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2020, lease income from investment property amounted to \$145 million (\$161 million in 2019). Amounts recognized in profit or loss for operating expenses related to investment property that generated lease income during the year totalled \$115 million (\$109 million in 2019), while no amount has been recognized for those that did not generate lease income. These amounts are presented under "Net investment income" in the Consolidated Statements of Income.

NOTE 12 – INTANGIBLE ASSETS

INTANGIBLE ASSETS

The following tables show changes in intangible assets.

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Cost				
As at December 31, 2018	\$ 810	\$ 19	\$ 124	\$ 953
Acquisitions / Additions	85	-	-	85
Disposals / Retirements	(88)	(3)	(3)	(94)
Other	(6)	-	-	(6)
As at December 31, 2019	\$ 801	\$ 16	\$ 121	\$ 938
Acquisitions / Additions	101	1	17	119
Disposals / Retirements	(42)	-	(16)	(58)
Other	2	-	-	2
As at December 31, 2020	\$ 862	\$ 17	\$ 122	\$ 1,001

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Accumulated amortization				
As at December 31, 2018	\$ 511	\$ 9	\$ 44	\$ 564
Amortization	77	1	5	83
Disposals / Retirements	(88)	(1)	(3)	(92)
Other	2	-	-	2
As at December 31, 2019	\$ 502	\$ 9	\$ 46	\$ 557
Amortization	71	1	5	77
Disposals / Retirements	(42)	-	(16)	(58)
Other	1	-	-	1
As at December 31, 2020	\$ 532	\$ 10	\$ 35	\$ 577

	Software ⁽¹⁾	Client relationships	Other ⁽²⁾	Total
Net carrying amount				
As at December 31, 2020	\$ 330	\$ 7	\$ 87	\$ 424
As at December 31, 2019	\$ 299	\$ 7	\$ 75	\$ 381

⁽¹⁾ Software includes purchased software amounting to \$134 million (\$128 million in 2019) and internally developed software amounting to \$196 million (\$171 million in 2019).

⁽²⁾ The "Other" category mainly includes the amount related to the acquisition of insurance contract portfolios and a distribution network.

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries of the Federation have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by the Federation in each of them.

	Nature of operations	As at December 31, 2020 ⁽¹⁾	As at December 31, 2019 ⁽¹⁾
Desjardins Capital Inc.	Issuance of securities on the markets and financing of the Desjardins caisses	100 %	100 %
Desjardins Financial Holding Inc.	Holding company	100	100
Zag Bank ⁽²⁾	Financial institution	-	100
Desjardins Financial Corporation Inc.	Holding company	100	100
Desjardins Global Asset Management Inc.	Asset management	100	100
Desjardins General Insurance Group Inc. ⁽³⁾	Property and casualty insurance	90	100
Property and casualty insurance subsidiaries ⁽³⁾⁽⁴⁾	Property and casualty insurance	100	90
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	100	100
Desjardins Investments Inc.	Design, administration and distribution of insurance and savings products	100	100
Desjardins Trust Inc.	Asset custody and trust services	100	100
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	100	100
Desjardins Securities Inc.	Securities brokerage	100	100
9420-7404 Québec inc. ⁽⁵⁾	Real estate services	100	-

⁽¹⁾ Represents also the proportion of voting rights held by the Federation in these subsidiaries.

⁽²⁾ During the fourth quarter of 2020, Zag Bank changed its name to Desjardins Finco Inc. and was afterwards acquired by Desjardins Investments Inc. Desjardins Finco Inc. was subsequently liquidated.

⁽³⁾ On January 1, 2020, Desjardins General Insurance Group Inc. and some of its subsidiaries carried out a series of transactions to restructure their capital. Desjardins General Insurance Group Inc. acquired the common shares of its subsidiaries held by holders of non-controlling interests to bring its ownership interest in them to 100% and issued common shares as consideration.

⁽⁴⁾ Represents a group of six property and casualty insurance subsidiaries.

⁽⁵⁾ 9420-7404 Québec inc. operates two brands DuProprio and Purplebricks Canada.

Subsidiaries that have material non-controlling interests

As at December 31, 2020, Desjardins General Insurance Group Inc. is a subsidiary that has material non-controlling interests. As at December 31, 2019, the subsidiaries that have material non-controlling interests comprise the six property and casualty insurance subsidiaries aggregated under "Property and casualty insurance subsidiaries".

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2020	As at December 31, 2019
Assets	\$ 15,418	\$ 15,683
Liabilities	11,946	12,895
Equity	\$ 3,472	\$ 2,788
Non-controlling interests	\$ 750	\$ 773
For the years ended December 31	2020	2019
Total income	\$ 5,823	\$ 5,357
Net surplus earnings for the year after member caisses dividends	623	176
Comprehensive income for the year	\$ 730	\$ 246
Share of net surplus earnings for the year after member caisses dividends attributable to holders of non-controlling interests	\$ 84	\$ 46
Dividends / distributions paid to holders of non-controlling interests	\$ 25	\$ 36

NOTE 13 – INTERESTS IN OTHER ENTITIES (continued)

CONSOLIDATED STRUCTURED ENTITY

Covered bonds

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. CCDQ Covered Bond (Legislative) Guarantor Limited Partnership, a structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. The operations of this entity are included in the Consolidated Financial Statements of the Federation as this entity is controlled by the Federation. The Federation granted financing to this entity to facilitate the acquisition of the assets for purposes of guaranteeing the covered bonds issued. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. As a result of the COVID-19 pandemic, the Bank of Canada has temporarily expanded the list of eligible collateral for its term repo operations program to include “own-name” covered bonds issued by the Federation (self-held). The covered bonds, amounting to \$6,114 million as at December 31, 2020 (\$5,654 million as at December 31, 2019), are presented under “Deposits – Business and government” in the Consolidated Balance Sheets.

JOINT VENTURES

Information about material joint ventures

The Federation holds interests in the RPADS LP, Aviso Wealth, 101 St-Clair, Primus Immobilia, Western Canada Shopping Centres, Brentcliffe Park and Immeubles Mostra LP joint ventures. RPADS LP is an entity that acquires and develops real estate portfolios, Aviso Wealth is a wealth management company and the other joint ventures are a real estate management and investment companies. These joint ventures have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these joint ventures, namely the amounts included in their IFRS financial statements, which were adjusted to reflect adjustments made by the Federation when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	RPADS LP ⁽¹⁾	Aviso Wealth ⁽²⁾	101 St-Clair ⁽¹⁾	Primus Immobilia	Western Canada Shopping Centres	Brentcliffe Park ⁽¹⁾	Immeubles Mostra LP ⁽¹⁾
As at December 31, 2020							
Proportion of ownership interest held	60.10%	50.00%	60.00%	85.00%	28.46 %	80.00%	60.00%
Assets	\$ 703	\$ 2,920	\$ 168	\$ 45	\$ 309	\$ 73	\$ 50
Liabilities ⁽³⁾	130	2,664	35	5	170	-	15
Equity	\$ 573	\$ 256	\$ 133	\$ 40	\$ 139	\$ 73	\$ 35
Interests in joint ventures⁽⁴⁾	\$ 390	\$ 356	\$ 82	\$ 34	\$ 40	\$ 61	\$ 29

⁽¹⁾ The interest in the RPADS LP, 101 St-Clair, Brentcliffe Park and Immeubles Mostra LP joint ventures reflects adjustments of \$46 million, \$2 million, \$3 million and \$8 million, respectively, made when using the equity method.

⁽²⁾ The interest in the Aviso Wealth joint venture reflects adjustments of \$228 million made when using the equity method, which correspond to goodwill included in the carrying amount.

⁽³⁾ Consisting primarily of financial liabilities other than accounts payable and provisions.

⁽⁴⁾ Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

	RPADS LP ⁽¹⁾	Aviso Wealth ⁽²⁾	101 St-Clair	Primus Immobilia	Western Canada Shopping Centres	Immeubles Mostra LP
As at December 31, 2019						
Proportion of ownership interest held	60.10%	50.00%	60.00%	85.00%	28.46%	60.00%
Assets	\$ 649	\$ 2,041	\$ 172	\$ 46	\$ 316	\$ 26
Liabilities ⁽³⁾	126	1,804	36	6	170	4
Equity	\$ 523	\$ 237	\$ 136	\$ 40	\$ 146	\$ 22
Interests in joint ventures⁽⁴⁾	\$ 352	\$ 347	\$ 82	\$ 34	\$ 42	\$ 13

⁽¹⁾ The interest in the RPADS LP joint venture reflects adjustments of \$38 million made when using the equity method.

⁽²⁾ The interest in the Aviso Wealth joint venture reflects adjustments of \$228 million made when using the equity method, which correspond to goodwill included in the carrying amount.

⁽³⁾ Consisting primarily of financial liabilities other than accounts payable and provisions.

⁽⁴⁾ Represents the carrying amount of the interests in joint ventures recognized in the Consolidated Balance Sheets.

NOTE 13 – INTERESTS IN OTHER ENTITIES (continued)**JOINT VENTURES (continued)****Information about material joint ventures (continued)**

For the year ended December 31, 2020	RPADS LP	Aviso Wealth	101 St-Clair	Primus Immobilier	Western Canada Shopping Centres	Brentcliffe Park	Immeubles Mostra LP
Total income	\$ 122	\$ 475	\$ 10	\$ 7	\$ 29	\$ -	\$ 1
Net income and comprehensive income for the year	\$ 24	\$ 48	\$ 3	\$ 2	\$ 4	\$ -	\$ (1)

For the year ended December 31, 2019	RPADS LP	Aviso Wealth	101 St-Clair	Primus Immobilier	Western Canada Shopping Centres	Immeubles Mostra LP
Total income	\$ 108	\$ 432	\$ 9	\$ 6	\$ 32	\$ -
Net income and comprehensive income for the year	\$ 19	\$ 41	\$ 2	\$ 2	\$ 6	\$ -

JOINT OPERATIONS

The Federation holds an 80% ownership interest in a joint arrangement with Cogir Real Estate Fund 1 and a 50% ownership interest in a joint arrangement with First Capital Realty Inc. to invest in undivided co-ownership in commercial buildings in Québec. It also holds a 50.5% ownership interest in a second joint arrangement with First Capital Realty Inc. formed during fiscal 2018 to invest in undivided co-ownership in commercial buildings in Ontario.

The Federation also participates in a joint arrangement with 9509593 Canada Inc. formed to invest in undivided co-ownership in multi-residential buildings in Québec. The Federation holds a 50% ownership interest in this joint arrangement.

These joint arrangements are joint operations giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests. All decisions about the relevant activities require the unanimous consent of the joint operators. These joint operations have been incorporated in Canada and their principal place of business is in this country.

ASSOCIATES**Information about material associates**

The Federation holds interests in the Fiera Holdings Inc. and CC&L Haldimand Solar Co-Investment Limited Partnership. Fiera Holdings Inc. operates in the investment management industry, while CC&L Haldimand Solar Co-Investment Limited Partnership operates in the solar energy industry. They have been incorporated in Canada and their principal place of business is in this country.

The following tables present summarized financial information about these associates, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by the Federation when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2020		As at December 31, 2019	
	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
Proportion of ownership interest held^(1,2)	37.78%	33.33%	37.20%	33.33%
Assets ^(3,4)	\$ 1,609	\$ 113	\$ 1,705	\$ 112
Liabilities ⁽⁴⁾	1,094	-	1,139	-
Equity ^(3,4)	\$ 515	\$ 113	\$ 566	\$ 112
Interests in associates⁽⁵⁾	\$ 36	\$ 38	\$ 41	\$ 37

(1) Represents also the proportion of voting rights held by the Federation in the associates.

(2) As at December 31, 2020, the Federation indirectly held an 6.99% ownership interest (7.20% as at December 31, 2019) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.

(3) Include goodwill of \$10 million (\$10 million as at December 31, 2019) related to Fiera Holdings Inc.

(4) The assets, liabilities and equity of Fiera Holdings Inc. for 2020 and 2019 are based on data as at September 30.

(5) Represents the carrying amount of the interests in associates recognized in the Consolidated Balance Sheets.

NOTE 13 – INTERESTS IN OTHER ENTITIES (continued)**ASSOCIATES (continued)****Information about material associates (continued)**

For the years ended December 31	2020		2019	
	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership	Fiera Holdings Inc.	CC&L Haldimand Solar Co-Investment Limited Partnership
Total income ⁽¹⁾	\$ 720	\$ 8	\$ 579	\$ 6
Net income and comprehensive income for the year⁽¹⁾	\$ 8	\$ 7	\$ (19)	\$ 6

⁽¹⁾ Total income, net income and comprehensive income of Fiera Holdings Inc. for 2020 and 2019 are based on data for the twelve-month periods ended September 30.

UNCONSOLIDATED STRUCTURED ENTITIES**Mutual funds**

The Federation holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give the Federation power over the relevant activities of these funds. Accordingly, the Federation does not control these funds, which are considered as unconsolidated structured entities.

The investments of these funds are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. The Federation's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

NOTE 14 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2020	As at December 31, 2019
Accounts receivable	\$ 861	\$ 627
Interest receivable	374	319
Prepaid expenses	252	215
Taxes receivable	200	151
Other	700	356
	\$ 2,387	\$ 1,668

NOTE 15 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at December 31, 2020				As at December 31, 2019			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 3,543	\$ 41	\$ 747	\$ 4,331	\$ 3,128	\$ 32	\$ 555	\$ 3,715
Business and government	7,544	-	45,625	53,169	5,835	-	43,089	48,924
Deposit-taking institutions	6,326	-	8,580	14,906	2,596	-	3,737	6,333
	\$ 17,413	\$ 41	\$ 54,952	\$ 72,406	\$ 11,559	\$ 32	\$ 47,381	\$ 58,972

NOTE 16 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2020			2019		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Gross premiums	\$ 4,760	\$ 5,550	\$ 10,310	\$ 4,733	\$ 5,250	\$ 9,983
Premiums ceded under reinsurance treaties	(206)	(76)	(282)	(188)	(270)	(458)
Net premiums	\$ 4,554	\$ 5,474	\$ 10,028	\$ 4,545	\$ 4,980	\$ 9,525

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2020	As at December 31, 2019
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	\$ 23,356	\$ 20,985
Provisions for claims and adjustment expenses – Property and casualty insurance	7,379	6,716
Unearned premiums	2,990	2,824
Policyholder deposits	624	657
Provisions for benefits, policyholder dividends and experience refunds	469	414
Other	53	41
	\$ 34,871	\$ 31,637

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2020	As at December 31, 2019
Gross actuarial liabilities		
Non-participating policies	\$ 18,334	\$ 16,500
Participating policies	5,022	4,485
	23,356	20,985
Amounts ceded to reinsurers	(1,227)	(1,075)
Net actuarial liabilities	\$ 22,129	\$ 19,910

	As at December 31, 2020	As at December 31, 2019
Composition of assets backing net actuarial liabilities		
Bonds	\$ 15,056	\$ 13,116
Mortgage and business loans	2,343	2,522
Investment property	1,188	1,082
Equities	1,631	1,662
Other	1,911	1,528
	\$ 22,129	\$ 19,910

The fair value of assets backing net actuarial liabilities was \$23,167 million as at December 31, 2020 (\$20,848 million as at December 31, 2019).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Consolidated Statements of Income.

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Consolidated Statements of Income.

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE (continued)

Actuarial assumptions (continued)

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on these subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. CALM is the standard established by the CIA to ensure the compliance of assets backing actuarial provisions. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, they mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the loss allowance for expected credit losses recognized through a write-down of the carrying amount of the assets, a provision amounting to \$437 million as at December 31, 2020 (\$417 million as at December 31, 2019) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

The operating expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiaries carry out an annual study of operating expenses by major product line, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on "Net surplus earnings for the year after dividends to member caisses" of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2020	2019
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	\$ (55)	\$ (53)
Products for which a rate decrease increases actuarial liabilities	(27)	(22)
5% increase in future morbidity rates	(90)	(87)
10% negative change in future contract cancellation rates	(179)	(154)
5% increase in future operating expenses	(48)	(43)

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)**ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE (continued)****Changes in actuarial liabilities**

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2020			2019		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	\$ 20,985	\$ (1,075)	\$ 19,910	\$ 18,553	\$ (915)	\$ 17,638
Change due to						
Passage of time	1,620	(41)	1,579	1,658	(20)	1,638
New business	760	(29)	731	783	(26)	757
Changes in actuarial assumptions	(82)	(5)	(87)	(86)	(22)	(108)
	2,298	(75)	2,223	2,355	(68)	2,287
Other changes	73	(77)	(4)	77	(92)	(15)
Balance at end of year	\$ 23,356	\$ (1,227)	\$ 22,129	\$ 20,985	\$ (1,075)	\$ 19,910

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on "Net surplus earnings for the year after dividends to member caisses" for the years ended December 31.

	2020	2019
Changed assumptions		
Mortality	\$ 33	\$ 54
Morbidity	(1)	(4)
Contract cancellation rates	(38)	(36)
Investment return	10	37
Operating expenses	(14)	41
Methods and other	74	(13)
	\$ 64	\$ 79

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE**Methodology and assumptions**

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)**PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE (continued)****Change in provisions for claims and adjustment expenses**

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2020			2019		
	Gross amount	Amount ceded to reinsurers	Net amount	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	\$ 6,716	\$ (802)	\$ 5,914	\$ 6,489	\$ (935)	\$ 5,554
Claims incurred during the years	3,801	(113)	3,688	4,272	(189)	4,083
Development of claims incurred in prior years	(263)	36	(227)	(584)	78	(506)
Changes in discount rates	251	(23)	228	100	(12)	88
Claims paid during the year	(3,126)	173	(2,953)	(3,561)	256	(3,305)
Balance at end of year	\$ 7,379	\$ (729)	\$ 6,650	\$ 6,716	\$ (802)	\$ 5,914

Changes in assumptions had no material impact on the Consolidated Financial Statements as at December 31, 2020 and 2019.

Assumption sensitivity analysis

The following table shows the impact on the Consolidated Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the “Interest rate risk management” section of this note.

	Changes in actuarial assumptions	Impact on “Net surplus earnings for the year after dividends to member caisses”	
		2020	2019
Average claims settlement cost	+ 5%	\$ (302)	\$ (263)

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2010 and before	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Estimated ultimate claims amount												
At the end of the accident year		\$ 1,272	\$ 1,375	\$ 1,471	\$ 1,536	\$ 2,186	\$ 2,417	\$ 3,158	\$ 3,691	\$ 4,107	\$ 3,758	
1 year later		1,272	1,322	1,447	2,453	2,168	2,387	3,121	3,656	4,122		
2 years later		1,238	1,328	2,186	2,349	2,165	2,365	3,086	3,705			
3 years later		1,221	1,967	2,086	2,272	2,117	2,349	3,090				
4 years later		1,781	1,839	1,977	2,184	2,089	2,361					
5 years later		1,657	1,769	1,910	2,105	2,050						
6 years later		1,568	1,717	1,872	2,099							
7 years later		1,547	1,694	1,843								
8 years later		1,507	1,672									
9 years later		1,499										
Cumulative payments to date		1,408	1,552	1,677	1,854	1,834	1,967	2,401	2,704	2,728	1,736	
Net provisions for claims and adjustment expenses	\$ 312	\$ 91	\$ 120	\$ 166	\$ 245	\$ 216	\$ 394	\$ 689	\$ 1,001	\$ 1,394	\$ 2,022	\$ 6,650
Reinsurers’ share in provisions for claims and adjustment expenses	3	-	-	-	-	175	224	111	64	86	66	729
Gross provisions for claims and adjustment expenses	\$ 315	\$ 91	\$ 120	\$ 166	\$ 245	\$ 391	\$ 618	\$ 800	\$ 1,065	\$ 1,480	\$ 2,088	\$ 7,379

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)**PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE (continued)****Insurance risk management**

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

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose these subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims. With respect to catastrophes, the property and casualty insurance subsidiaries have established a governance structure to monitor the various risks caused by such events and use sophisticated tools to simulate the related financial losses and operational impact. Given the unpredictable nature of large-scale catastrophic events, the property and casualty insurance subsidiaries have a catastrophe reinsurance treaty, which is reviewed at least annually.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. This reinsurance structure takes into account their respective risk profile and appetite. In addition, these subsidiaries purchase additional reinsurance protection with respect to large-scale catastrophic events. The retention and limit amounts selected for the property and casualty insurance subsidiaries' catastrophe treaty are subject to a detailed annual review based on these subsidiaries' various catastrophe models and the positioning of their competitors in the industry.

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a five-year period, all premiums and claims from new business and renewals related to the acquired businesses occurring after the acquisition date are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release these subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Consolidated Statements of Income items presented in the table below by the following amounts:

	2020			2019		
	Life and health insurance	Property and casualty insurance	Total	Life and health insurance	Property and casualty insurance	Total
Premiums	\$ 206	\$ 76	\$ 282	\$ 188	\$ 270	\$ 458
Claims, benefits, annuities and changes in insurance contract liabilities	208	101	309	187	123	310

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)**PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE (continued)****Insurance risk management (continued)**Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimum guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimum guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of stock market, exchange rate and interest rate fluctuations on the future cost of guarantees. This program covers all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Consolidated Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. These subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Consolidated Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Consolidated Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Consolidated Statements of Income. However, the subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Consolidated Statements of Income.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after dividends to member caisses" of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2020	2019
1% increase in interest rates	\$ 68	\$ 57
1% decrease in interest rates	(92)	(77)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after dividends to member caisses" arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries' provisions for claims and adjustment expenses and the assets backing these provisions.

	2020	2019
1% increase in interest rates	\$ 10	\$ 6
1% decrease in interest rates	92	(8)

NOTE 16 – INSURANCE CONTRACT LIABILITIES (continued)

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE (continued)

Insurance risk management (continued)

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For these subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The liquidity risk management policy describes the principles and mechanisms that apply to liquidity risk management. Life and health insurance and property and casualty insurance subsidiaries are responsible, among other things, for measuring, monitoring and controlling the main liquidity indicators that apply to them. This responsibility involves quarterly liquidity monitoring to identify a potential or actual lack of liquidity within the insurance subsidiaries.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Consolidated Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2020	As at December 31, 2019
Less than 1 year	\$ 2,974	\$ 2,857
1 to 5 years	6,499	6,075
Over 5 years	38,845	37,458
Total	\$ 48,318	\$ 46,390

NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES

This note should be read in conjunction with Note 17, "Net defined benefit plan liabilities", to the audited Combined Financial Statements of Desjardins Group for the year ended December 31, 2020 approved on February 24, 2021, which presents the defined benefit group plans, the risks related to pension plans and information on non-group plans.

GROUP PLANS

Pension plans

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group's defined benefit group plans. Consequently, the Federation recognizes its share in the liabilities of these plans in its Consolidated Balance Sheets.

Post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, the Federation also offers a post-retirement benefit plan, including medical, dental and life insurance, to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. Consequently, the Federation recognizes its share in the liability of this plan in its Consolidated Balance Sheets.

NOTE 17 – NET DEFINED BENEFIT PLAN LIABILITIES (continued)**NON-GROUP PLANS**

The Federation also offers certain active and retired executives other defined benefit supplemental pension plans for which a liability representing future obligations with respect to these plans was recognized in the Consolidated Balance Sheets.

In addition, the employees of certain subsidiaries are offered specific defined benefit pensions plans and defined benefit post-retirement benefit plan that are not part of Desjardins Group's defined benefit group plans.

The following tables present the recognized defined benefit plan liabilities, cost and remeasurement of net liabilities for all the plans as well as the Federation's share in defined benefit group plans.

	As at December 31, 2020	As at December 31, 2019
Net defined benefit plan liabilities		
Group plans		
Pension plans	\$ 1,320 68%	\$ 1,310 67%
Post-retirement benefit plan	321 38	285 38
	1,641	1,595
Non-group plans	343	361
Total net defined benefit plan liabilities	\$ 1,984	\$ 1,956

	As at December 31, 2020	As at December 31, 2019
Defined benefit plan cost recognized		
Group plans		
Pension plans	\$ 310	\$ 253
Post-retirement benefit plan	8	9
	318	262
Non-group plans	50	45
Total defined benefit plan cost recognized	\$ 368	\$ 307

	As at December 31, 2020	As at December 31, 2019
Remeasurement of net defined benefit plan liabilities		
Group plans		
Pension plans	\$ (33)	\$ 307
Post-retirement benefit plan	42	32
	9	339
Non-group plans	(33)	31
Total remeasurement of net defined benefit plan liabilities	\$ (24)	\$ 370

NOTE 18 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of "Other liabilities – Other".

	As at December 31, 2020	As at December 31, 2019
Accounts payable and other accrued liabilities	\$ 2,596	\$ 2,861
Client contract liabilities	695	616
Interest payable	407	424
Provisions for risks and expenses	362	110
Taxes payable	471	166
Borrowings from financial institutions	16	14
Other	1,102	1,182
	\$ 5,649	\$ 5,373

NOTE 19 – SUBORDINATED NOTES

The subordinated notes presented in The Federation's Consolidated Balance Sheets comprise senior notes issued by Desjardins Capital Inc. and subordinated notes issued by the Federation. The gross proceeds of the senior notes issued by Desjardins Capital Inc. are invested in notes issued by the Desjardins caisses in Québec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of Desjardins Capital Inc. and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Québec. The subordinated notes of the Federation are direct unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors of the Federation. These claims extend to other entities included in the Desjardins Cooperative Group in the event of the dissolution, insolvency, bankruptcy or liquidation of the Federation in accordance with applicable law.

Redemptions and cancellations of the notes are subject to the consent and approval of the applicable regulatory authorities. These notes comprise the following items:

	As at December 31, 2020	As at December 31, 2019
Senior notes Series G of Desjardins Capital Inc. (par value of \$900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer. ⁽¹⁾	\$ -	\$ 899
Senior notes Series J of Capital Desjardins Inc. (par value of \$500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	495	499
Subordinated notes of the Federation (par value of \$1 billion) issued on May 26, 2020, maturing in May 2030, bearing interest at an annual rate of 2.856% for the first 5 years, for the following 5 years, at an annual rate equal to the 3-month bankers' acceptance rate plus 2.11%, redeemable at the option of the issuer starting in 2025. ⁽²⁾	998	-
	\$ 1,493	\$ 1,398

⁽¹⁾ On May 5, 2020, all the outstanding Senior notes Series G, amounting to \$900 million, were redeemed.

⁽²⁾ These subordinated notes qualify as Non-Viability Contingent Capital (NVCC). Upon the occurrence of a trigger event, as defined in the regulations governing capital, these notes are automatically and immediately convertible into Class Z-Contingent capital shares of the Federation, the number of which will be equal to (i) the note value multiplied by 1.50 divided by (ii) the conversion price.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

DERIVATIVE FINANCIAL INSTRUMENTS

The Federation's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. The Federation uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. The Federation uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

Other financial derivative contracts

Other derivative financial contracts used by the Federation include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. The Federation enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS**

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets.

As at December 31, 2020	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	\$ 1,117	\$ 5,642	\$ 1,573	\$ 2,021	\$ 10,353	\$ 384	\$ 62
Interest rate swaps traded through a clearing house	31	3,417	5,880	14,773	24,101		
Average rate	1.1%	1.6%	1.5%	1.2%			
	1,148	9,059	7,453	16,794	34,454	384	62
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	1,555	3,394	3,217	778	8,944	190	74
CAD-US average rate	-	1.2729	1.2729	-			
CAD-EUR average rate	1.5550	1.5550	1.5550	-			
	1,555	3,394	3,217	778	8,944	190	74
Total – Fair value hedges	2,703	12,453	10,670	17,572	43,398	574	136
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	807	550	134	-	1,491	30	8
Interest rate swaps traded through a clearing house	425	917	1,698	147	3,187	-	-
Average rate	1.6%	1.2%	0.9%	1.1%			
Total – Cash flow hedges	1,232	1,467	1,832	147	4,678	30	8
Total – Designated as hedging instruments	\$ 3,935	\$ 13,920	\$ 12,502	\$ 17,719	\$ 48,076	\$ 604	\$ 144

⁽¹⁾ Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (continued).

	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
As at December 31, 2020							
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	\$ 76,869	\$ 103,481	\$ 49,838	\$ 6,412	\$ 236,600	\$ 3,272	\$ 3,254
Forward rate agreements	1,773	-	-	-	1,773	11	16
Options purchased	255	479	40	-	774	7	-
Options written	194	406	91	-	691	-	3
Contracts traded through a clearing house							
Interest rate swaps	44,596	58,561	39,558	15,659	158,374	-	-
Exchange-traded contracts							
Futures	5,853	1,640	-	-	7,493	-	-
Options purchased	26,674	-	-	-	26,674	6	-
Options written	25,300	-	-	-	25,300	-	7
	181,514	164,567	89,527	22,071	457,679	3,296	3,280
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	32,278	805	53	-	33,136	252	498
Currency swaps	1,623	39	385	680	2,727	11	102
Options purchased	531	305	-	-	836	12	-
Options written	1,008	304	-	-	1,312	-	38
Exchange-traded contracts							
Futures	4	-	-	-	4	-	-
	35,444	1,453	438	680	38,015	275	638
Other contracts⁽²⁾							
Over-the-counter contracts							
Swaps	8	117	193	-	318	5	5
Options purchased	7,199	15,705	12,398	360	35,662	2,795	-
Options written	7,084	15,286	12,016	210	34,596	-	2,686
Contracts traded through a clearing house							
Swaps	-	-	649	-	649	-	-
Exchange-traded contracts							
Futures	1,049	-	-	-	1,049	-	-
Options purchased	4	2	-	-	6	-	-
	15,344	31,110	25,256	570	72,280	2,800	2,691
Total – Trading purposes	\$ 232,302	\$ 197,130	\$ 115,221	\$ 23,321	\$ 567,974	\$ 6,371	\$ 6,609
Total derivative financial instruments before impact of master netting agreements	\$ 236,237	\$ 211,050	\$ 127,723	\$ 41,040	\$ 616,050	\$ 6,975	\$ 6,753
Less:							
Impact of master netting agreements ⁽³⁾	-	-	-	-	-	3,001	3,001
Total derivative financial instruments after impact of master netting agreements	\$ 236,237	\$ 211,050	\$ 127,723	\$ 41,040	\$ 616,050	\$ 3,974	\$ 3,752

⁽¹⁾ As at December 31, 2020, include derivatives with notional amounts totalling \$470 million that would have been designated as hedging instruments if the Federation had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The following tables present the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (continued).

As at December 31, 2019	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Designated as hedging instruments⁽¹⁾							
Fair value hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	\$ 2,497	\$ 5,898	\$ 5,388	\$ 2,830	\$ 16,613	\$ 122	\$ 95
Average rate	1.6%	1.7%	2.3%	2.2%			
	2,497	5,898	5,388	2,830	16,613	122	95
Foreign exchange contracts / Currency risk							
Over-the-counter currency swaps	5,820	2,755	2,185	728	11,488	92	183
CAD-US average rate	1.2985	1.2985	-	-			
CAD-EUR average rate	1.4565	1.4565	1.4565	-			
	5,820	2,755	2,185	728	11,488	92	183
Total – Fair value hedges	8,317	8,653	7,573	3,558	28,101	214	278
Cash flow hedges							
Interest rate contracts / Interest rate risk							
Over-the-counter interest rate swaps	719	4,095	3,070	27	7,911	27	41
Average rate	1.9%	1.9%	2.0%	2.1%			
Total – Cash flow hedges	719	4,095	3,070	27	7,911	27	41
Total – Designated as hedging instruments	\$ 9,036	\$ 12,748	\$ 10,643	\$ 3,585	\$ 36,012	\$ 241	\$ 319

⁽¹⁾ Hedging instruments are presented under "Derivative financial instruments" in the Consolidated Balance Sheets.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The following table presents the maturities of the notional amounts and the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets (continued).

As at December 31, 2019	Terms to maturity				Notional amount	Carrying amount of derivative financial instruments	
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years		Assets	Liabilities
Trading purposes⁽¹⁾							
Interest rate contracts							
Over-the-counter contracts							
Interest rate swaps	\$ 97,350	\$ 112,415	\$ 70,455	\$ 7,829	\$ 288,049	\$ 1,356	\$ 1,229
Forward rate agreements	963	-	-	-	963	4	20
Options purchased	728	389	85	-	1,202	5	-
Options written	27	274	131	-	432	-	8
Contracts traded through a clearing house							
Interest rate swaps	7,186	11,675	12,831	5,535	37,227	-	-
Exchange-traded contracts							
Futures	16,206	100	-	-	16,306	-	-
Options purchased	10,843	-	-	-	10,843	3	-
Options written	26,282	-	-	-	26,282	-	3
	159,585	124,853	83,502	13,364	381,304	1,368	1,260
Foreign exchange contracts							
Over-the-counter contracts							
Forward contracts	33,282	1,061	14	-	34,357	159	279
Currency swaps	2,874	-	388	480	3,742	20	49
Options purchased	952	241	16	-	1,209	14	-
Options written	1,127	266	13	-	1,406	-	17
Exchange-traded contracts							
Futures	2	-	-	-	2	-	-
	38,237	1,568	431	480	40,716	193	345
Other contracts⁽²⁾							
Over-the-counter contracts							
Swaps	81	162	1,140	-	1,383	3	2
Options purchased	5,021	13,867	12,432	86	31,406	2,990	-
Options written	4,789	12,046	9,470	-	26,305	-	2,901
Contracts traded through a clearing house							
Swaps	-	-	195	-	195	-	-
Exchange-traded contracts							
Futures	899	-	-	-	899	-	-
Options purchased	1	-	-	-	1	-	-
	10,791	26,075	23,237	86	60,189	2,993	2,903
Total – Trading purposes	\$ 208,613	\$ 152,496	\$ 107,17	\$ 13,930	\$ 482,209	\$ 4,554	\$ 4,508
Total derivative financial instruments before impact of master netting agreements	\$ 217,649	\$ 165,244	\$ 117,81	\$ 17,515	\$ 518,221	\$ 4,795	\$ 4,827
Less:							
Impact of master netting agreements ⁽³⁾	-	-	-	-	-	1,688	1,688
Total derivative financial instruments after impact of master netting agreements	\$ 217,649	\$ 165,244	\$ 117,81	\$ 17,515	\$ 518,221	\$ 3,107	\$ 3,139

⁽¹⁾ As at December 31, 2019, include derivatives with notional amounts totalling \$504 million that would have been designated as hedging instruments if the Federation had continued to apply IAS 39 to insurance operations financial assets designated for the overlay approach. The impact that the designation of these derivatives as hedging instruments would have had is taken into account in the calculation of the overlay approach adjustment. For more information on the application of the overlay approach, see Note 2, "Basis of presentation and significant accounting policies".

⁽²⁾ Include contracts related to indexed term savings products.

⁽³⁾ Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**HEDGING ACTIVITIES**

The manner in which the Federation assesses market risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis.

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. In addition, when a financial instrument is denominated in a foreign currency, the Federation may enter into fair value hedges by using currency swaps or cross-currency interest rate swaps. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. The Federation uses fair value hedge strategies for its loan, deposit and securities portfolios.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. The Federation uses cash flow hedge strategies for its loan, deposit and securities portfolios.

Effectiveness assessment and sources of hedging relationship ineffectiveness

The Federation assesses the effectiveness of a hedging relationship by comparing the change in fair value or cash flows of the hedging instrument with that of the hedged item attributable to the hedged risk to demonstrate the existence of a highly effective correlation between the two instruments. When derivative financial instruments are designated as hedging instruments for a currency risk, only the change in currency risk is taken into account to assess hedge effectiveness.

There is ineffectiveness when the change in fair value of the hedged item attributable to the hedged risk differs from the change in fair value of the hedging instrument. The main sources of ineffectiveness are a difference between the actual and expected repricing dates, a difference between the discounting factors used and a difference between the payment dates for the hedging instrument and the hedged item.

The following table presents information on the ineffectiveness of fair value hedges.

	As at December 31, 2020		As at December 31, 2019	
	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾	Gains (losses) on hedging instruments used as the basis for calculating hedge ineffectiveness	Hedge ineffectiveness recognized in profit or loss ⁽¹⁾
Fair value hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ 320	\$ 2	\$ 125	\$ -
Interest rate swaps traded through a clearing house	59	(3)	-	-
Foreign exchange contracts / Currency risk				
Over-the-counter currency swaps	217	(23)	(786)	1
Total – Fair value hedges	\$ 596	\$ (24)	\$ (661)	\$ 1

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**HEDGING ACTIVITIES (continued)**Effectiveness assessment and sources of hedging relationship ineffectiveness (continued)

The following tables present information on the ineffectiveness of cash flow hedges for the years ended December 31.

	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⁾
2020				
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ 152	\$ 2	\$ 33	\$ 13
Interest rate swaps traded through a clearing house	11	-	(4)	(9)
Total – Cash flow hedges	\$ 163	\$ 2	\$ 29	\$ 4

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

⁽²⁾ The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

	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⁾
2019				
Cash flow hedges				
Interest rate contracts / Interest rate risk				
Over-the-counter interest rate swaps	\$ (11)	\$ -	\$ (9)	\$ 3
Total – Cash flow hedges	\$ (11)	\$ -	\$ (9)	\$ 3

⁽¹⁾ The hedge ineffectiveness and reclassification adjustment are recognized under "Net investment income".

⁽²⁾ The reclassification adjustment is included under "Interest income – Loans" and "Interest expense – Deposits".

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

HEDGING ACTIVITIES (continued)

Effectiveness assessment and sources of hedging relationship ineffectiveness (continued)

The following tables present the impact of hedge accounting on balances recognized in the Consolidated Balance Sheets and in accumulated other comprehensive income.

	Cash flow hedges			Fair value hedges			
	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
As at December 31, 2020							
Interest rate risk							
Assets							
Securities	\$ 9	\$ 7	\$ (13)	\$ 23,368	\$ -	\$ -	\$ 26
Loans	19	9	(182)	1,337	32	1	40
Liabilities							
Deposits	\$ (8)	\$ (21)	\$ 34	\$ 11,630	\$ (374)	\$ (45)	\$ (445)
Currency risk							
Liabilities							
Deposits	\$ -	\$ -	\$ -	\$ 9,082	\$ (151)	\$ -	\$ (240)

	Cash flow hedges			Fair value hedges			
	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
As at December 31, 2019							
Interest rate risk							
Assets							
Securities	\$ 2	\$ -	\$ 6	\$ 2,382	\$ -	\$ -	\$ (18)
Loans	(17)	(1)	12	1,349	(1)	-	12
Liabilities							
Deposits	\$ 2	\$ (4)	\$ 1	\$ 12,246	\$ (14)	\$ (4)	\$ (119)
Currency risk							
Liabilities							
Deposits	\$ -	\$ -	\$ -	\$ 11,488	\$ 40	\$ -	\$ 787

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward the Federation at a time when the fair value of the instrument is positive for the Federation. The manner in which the Federation assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Consolidated Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by Basel III.
Risk-weighted balance	The balance weighted by the risks related to the creditworthiness of counterparties, determined using methods prescribed by Basel III.

The following table gives an overview of the Federation's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2020				As at December 31, 2019			
	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Interest rate swaps	\$ 434,106	\$ 3,685	\$ 877	\$ 1,079	\$ 349,800	\$ 1,505	\$ 819	\$ 754
Forward rate agreements	1,773	-	28	24	963	-	4	5
Futures	7,493	11	-	-	16,306	4	-	-
Options purchased	27,448	14	8	3	12,045	8	7	4
Options written	25,991	-	-	-	26,714	-	-	-
	496,811	3,710	913	1,106	405,828	1,517	830	763
Foreign exchange contracts								
Forward contracts	33,136	252	408	373	34,357	159	451	373
Futures	4	-	-	-	2	-	-	-
Currency swaps	11,671	201	126	118	15,230	112	196	222
Options purchased	836	12	27	42	1,209	14	75	71
Options written	1,312	-	-	-	1,406	-	-	-
	46,959	465	561	533	52,204	285	722	666
Other contracts								
Swaps	967	5	16	4	1,578	3	114	33
Futures	1,049	-	-	-	899	-	-	-
Options purchased	35,668	2,795	2,965	2,391	31,407	2,990	2,650	2,661
Options written	34,596	-	-	-	26,305	-	-	-
	72,280	2,800	2,981	2,395	60,189	2,993	2,764	2,694
Total derivative financial instruments before impact of master netting agreements	\$ 616,050	\$ 6,975	\$ 4,455	\$ 4,034	\$ 518,221	\$ 4,795	\$ 4,316	\$ 4,123
Less:								
Impact of master netting agreements ⁽¹⁾	-	3,001	-	82	-	1,688	-	49
Total derivative financial instruments after impact of master netting agreements	\$ 616,050	\$ 3,974	\$ 4,455	\$ 3,952	\$ 518,221	\$ 3,107	\$ 4,316	\$ 4,074

⁽¹⁾ Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 20 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (continued)**DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK (continued)**

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2020		As at December 31, 2019	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating ⁽¹⁾				
AAA, AA+, AA, AA-	\$ 4,719	\$ 914	\$ 2,786	\$ 1,378
A+, A, A-	2,015	1,835	1,902	2,009
BBB, B, BB-, BBB-	93	260	43	126
CCC, CC, C	-	1	-	-
Not rated	148	1,024	64	610
	6,975	4,034	4,795	4,123
Less:				
Impact of master netting agreements ⁽²⁾	3,001	82	1,688	49
Total after impact of master netting agreements	\$ 3,974	\$ 3,952	\$ 3,107	\$ 4,074
Type of counterparty				
Financial institutions	\$ 6,730	\$ 2,791	\$ 4,653	\$ 3,386
Other	245	1,243	142	737
	6,975	4,034	4,795	4,123
Less:				
Impact of master netting agreements ⁽²⁾	3,001	82	1,688	49
Total after impact of master netting agreements	\$ 3,974	\$ 3,952	\$ 3,107	\$ 4,074

⁽¹⁾ Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of the Federation. Although the table presents information by external rating, risk-weighted assets have been calculated using internal ratings.

⁽²⁾ Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

NOTE 21 – SIGNIFICANT TRANSACTIONS**Year ended December 31, 2020**

On July 15, 2020, the Federation acquired, through 9420-7404 Québec inc., the Canadian real estate operations of Purplebricks Group plc for a total amount of \$62 million. 9420-7404 Québec inc. mainly operates two brands, DuProprio and Purplebricks Canada. The determination of the fair value of identifiable assets and liabilities acquired, amounting to \$80 million and \$29 million, respectively, was completed during the year ended December 31, 2020. The transaction resulted in the recognition of intangible assets of \$25 million and goodwill of \$35 million. Closing costs directly attributable to the acquisition were recognized under "Non-interest expenses – Other".

Year ended December 31, 2019

On December 31, 2019, the Federation completed the sale to Global Payments of its entire merchant portfolio, which was housed under the Monetico brand, and finalized the implementation, as of January 1, 2020, of the long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. In addition, on October 31, 2019, the Federation announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Individual and Business Services segment.

In the Consolidated Statement of Income for the year ended December 31, 2019, a gain of \$349 million on the disposal of the merchant portfolio was recognized under "Other income – Other".

NOTE 22 – CAPITAL STOCK

AUTHORIZED

The capital stock of the Federation comprises the following qualifying shares and capital shares:

There is an unlimited number of qualifying shares with a par value of \$5. These shares may be issued only to members of the Federation and are redeemable only at the Board of Directors' option under certain conditions stipulated in the by-law.

There is an unlimited number of A and G capital shares with a par value of \$5 and an unlimited number of F capital shares and contingent Z-capital shares (Z capital shares) with a par value of \$10. The A and G shares may be issued only to members of the Federation, while F capital shares may be issued only to members of Desjardins caisses in Québec, including their auxiliary members. Z capital shares may be issued to any person in accordance with the Act, but only for converting non-viability contingent capital instruments of the Federation or at the discretion of the Federation after such conversion. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, A, G, F and Z capital shares, if any, at any time. The Federation may also purchase, in whole or in part, A, G, F and Z capital shares, if any, by private agreement, at any time, with the authorization of the AMF. Furthermore, the A and G capital shares may be converted, at any time, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose. The interest rate on A, G, F and Z capital shares, if any, is determined by the Federation's Board of Directors which approves annually the surplus earnings that may be allocated to the payment of interest on these capital shares. The repayment of principal and payment of interest on the A, G, F and Z capital shares, if any, are subject to compliance with certain conditions.

The Federation has the right, by resolution of the Board of Directors, to call for capital in the form of G capital shares from its members, in particular to meet the requirements of a regulatory body with respect to capital adequacy or for other considerations. Any member subject to the capital call must acquire and pay for the G capital shares allotted to it.

There is an unlimited number of FIN-5A, INV, and SER capital shares related to an investment fund. These shares may be issued only to members of the Federation; they have no par value and do not bear interest. Subject to provisions of the Federation's own by-law, the holders of these shares divide up the net income of the funds. These shares are redeemable, with the authorization of the AMF, at the option of the Board of Directors or by private agreement. Furthermore, they may be converted, by a resolution of the Board of Directors, in whole or in part, into another category of shares issued for this purpose.

The qualifying share and the capital shares of the Federation do not entitle their holders to be called, participate or vote at the Federation members meetings.

SHARES ISSUED AND PAID

(in thousands of dollars)	As at December 31, 2020		As at December 31, 2019	
	Number of shares	Amount	Number of shares	Amount
Qualifying shares	32,180	\$ 161	32,270	\$ 161
A capital shares	13,789,467	68,947	13,789,467	68,947
F capital shares	489,298,743	4,871,673	489,298,743	4,871,673
G capital shares	600,532,931	3,002,665	600,532,931	3,002,665
INV capital shares	47,856,914	-	47,856,914	-
SER capital shares	2,865,680	23,395	2,865,680	23,395
FIN-5A capital shares	694,258,599	916,974	694,258,599	916,974
		\$ 8,883,815		\$ 8,883,815

ISSUANCE OF SHARES

In 2019, the Federation had issued 10,530,473 F capital shares for a cash consideration of \$105 million.

REDEMPTION OF SHARES

During the year ended December 31, 2020, the Federation redeemed 90 capital shares (330 capital shares in 2019) for a non significant cash consideration.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2020		As at December 31, 2019	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income ⁽¹⁾	\$ 559	\$ 7	\$ 128	\$ 1
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	166	7	132	6
Net gains (losses) on derivative financial instruments designated as cash flow hedges	12	-	(12)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	1	-	1	-
Accumulated other comprehensive income	\$ 738	\$ 14	\$ 249	\$ 7

⁽¹⁾ Reflects an allowance for credit losses of \$4 million as at December 31, 2020 (\$3 million as at December 31, 2019) on securities classified as at fair value through other comprehensive income.

NOTE 24 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation's capital management and the manner in which it meets its capital management objectives is derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that the capital level is consistent with its risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators' expectations and requirements. Capital is managed in accordance with the Desjardins Group capital management policy approved by the Federation's Board of Directors.

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The 2018 revision of the *Act respecting Financial Services Cooperatives* made it possible to formalize the unique solidarity and liquidation mechanisms within the Desjardins Cooperative Group. Depositors and creditors are now protected by the overall capital of the Desjardins Cooperative Group. To reflect this situation, the AMF issued on September 16, 2020 a notice stipulating that the Federation's capital ratios must be calculated on the basis of the exposure of all the entities making up Desjardins Group. Comparative data were restated to reflect that change.

The regulatory capital adequacy and composition of the Federation are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF, which is derived from the normative framework developed by the Basel Committee on Banking Supervision, and reflect the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic. The holding company Desjardins Financial Corporation Inc. is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF. Consequently, for purposes of calculating capital, the holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and partly deducted from capital, in accordance with the significant investments rules set out in the guideline.

Some of the Federation's subsidiaries are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements. Desjardins Group monitors and manages these entities' capital requirements to ensure capital is effectively used and regulations are complied with on an ongoing basis.

BASEL III

The Federation's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. The Federation must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively.

NOTE 24 – CAPITAL MANAGEMENT (continued)

REGULATORY CAPITAL

The regulatory capital differs from the equity disclosed in the Combined Balance Sheets of Desjardins Group. It comprises the following components:

- i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings and accumulated other comprehensive income. Tier 1B capital consists of non-controlling interests. Non-controlling interests are determined, in particular, based on the nature of the operations and the capitalization of the investee.
- ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of NVCC subordinated notes, senior notes subject to phase-out, eligible qualifying shares and the eligible portion of the collective allowance.

The Federation is required by the AMF to meet a minimum leverage ratio of 3.5%. This ratio is determined by dividing Tier 1 capital by the exposure measure. The exposure measure is independent from risk and includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet exposures.

The following table presents the regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at December 31, 2020	As at December 31, 2019
Capital		
Tier 1A capital	\$ 26,317	\$ 24,549
Tier 1 capital	26,317	24,549
Total capital ⁽¹⁾	27,114	24,549
Risk-weighted assets		
Credit risk	103,658	94,799
Market risk	2,561	3,095
Operational risk	13,705	13,021
Total risk-weighted assets before RWA floor	\$ 119,924	\$ 110,915
RWA floor ⁽²⁾	177	2,946
Total risk-weighted assets	\$ 120,101	\$ 113,861
Ratios and leverage ratio exposure		
Tier 1A capital	21.9%	21.6%
Tier 1 capital	21.9	21.6
Total capital ⁽¹⁾	22.6	21.6
Leverage	8.5	8.8
Leverage ratio exposure	\$ 307,925	\$ 280,322

⁽¹⁾ During the second quarter of 2020, the Federation issued subordinated notes qualifying as Non-Viability Contingent Capital and considered as Tier 2 capital securities. For more information see Note 19, "Subordinated notes".

⁽²⁾ In accordance with the guideline as updated during the first quarter of 2019, the RWA floor is now defined using the Standardized Approaches set out in that guideline.

COMPLIANCE WITH REQUIREMENTS

The Federation and its subsidiaries that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2020, as they were in the previous year.

NOTE 25 – NET INTEREST INCOME AND NET INVESTMENT INCOME

NET INTEREST INCOME

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

For the year ended December 31	2020	2019
Interest income on financial assets		
At amortized cost	\$ 2,262	\$ 2,841
At fair value through other comprehensive income	333	159
At fair value through profit or loss	11	22
	2,606	3,022
Interest expense on financial liabilities		
At amortized cost	978	1,522
	\$ 1,628	\$ 1,500

NET INVESTMENT INCOME

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

For the years ended December 31	2020			2019		
	Interest income and expense	Change in fair value and other	Total	Interest income and expense	Change in fair value and other	Total
Net investment income on financial assets and liabilities						
Classified as at fair value through profit or loss	\$ 276	\$ 63	\$ 339	\$ 327	\$ 350	\$ 677
Designated as at fair value through profit or loss	516	1,338	1,854	533	1,385	1,918
Classified as at fair value through other comprehensive income	110	228	338	143	45	188
At amortized cost and other	125	270	395	134	53	187
	\$ 1,027	\$ 1,899	\$ 2,926	\$ 1,137	\$ 1,833	\$ 2,970

NOTE 26 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, “Non-interest expense – Other” presented in the Consolidated Statements of Income consisted of the following:

	2020	2019
Commissions	\$ 809	\$ 830
Recovery of expenses related to reinsurance	(27)	(77)
Professional fees	650	622
Business and capital taxes	349	337
Other employee expenses	93	140
Amortization of intangible assets	77	83
Sponsorships and donations	24	32
Other	811	766
	\$ 2,786	\$ 2,733

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense recognized in the Consolidated Financial Statements for the years ended December 31 is detailed as follows:

	2020	2019
Consolidated Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	\$ 382	\$ 284
Adjustments for current tax of prior years	(5)	(17)
Current tax recovery on remuneration on capital stock	(66)	(71)
Tax recovery on dividends to member caisses	(30)	(31)
	281	165
Deferred income taxes		
Origination and reversal of temporary differences	(47)	(2)
Changes in tax rates	1	1
Adjustments for deferred tax of prior years	40	17
	(6)	16
	\$ 275	\$ 181
Consolidated Statements of Comprehensive Income		
Current income taxes	\$ 170	\$ 74
Deferred income taxes	4	(93)
	174	(19)
Total income tax expense	\$ 449	\$ 162

Income taxes on surplus earnings presented in the Consolidated Statements of Income for the years ended December 31 are detailed as follows:

	2020	2019
Income taxes on surplus earnings	\$ 305	\$ 212
Tax recovery on dividends to member caisses	(30)	(31)
Income taxes on surplus earnings	\$ 275	\$ 181

TAX RATE RECONCILIATION

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income for the years ended December 31 differs from the income tax expense determined using the Canadian statutory rate for the following reasons:

	2020	2019
Income taxes at the combined Canadian federal and provincial statutory rate of 26,39% (26.63% in 2019)	\$ 318	\$ 354
Non-taxable investment income and other items	(73)	(150)
Changes in tax rates	1	1
Non-deductible expenses	5	7
Adjustment for current and deferred tax of prior years	35	-
Tax recovery on remuneration on capital stock	(66)	(71)
Income tax expense resulting from an election for a deduction transferred to member	53	38
Other	2	2
	\$ 275	\$ 181

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS (continued)**DEFERRED INCOME TAXES**

The deferred income tax sources are as follows:

	Consolidated Balance Sheets		Consolidated Statements of Income	
	As at December 31, 2020	As at December 31, 2019	2020	2019
Deferred tax assets				
Lease liabilities	\$ 90	\$ 90	\$ -	\$ (90)
Allowance for credit losses	127	120	(7)	13
Net defined benefit plan liabilities	524	518	(10)	(2)
Tax losses	157	221	64	(53)
Other	193	168	(25)	7
	1,091	1,117	22	(125)
Deferred tax liabilities				
Property, plant and equipment, intangible assets and investment property	168	177	(9)	13
Right-of-use assets	86	88	(2)	88
Securities and other financial instruments	42	48	(6)	(1)
Insurance contract liabilities	55	66	(11)	41
	351	379	(28)	141
Net deferred income tax assets	\$ 740	\$ 738	\$ (6)	\$ 16

For the purposes of presenting the Consolidated Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2020	As at December 31, 2019
Deferred tax assets ⁽¹⁾	\$ 1,013	\$ 1,015
Deferred tax liabilities ⁽¹⁾	273	277
	\$ 740	\$ 738

⁽¹⁾ Deferred income taxes will reverse mainly in the long term.

There were no deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Consolidated Balance Sheets as at December 31, 2020 and 2019.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, the Federation uses credit instruments and off-balance sheet guarantees to meet the financing needs of its member caisses and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that the Federation granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that the Federation could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that the Federation could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Consolidated Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Consolidated Balance Sheets expose the Federation to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2020	As at December 31, 2019
Commitments		
Credit commitments	\$ 71,375	\$ 67,490
Indemnification commitments related to securities lending	1,702	1,985
Documentary letters of credit	117	156
Financial guarantees		
Guarantees and standby letters of credit	720	717
Credit default swaps	649	195

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that member caisses and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, the Federation enters into securities lending agreements with clients. The Federation makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

Documentary letters of credit are instruments issued for a client and represent the Federation's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. The Federation is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by the Federation to make payments in the event that a client cannot meet financial obligations to third parties. The Federation's policy with respect to collateral received for these instruments is generally the same as for loans.

Credit default swaps

In the normal course of its investment operations, the Federation entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (continued)**COMMITMENTS AND FINANCIAL GUARANTEES (continued)****Other indemnification agreements**

In the normal course of its operations, the Federation enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, the Federation may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that the Federation could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, the Federation enters into asset pledge agreements and receives from its clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of the Federation's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2020	As at December 31, 2019
Financial assets of the Federation pledged as collateral:		
Cash and deposits with financial institutions	\$ 1	\$ 18
Securities	19,070	12,463
Loans	4,049	4,141
	23,120	16,622
Assets from third parties:		
Assets held as collateral that may be sold or repledged	16,588	16,629
Less: Assets not sold or not repledged	1,272	760
	15,316	15,869
	\$ 38,436	\$ 32,491
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	\$ 23,625	\$ 15,469
Transactions involving commitments related to securities sold short	8,808	10,639
Securitization transactions	22	185
Transactions on derivative financial instruments	178	114
Clearing systems, payment systems and depositories ⁽¹⁾	4,842	4,744
Transactions involving provisions for claims and adjustment expenses ⁽²⁾	961	1,340
	\$ 38,436	\$ 32,491

⁽¹⁾ In the normal course of its operations, the Federation must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

⁽²⁾ Represent securities pledged as collateral in connection with the reinsurance treaty that transferred, at the date of acquisition, the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to the Federation.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its business, the Federation is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on the financial position of the Federation. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on the profit or loss of the Federation for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT

The Federation and its subsidiaries are exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which the Federation assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.0, "Risk Management", of the Management's Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in that section are an integral part of these Consolidated Financial Statements. In addition, information on credit risk related to the recognition and measurement of expected credit losses are presented in these Consolidated Financial Statements, mainly in Note 2, "Basis of presentation and significant accounting policies", and in Note 7, "Loans and allowance for credit losses".

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS

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

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

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

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2020	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 11,125	\$ 385	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,513
Securities										
Securities at fair value through profit or loss ⁽¹⁾	172	181	865	302	627	1,508	5,632	20,672	4,999	34,958
Securities at fair value through other comprehensive income ⁽¹⁾	660	519	385	513	1,338	4,048	14,593	18,239	66	40,361
Securities at amortized cost	-	-	-	-	1	2	4	22	-	29
Securities borrowed or purchased under reverse repurchase agreements	10,610	599	383	-	-	-	-	-	-	11,592
Loans										
Residential mortgages ⁽²⁾	26	84	139	107	230	979	589	1,279	7	3,440
Consumer, credit card and other personal loans ⁽²⁾	23	42	111	214	326	1,234	5,240	5,178	6,723	19,091
Business and government ⁽²⁾	7,384	3,255	1,675	1,502	1,020	6,414	7,931	1,667	2,929	33,777
Allowance for credit losses	-	-	-	-	-	-	-	-	(639)	(639)
Segregated fund net assets	-	-	-	-	-	-	-	-	19,093	19,093
Clients' liability under acceptances	312	2	-	14	-	-	-	-	-	328
Premiums receivable	173	59	13	3	-	-	-	-	2,559	2,807
Derivative financial instruments	156	247	431	280	246	1,149	3,823	643	-	6,975
Amounts receivable from clients, brokers and financial institutions	1,807	10	-	-	-	-	-	-	691	2,508
Reinsurance assets	38	71	78	69	66	173	362	1,105	-	1,962
Right-of-use assets	-	-	-	-	-	-	-	-	291	291
Investment property	-	-	-	-	-	-	-	-	910	910
Property, plant and equipment	-	-	-	-	-	-	-	-	907	907
Goodwill	-	-	-	-	-	-	-	-	156	156
Intangible assets	-	-	-	-	-	-	-	-	424	424
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,189	1,189
Deferred tax assets	-	-	-	-	-	-	-	-	1,013	1,013
Other assets	275	164	119	7	14	20	47	15	1,726	2,387
Total assets	\$ 32,761	\$ 5,618	\$ 4,202	\$ 3,011	\$ 3,868	\$ 15,527	\$ 38,221	\$ 48,820	\$ 43,044	\$ 195,072

For footnotes see next page.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)

As at December 31, 2020	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽³⁾	\$ 13	\$ 38	\$ 43	\$ 36	\$ 58	\$ 118	\$ 298	\$ 137	\$ 3,590	\$ 4,331
Business and government ⁽³⁾	10,382	5,770	4,463	2,056	376	4,925	13,861	3,597	7,739	53,169
Deposit-taking institutions ⁽³⁾	706	1,167	1,648	808	490	1,498	2,245	18	6,326	14,906
Acceptances	312	2	-	14	-	-	-	-	-	328
Commitments related to securities sold short ⁽⁴⁾	248	343	399	91	141	859	1,920	5,346	6	9,353
Commitments related to securities lent or sold under repurchase agreements	13,266	1,250	3,120	-	505	1,011	-	-	-	19,152
Derivative financial instruments	350	306	524	261	232	1,159	3,787	134	-	6,753
Amounts payable to clients, brokers and financial institutions	3,195	-	-	-	-	-	-	-	3,615	6,810
Lease liabilities	3	5	7	8	7	30	82	195	9	346
Insurance contract liabilities	469	849	1,013	913	862	2,135	4,885	20,755	2,990	34,871
Segregated fund net liabilities	-	-	-	-	-	-	-	-	19,089	19,089
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,984	1,984
Deferred tax liabilities	-	-	-	-	-	-	-	-	273	273
Other liabilities	1,935	708	315	17	13	62	43	33	2,523	5,649
Subordinated notes	-	-	-	-	-	-	-	1,493	-	1,493
Total equity	-	-	-	-	-	-	-	-	16,565	16,565
Total liabilities and equity	\$ 30,879	\$ 10,438	\$ 11,532	\$ 4,204	\$ 2,684	\$ 11,797	\$ 27,121	\$ 31,708	\$ 64,709	\$ 195,072
Off-balance sheet commitments										
Credit commitments ⁽⁵⁾	\$ 805	\$ 189	\$ 1,072	\$ 1,043	\$ 1,121	\$ 3,381	\$ 7,168	\$ 153	\$ 56,443	\$ 71,375
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,702	1,702
Documentary letters of credit	6	8	67	8	13	12	3	-	-	117
Guarantees and standby letters of credit	60	129	181	141	147	8	12	6	36	720
Credit default swaps	-	-	-	-	-	-	649	-	-	649

(1) Equity securities are classified under "No stated maturity".

(2) Amounts repayable on demand are classified under "No stated maturity".

(3) Deposits payable on demand or upon notice are considered as having "No stated maturity".

(4) Amounts are presented by remaining contractual maturity of the underlying security.

(5) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)**

As at December 31, 2019	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	\$ 2,637	\$ 428	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ 3,084
Securities										
Securities at fair value through profit or loss ⁽¹⁾	18	442	1,068	296	1,014	1,650	6,395	19,452	4,832	35,167
Securities at fair value through other comprehensive income ⁽¹⁾	353	330	379	255	185	1,479	6,715	2,895	59	12,650
Securities at amortized cost	567	468	263	166	113	1	4	34	-	1,616
Securities borrowed or purchased under reverse repurchase agreements	11,070	282	-	-	-	-	-	-	-	11,352
Loans										
Residential mortgages ⁽²⁾	66	47	132	154	155	652	1,706	1,261	10	4,183
Consumer, credit card and other personal loans ⁽²⁾	16	43	130	188	287	1,331	5,481	5,235	7,856	20,567
Business and government ⁽²⁾	8,071	2,137	2,339	1,144	1,107	5,748	11,327	1,767	7,187	40,827
Allowance for credit losses	-	-	-	-	-	-	-	-	(464)	(464)
Segregated fund net assets	-	-	-	-	-	-	-	-	17,026	17,026
Clients' liability under acceptances	368	12	-	-	-	-	-	-	-	380
Premiums receivable	195	73	15	3	-	-	-	-	2,403	2,689
Derivative financial instruments	129	143	255	178	316	1,037	2,492	245	-	4,795
Amounts receivable from clients, brokers and financial institutions	1,738	3	-	-	-	-	-	-	498	2,239
Reinsurance assets	37	70	82	70	65	174	380	1,002	121	2,001
Right-of-use assets	-	-	-	-	-	-	-	-	298	298
Investment property	-	-	-	-	-	-	-	-	944	944
Property, plant and equipment	-	-	-	-	-	-	-	-	840	840
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	381	381
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,034	1,034
Deferred tax assets	-	-	-	-	-	-	-	-	1,015	1,015
Other assets	271	84	74	5	10	24	57	7	1,136	1,668
Total assets	\$ 25,536	\$ 4,562	\$ 4,747	\$ 2,459	\$ 3,252	\$ 12,096	\$ 34,557	\$ 31,898	\$ 45,306	\$ 164,413

For footnotes see next page.

NOTE 29 – FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)**CONTRACTUAL MATURITIES OF ON-BALANCE SHEET ITEMS AND OFF-BALANCE SHEET COMMITMENTS (continued)**

As at December 31, 2019	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals ⁽³⁾	\$ 41	\$ 26	\$ 33	\$ 28	\$ 44	\$ 102	\$ 211	\$ 62	\$ 3,168	\$ 3,715
Business and government ⁽³⁾	7,260	5,656	3,591	3,153	4,867	2,731	12,520	3,311	5,835	48,924
Deposit-taking institutions ⁽³⁾	152	98	257	173	204	819	2,029	5	2,596	6,333
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short ⁽⁴⁾	495	201	171	9	7	196	1,866	7,668	2	10,615
Commitments related to securities lent or sold under repurchase agreements	10,562	-	-	-	-	-	-	-	-	10,562
Derivative financial instruments	152	198	307	218	238	1,067	2,506	141	-	4,827
Amounts payable to clients, brokers and financial institutions	2,695	-	-	-	-	-	-	-	2,857	5,552
Lease liabilities	3	4	7	7	7	26	78	210	8	350
Insurance contract liabilities	442	792	980	858	798	1,931	4,492	18,520	2,824	31,637
Segregated fund net liabilities	-	-	-	-	-	-	-	-	17,002	17,002
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,956	1,956
Deferred tax liabilities	-	-	-	-	-	-	-	-	277	277
Other liabilities	2,225	423	417	25	25	45	110	44	2,059	5,373
Subordinated notes	-	-	899	-	-	-	-	499	-	1,398
Total equity	-	-	-	-	-	-	-	-	15,512	15,512
Total liabilities and equity	\$ 24,395	\$ 7,410	\$ 6,662	\$ 4,471	\$ 6,190	\$ 6,917	\$ 23,812	\$ 30,460	\$ 54,096	\$ 164,413
Off-balance sheet commitments										
Credit commitments ⁽⁵⁾	\$ 966	\$ 50	\$ 395	\$ 335	\$ 549	\$ 3,566	\$ 7,977	\$ 513	\$ 53,139	\$ 67,490
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,985	1,985
Documentary letters of credit	-	27	93	11	7	7	11	-	-	156
Guarantees and standby letters of credit	25	129	52	225	147	6	9	38	86	717
Credit default swaps	-	-	-	-	-	-	195	-	-	195

⁽¹⁾ Equity securities are classified under "No stated maturity".

⁽²⁾ Amounts repayable on demand are classified under "No stated maturity".

⁽³⁾ Deposits payable on demand or upon notice are considered as having "No stated maturity".

⁽⁴⁾ Amounts are presented by remaining contractual maturity of the underlying security.

⁽⁵⁾ Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

NOTE 30 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation's internal management method. During the first quarter of 2020, some changes were made to business segments to reflect management's decisions on how each segment is managed. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category. Comparative figures were restated to reflect these reclassifications.

The Personal and Business Services segment is responsible for upgrading and marketing a comprehensive, integrated offer designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. The line of products and services includes day-to-day, transactions, financing, specialized services, access to capital markets, development capital, business ownership transfers and advice. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via, applications for mobile devices, as well as ATMs. Certain Desjardins Securities activities that were previously presented in the Wealth Management and Life and Health Insurance segment have been presented in the Personal and Business Services segment since the first quarter of 2020.

The Wealth Management and Life and Health Insurance segment provides various categories of service offerings aimed at increasing the wealth of members and clients of Desjardins Group and helping them protect their financial security. These offerings are intended for individuals and businesses, while group insurance or savings plans meet the needs of employees through their businesses or those of individuals who are part of any other group. This segment designs several lines of life and health insurance protection and savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private management products. This segment also includes asset management for institutional clients. Its products and services are distributed through employees of the caisse network and Desjardins Business centres, financial security advisors, investment advisors, private managers, exclusive agents, independent partners, actuarial consulting firms and group plan representatives. Certain product lines are also distributed online, via applications for mobile devices and through client care centres. This segment also includes the operations of the interest in Aviso Wealth. Certain Desjardins Trust activities that were previously presented in the Personal and Business Services segment have been presented in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Québec and outside Québec, online and via applications for mobile devices.

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities and activities related to financial intermediation between surplus liquidity and the liquidity needs of the caisses, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. Since the third quarter of 2020, it also includes the real estate services operations of 9420-7404 Québec inc., which manages two brands, DuProprio and Purplebricks Canada. In addition to the various adjustments that are necessary to prepare the consolidated financial statements, the intersegment balance eliminations are classified in this category.

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Consolidated Financial Statements of the Federation.

NOTE 30 – SEGMENTED INFORMATION (continued)**RESULTS BY BUSINESS SEGMENT**

The following table provides a summary of the Federation's financial results by business segment for the years ended December 31.

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	\$ 1,195	\$ 1,235	\$ 8	\$ 9	\$ -	\$ -	\$ 425	\$ 256	\$ 1,628	\$ 1,500
Net premiums	-	-	4,711	4,689	5,484	4,988	(167)	(152)	10,028	9,525
Other income	2,166	2,487	3,690	3,690	337	169	500	503	6,693	6,849
Total income	3,361	3,722	8,409	8,388	5,821	5,157	758	607	18,349	17,874
Provision for credit losses	537	308	-	1	-	-	2	1	539	310
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	5,564	5,497	3,689	3,665	4	(13)	9,257	9,149
Non-interest expense	2,704	2,566	2,100	2,052	1,303	1,245	1,129	1,109	7,236	6,972
Operating surplus earnings	120	848	745	838	829	247	(377)	(490)	1,317	1,443
Income taxes on surplus earnings	31	171	136	141	207	60	(69)	(160)	305	212
Surplus earnings before dividends to member caisses⁽¹⁾	89	677	609	697	622	187	(308)	(330)	1,012	1,231
Dividends to member caisses, net of income tax recovery	-	-	-	-	-	-	83	84	83	84
Net surplus earnings for the year after dividends to member caisses	\$ 89	\$ 677	\$ 609	\$ 697	\$ 622	\$ 187	\$ (391)	\$ (414)	\$ 929	\$ 1,147
of which:										
Group's share	\$ 89	\$ 677	\$ 609	\$ 697	\$ 538	\$ 141	\$ (391)	\$ (414)	\$ 845	\$ 1,101
Non-controlling interests' share	-	-	-	-	84	46	-	-	84	46

⁽¹⁾ For the year ended December 31, 2020, the Group's share of "Surplus earnings before dividends to member caisses" was \$89 million (\$677 million in 2019) for the Personal and Business Services segment, \$609 million (\$697 million in 2019) for the Wealth Management and Life and Health Insurance segment, \$538 million (\$141 million in 2019) for the Property and Casualty Insurance segment and \$(308) million (\$(330) million in 2019) for the Treasury and Other Support to Desjardins Group entities category.

SEGMENT ASSETS

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
As at December 31, 2020	\$ 71,829		\$ 51,019		\$ 15,473		\$ 56,751		\$ 195,072	
As at December 31, 2019	\$ 63,019		\$ 48,072		\$ 13,860		\$ 39,462		\$ 164,413	

NOTE 31 – RELATED PARTY DISCLOSURES

The Federation's related parties include entities included in the group scope of Desjardins Group and primarily member caisses. They also include associates, joint ventures and employee benefit plans, as well as certain entities for which the substance of the relationship indicates that they are related to the Federation, including the Desjardins Funds. In addition, they include key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH THE FEDERATION'S RELATED PARTIES

Transactions with the Federation's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The Federation and its subsidiaries carry out transactions with related parties, and primarily member caisses. Services rendered to member caisses include various technical, administrative and financial services for which income, such as assessments and fees, are earned. On the other hand, member caisses earn remuneration income from the Federation on products and services such as credit cards, payroll services, as well as fund and investment services and financial engineering. The Federation also plays a treasurer role, which allows the caisses to borrow or lend liquidities. Swaps are also entered into between member caisses and the Federation.

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

These transactions and balances as at the reporting dates are as follows:

	2020				2019			
	Member caisses	Associates / Joint ventures	Other related parties	Total	Member caisses	Associates / Joint ventures	Other related parties	Total
Consolidated Statements of Income								
Interest income	\$ 401	\$ 3	\$ 1	\$ 405	\$ 686	\$ 5	\$ -	\$ 691
Interest expense	(183)	-	(1)	(184)	(182)	(1)	(2)	(185)
Net premiums	108	-	1	109	113	-	1	114
Assessments	382	-	12	394	380	-	13	393
Service agreements	912	-	32	944	826	-	30	856
Brokerage and investment fund services	-	1	586	587	-	1	560	561
Net investment income	(540)	-	-	(540)	(1,522)	3	(88)	(1,607)
Other income	168	9	63	240	185	9	(46)	148
Remuneration and other	(589)	-	-	(589)	(578)	-	-	(578)
Other expenses	(253)	(6)	(1)	(260)	(254)	(5)	(3)	(262)
Consolidated Balance Sheets								
Cash and deposits with financial institutions	\$ 81	\$ -	\$ -	\$ 81	\$ 150	\$ -	\$ -	\$ 150
Securities	1	82	100	183	-	98	111	209
Securities borrowed or purchased under reverse repurchase agreements	1,933	-	195	2,128	1,320	-	484	1,804
Loans	20,383	113	14	20,510	26,832	105	-	26,937
Segregated fund net assets	-	-	2,939	2,939	-	-	1,602	1,602
Other assets	1,314	1	36	1,351	757	2	23	782
Deposits	14,550	133	260	14,943	5,752	66	331	6,149
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	-	-	15	15
Derivative financial instruments	4,465	-	75	4,540	3,347	-	73	3,420
Other liabilities	535	-	3	538	565	1	6	572
Other								
Commitments given	\$ 739	\$ 70	\$ 535	\$ 1,344	\$ 398	\$ 36	\$ 429	\$ 863
Guarantees given	1,531	6	197	1,734	1,300	6	187	1,493
Credit commitments received	35	-	-	35	35	-	-	35
Guarantees received	1,953	-	197	2,150	1,335	-	480	1,815

NOTE 31 – RELATED PARTY DISCLOSURES (continued)**KEY MANAGEMENT PERSONNEL COMPENSATION**

The Federation's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Federation. In the normal course of operations, the Federation carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various entities included in the scope of consolidation of the Federation. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of the Federation's key management personnel was as follows:

	2020	2019
Short-term benefits	\$ 13	\$ 14
Long-term and post-employment benefits	5	7
	\$ 18	\$ 21