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

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

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

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

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

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

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

Table of contents

Caution concerning forward-looking statements 3
Non-GAAP measures 3
Regulatory environment 7

1.0 Fédération des caisses Desjardins du Québec
1.1 Profile and structure 10
1.2 Financial highlights 12
1.3 Significant events 14
1.4 Financial outlook for 2021 18
1.5 Economic environment and outlook 19

2.0 Review of financial results
2.1 Impact of significant transaction 20
- Changes related to merchant payment and financing activities in 2019 20

2.2 Analysis of 2020 results 21
- 2020 surplus earnings 22
- Operating income 22
- Investment income 24
- Total income 24
- Provision for credit losses 24
- Claims, benefits, annuities and changes in insurance contract liabilities 25
- Non-interest expense 25
- Income taxes and indirect taxes 26

2.3 Analysis of business segment results 26
2.3.1 Personal and Business Services 27
2.3.2 Wealth Management and Life and Health Insurance 31
2.3.3 Property and Casualty Insurance 34
2.3.4 Treasury and Other Support to Desjardins Group Entities category 38
2.4 Analysis of fourth quarter results and quarterly trends 39
- Fourth quarter consolidated results 40
- Quarterly trends 42

2.5 Comparison of 2019 and 2018 44

3.0 Balance sheet review
3.1 Balance sheet management 46
- Assets 46
- Liabilities 47
- Equity 47

3.2 Capital management 48
3.3 Off-balance sheet arrangements 53
3.4 Additional information related to certain risk exposures 54

4.0 Risk management
4.1 Risk factors that could impact future results 54
- Principal emerging risks 54
- Other risk factors that could impact future results 56

4.2 Risk management 57
- Integrated risk management framework 57
- Basel capital accord 62
- Credit risk 63
- Market risk 70
- Liquidity risk 74
- Operational risk 78
- Insurance risk 80
- Strategic risk 81
- Reputation risk 81
- Pension plan risk 81
- Environmental or social risk 81
- Legal and regulatory risk 82

5.0 Additional information
5.1 Controls and procedures 83
5.2 Related party disclosures 83
5.3 Critical accounting policies and estimates 84
5.4 Future accounting changes 90
5.5 Five-year statistical review 91

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

NON-GAAP MEASURES

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

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

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

Adjusted surplus earnings of the Federation before dividends to member caisses

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

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

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

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

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

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

Adjusted net surplus earnings – Personal and Business Services segment

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

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

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

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

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

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

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

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

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

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

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

Gross credit-impaired loans/gross loans and acceptances

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

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

Loss ratio – Expense ratio – Combined ratio

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

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

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

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

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

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

Table 4 – Loss ratio – Expense ratio – Combined ratio

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

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

Return on equity and adjusted return on equity

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

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

Table 5 – Return on equity and adjusted return on equity

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

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

Income

Operating income

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

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

Investment income

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

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

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

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

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

Credit loss provisioning rate

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

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

Table 7 – Credit loss provisioning rate

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

REGULATORY ENVIRONMENT

Regulatory environment

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

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

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

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

Regulatory capital requirements

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

Domestic systemically important financial institution

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

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

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

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

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

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

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

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

U.S. regulations

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

Changes in the regulatory environment

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

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

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

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

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

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

Financial reforms in the U.S.

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

Data confidentiality and security

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

Pillar 3 disclosure requirements

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

Report on Ontario's auto insurance system

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

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

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

Client focused reforms

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

Interest rate benchmark reform

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

Guideline on Information and Communications Technology Risk Management

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

1.0 Fédération des caisses Desjardins du Québec

1.1 Profile and structure

WHO WE ARE

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

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

The Federation is, among other things, the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system.

The Federation also has the right to participate in the Visa Inc. and MasterCard Inc. payment systems in Canada on behalf of Desjardins Group. In addition, it manages majority interests in joint-stock companies through holding companies.

WHAT MAKES US DIFFERENT

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

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

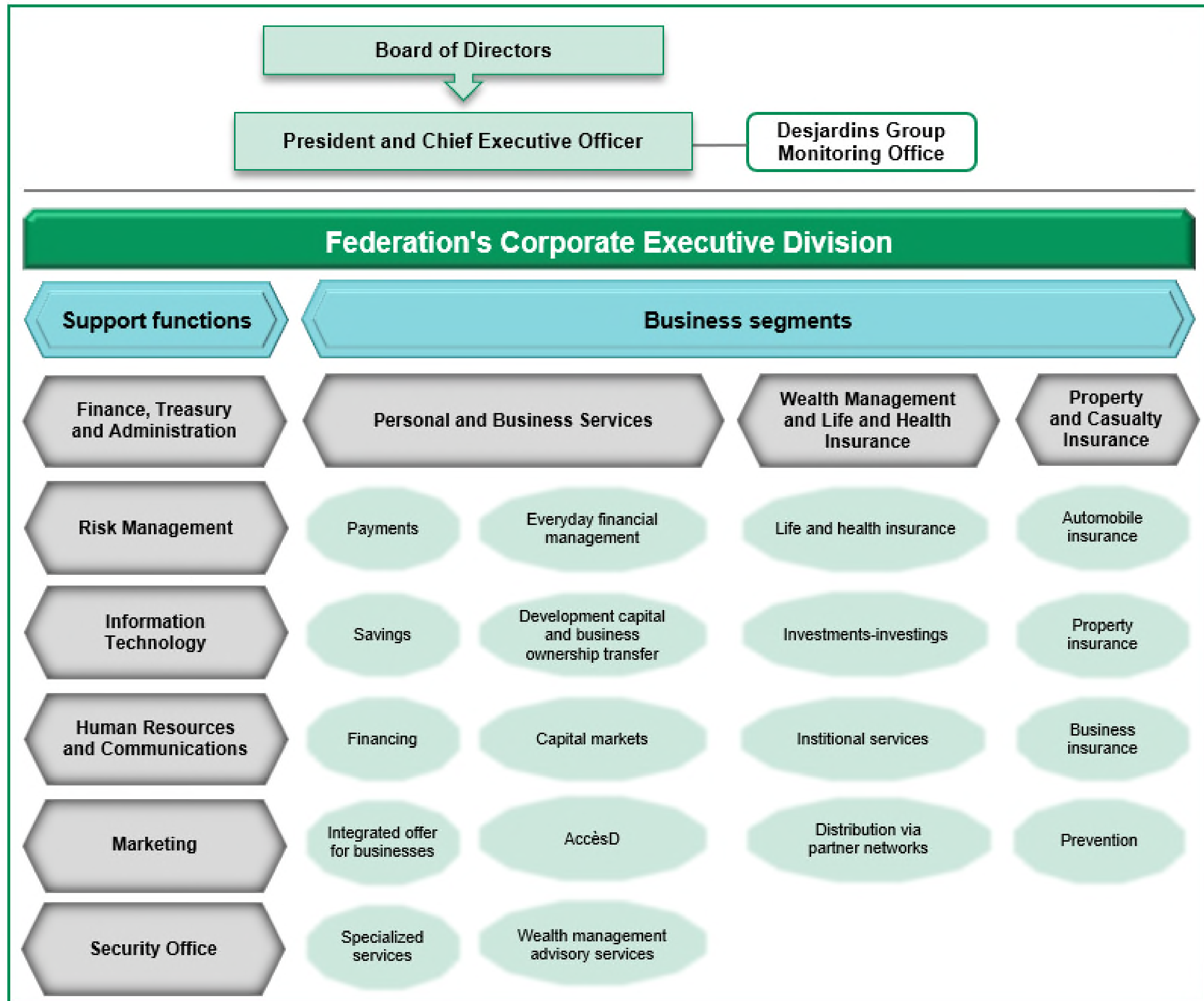
Desjardins Group's ambition is to be first in people's hearts. Thanks to its varied distribution channels, numerous intermediary networks and personnel who strive to always work in the interests of members and clients, Desjardins Group stays close to its members and their communities. In order to best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

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

STRUCTURE OF THE FEDERATION

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

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



1.2 Financial highlights

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

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

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

The Federation's 2020 highlights

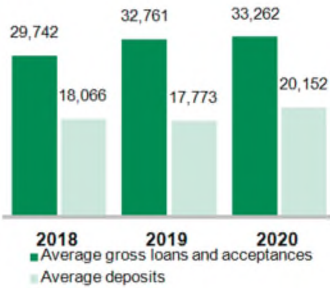
Surplus earnings before dividends	Net loans and acceptances outstanding	Assets under management	Tier 1A capital ratio	Total assets
$1,012 million -17.8%	$56.0 billion -14.5%	$89.1 billion +15.7%	21.9%	$195.1 billion +18.6%

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

2020 segment highlights

PERSONAL AND BUSINESS SERVICES

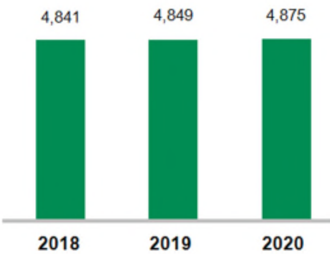
Average gross loans and acceptances and average deposits[(1)]
(in millions of dollars)



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

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

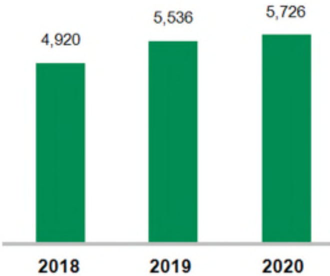
Gross written premiums
(in millions of dollars)



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

PROPERTY AND CASUALTY INSURANCE

Gross written premiums
(in millions of dollars)



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

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

1.3 Significant events

COVID-19 pandemic

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

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

Virtual special general meetings

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

Main measures for the benefit of members and clients

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

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

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

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

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

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

- Canada Emergency Business Account (CEBA)

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

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

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

- BDC mid-market financing program

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

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

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

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

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

- Mid-market guarantee program (EDC)

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

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

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

Capital and liquidity measures

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

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

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

Social measures and reopening of the economy

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

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

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

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

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

- GoodSpark Fund

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

- Momentum Fund

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

- The < Post > COVID Challenge

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

Impact of the pandemic

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

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

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

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

Privacy breach

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

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

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

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

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

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

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

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

Acquisition of DuProprio and Purplebricks Canada

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

Changes to merchant financing activities

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

Purchase of a home mortgage portfolio

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

1.4 Financial outlook for 2021

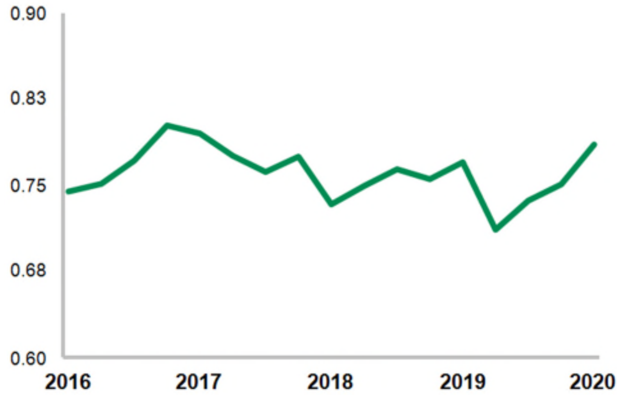
The Federation develops orientations and financial targets in support of Desjardins Group's ambitions. The Federation's actions and achievements are designed to help further the overall financial objectives of Desjardins Group. The financial outlook presented below therefore relates to Desjardins Group's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

FINANCIAL OUTLOOK FOR DESJARDINS GROUP

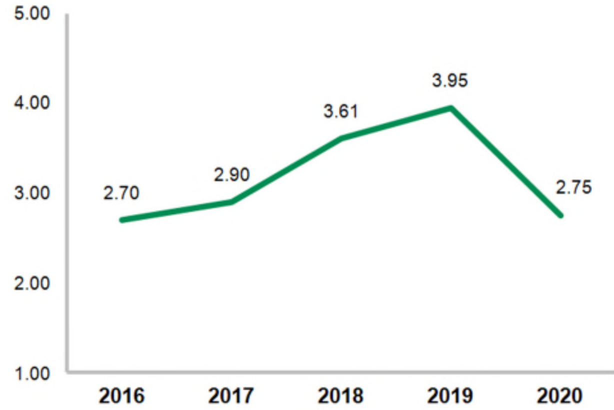
Desjardins Group's objective is to continue 2021 on a solid footing, with a level of capitalization that is higher than the average for the Canadian banking industry as well as good profitability, despite the effects of the pandemic. For 2021, in spite of the new lockdown measures that will temporarily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

1.5 Economic environment and outlook

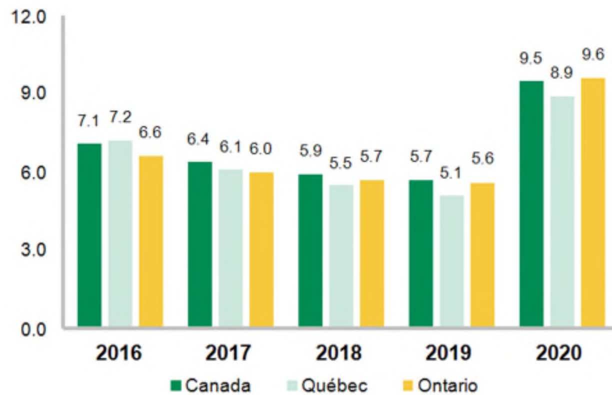
Changes in the Canadian dollar vs. the U.S. dollar (at quarter end)
(in U.S. dollars / Canadian dollars)



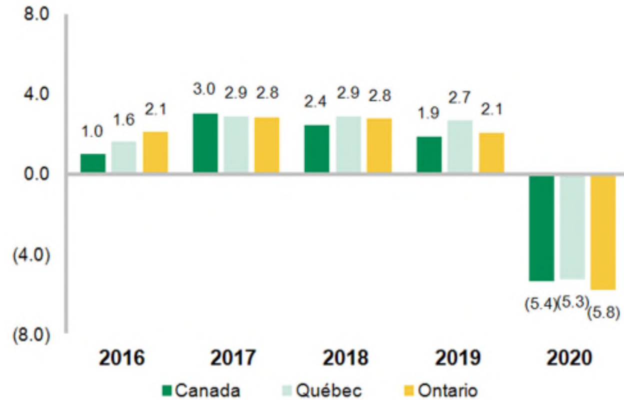
Changes in the prime rate (annual average)
(as a percentage)



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



Annual growth in GDP
(as a percentage)



Global economy

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

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

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

United States

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

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

Canada

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

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

Québec

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

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

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

2.0 Review of financial results

2.1 Impact of significant transaction

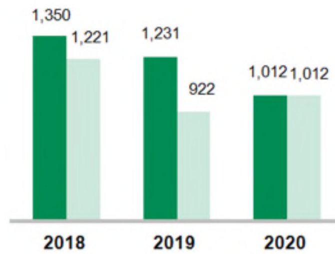
CHANGES RELATED TO MERCHANT PAYMENT AND FINANCING ACTIVITIES IN 2019

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

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

2.2 Analysis of 2020 results

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



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

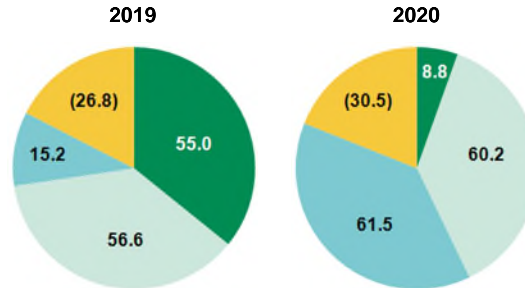


Table 9 – Financial results and indicators
For the years ended December 31

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

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

2020 SURPLUS EARNINGS

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

Contribution of business segments to surplus earnings

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

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

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

OPERATING INCOME

Table 10 – Operating income

For the years ended December 31

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

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

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

(3) See "Non-GAAP measures".

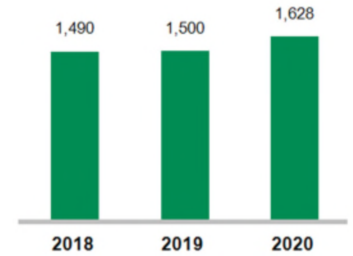
Operating income totalled $15,465 million, up $369 million, or 2.4%, compared to 2019. Excluding the $349 million gain before income taxes related to Monetico recognized in 2019, operating income would have been up $718 million, or 4.9%, compared to 2019.

Net interest income

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

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

Net interest income
(in millions of dollars)



Net premiums

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

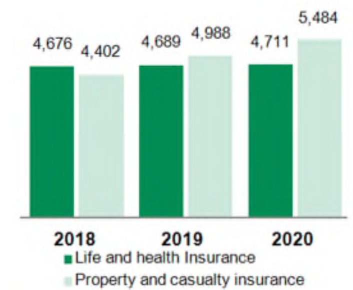
Wealth Management and Life and Health Insurance segment

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

Property and Casualty Insurance segment

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

Net premiums[1]
(in millions of dollars)



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

Other operating income

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

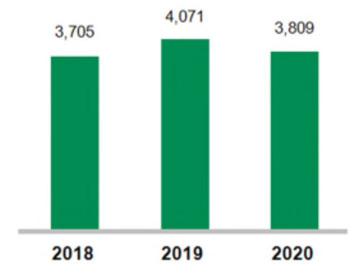
(in millions of dollars)	2020	2019[1]	2018[1][2]
Assessments	**$ 394**	$ 393	$ 392
Service agreements	**818**	773	742
Lending fees and credit card service revenues	**634**	782	699
Brokerage and investment fund services	**954**	886	905
Management and custodial service fees	**648**	610	573
Foreign exchange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

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

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

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

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



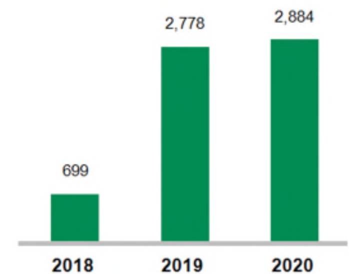
[(1)] See "Non-GAAP measures".

INVESTMENT INCOME

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

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

Investment income[(1)]
(in millions of dollars)



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

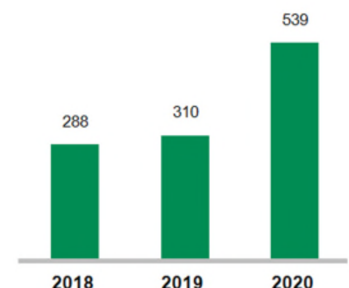
TOTAL INCOME

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

PROVISION FOR CREDIT LOSSES

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

Provision for credit losses
(in millions of dollars)

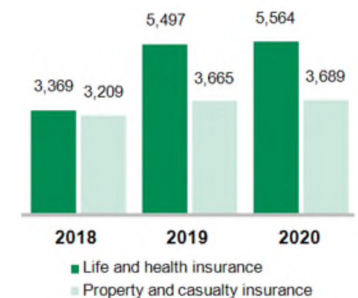


The Federation continued to present a quality loan portfolio in 2020.
- The credit loss provisioning rate was 0.88% for 2020, up compared to 0.49% in 2019 due to the significant increase in the provision for credit losses as a result of the COVID-19 pandemic, as explained earlier.
- The ratio of gross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

CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES

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

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



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

Wealth Management and Life and Health Insurance segment

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

Property and Casualty Insurance segment

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

NON-INTEREST EXPENSE

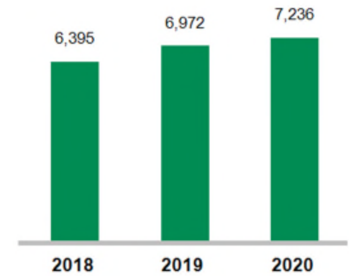
Table 12 – Non-interest expense
For the years ended December 31

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

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

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

Non-interest expense
(in millions of dollars)



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

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

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

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

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

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

INCOME TAXES AND INDIRECT TAXES

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

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

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

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

2.3 Analysis of business segment results

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which it operates, and on its internal management structure. The Federation's financial results are divided into the following three business segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. In addition to these three segments, there is also the Treasury and Other Support to Desjardins Group Entities category. This section presents an analysis of results for each of these segments. During the first quarter of 2020, certain changes were made to the business segments to reflect management's decisions concerning the way each segment is managed, as mentioned in the section on each one.

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

2.3.1 Personal and Business Services

PROFILE

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

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

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

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

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

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

SERVICES

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

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

2020 ACHIEVEMENTS

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

INDUSTRY

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

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

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

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

2021 STRATEGIES AND PRIORITIES

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

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

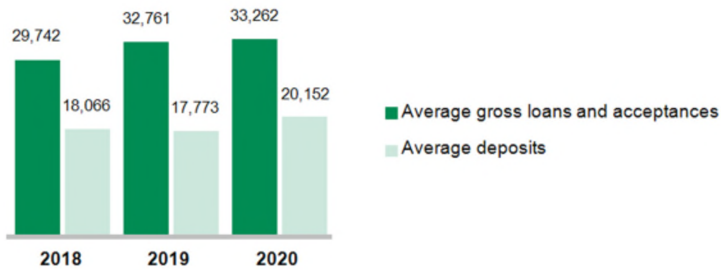
ANALYSIS OF FINANCIAL RESULTS FOR THE PERSONAL AND BUSINESS SERVICES SEGMENT

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

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

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

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



COMPARISON OF 2020 AND 2019 – PERSONAL AND BUSINESS SERVICES

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

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

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

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

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

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

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

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

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

2.3.2 Wealth Management and Life and Health Insurance

PROFILE

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

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

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

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

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

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

SERVICES

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

Wealth Management

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

Distribution

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

2020 ACHIEVEMENTS

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

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

Life and Health Insurance

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

Wealth Management

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

INDUSTRY

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

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

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

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

2021 STRATEGIES AND PRIORITIES

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

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

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

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

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

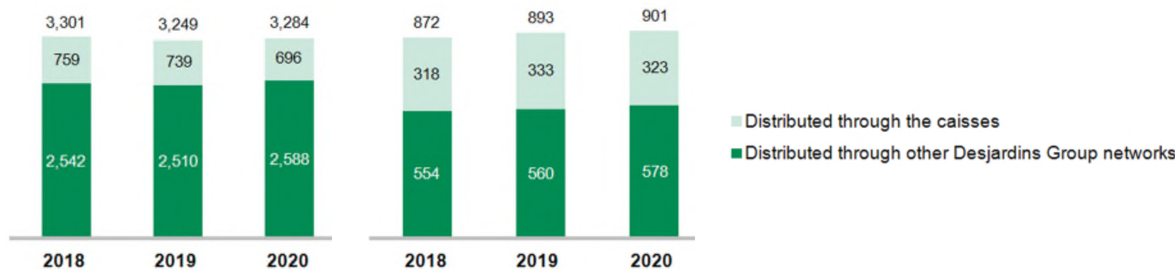
[1] Data for 2019 and 2018 have been reclassified to conform to the current year's presentation.
[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
[3] See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

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

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

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

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



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

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

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

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

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

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

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

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

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

2.3.3 Property and Casualty Insurance

PROFILE

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

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

SERVICES

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

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

2020 ACHIEVEMENTS

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

INDUSTRY

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

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

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

2021 STRATEGY AND PRIORITIES

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

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

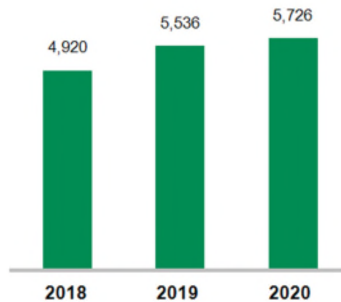
ANALYSIS OF FINANCIAL RESULTS FOR THE PROPERTY AND CASUALTY INSURANCE SEGMENT

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

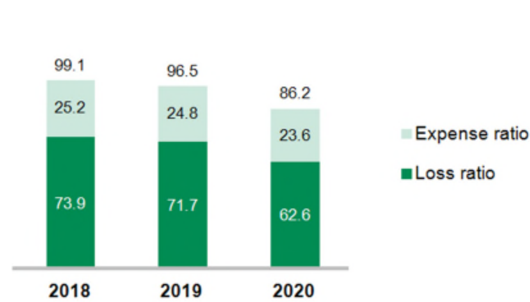
(in millions of dollars and as a percentage)	**2020**	2019[1]	2018[1]
Net premiums	**$ 5,484**	$ 4,988	$ 4,402
Other operating income (loss)[2]	**(160)**	(172)	(196)
Operating income[2]	**5,324**	4,816	4,206
Investment income[2]	**497**	341	336
Total income	**5,821**	5,157	4,542
Claims, benefits, annuities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

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

Gross written premiums
(in millions of dollars)



Combined ratio
(as a percentage of net premiums)



COMPARISON OF 2020 AND 2019 – PROPERTY AND CASUALTY INSURANCE

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

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

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

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

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

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

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

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

2.3.4 Treasury and Other Support to Desjardins Group Entities category

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

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

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

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

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

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

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

2.4 Analysis of fourth quarter results and quarterly trends

Table 18 – Results for the previous eight quarters

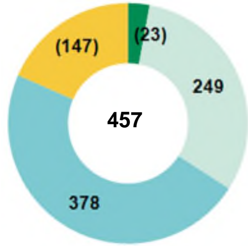
(unaudited, in millions of dollars and as a percentage)	**2020**				2019			
	Q4	Q3[1]	Q2[1]	Q1[1]	Q4[1]	Q3[1]	Q2[1]	Q1[1]
Net interest income	**$ 408**	$ 428	$ 390	$ 402	$ 389	$ 395	$ 360	$ 356
Net premiums	**2,653**	2,561	2,263	2,551	2,556	2,354	2,270	2,345
Other operating income[2]								
Assessments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

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

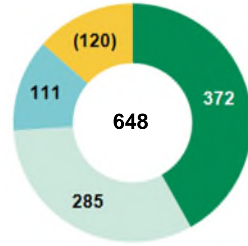
FOURTH QUARTER CONSOLIDATED RESULTS

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

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



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



■ Personal and Business Services
■ Wealth Management and Life and Health Insurance
■ Property and Casualty Insurance
■ Treasury and Other Support to Desjardins Group Entities

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

Contribution of business segments to surplus earnings:

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

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

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

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

- **Net premiums of $2,653 million,** up $97 million, or 3.8%.
  - **Wealth Management and Life and Health Insurance:** Net insurance and annuity premiums of $1,240 million, down $52 million, or 4.0%, compared to the same period in 2019, as a result of:
    - Decrease of $83 million in group annuities.
    - Offset by an increase of $29 million in group insurance premiums.
  - **Property and Casualty Insurance:** Net premiums of $1,456 million, up $153 million, or 11.7%, compared to the same period in 2019, due to:
    - Growth in the average premium.
    - End of the cession of premiums on new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

[1] See "Non-GAAP measures".

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

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

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

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

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

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

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

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

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

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

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

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

QUARTERLY TRENDS

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

Consolidated surplus earnings

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

Consolidated results

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

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

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

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

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

Surplus earnings from business segments

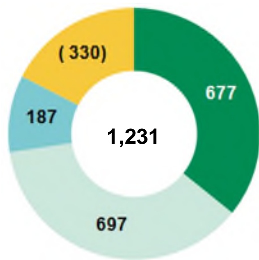
- **Surplus earnings before dividends to caisse members in the Personal and Business Services segment fluctuating over the previous eight quarters.**
  - Increase in the provision for credit losses in the first, second and fourth quarters of 2020, mainly due to the significant deterioration in the economic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

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

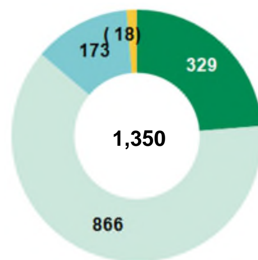
- **Net surplus earnings of the Property and Casualty Insurance segment fluctuating over the past eight quarters.**
  - Growth in net premiums over the past eight quarters mitigated by refunds of $155 million on auto insurance premiums granted in the second quarter of 2020 to members and clients as a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

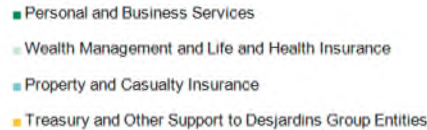
2.5 Comparison of 2019 and 2018

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



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





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

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

Segment results

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

  This increase was offset by the following:
  - Profit related to the restructuring of Interac Corp. recognized in first quarter 2018.
  - Higher provision for credit losses.

- **Wealth Management and Life and Health Insurance: Net surplus earnings of $697 million in 2019,** down $169 million, and net adjusted surplus earnings down $40 million compared to 2018, essentially due to the following:
  - Smaller gains on disposal of securities and real estate investments and lower interest margins compared to 2018.
  - Higher level of expenses than in 2018.
  - Offset by favourable effects of changes in actuarial assumptions in the normal course of business.

- **Property and Casualty Insurance: Net surplus earnings of $187 million in 2019,** up $14 million compared to 2018, due to.
  - Lower loss ratio mainly as a result of the smaller impact of catastrophes and major events and of the lower loss experience for 2019 compared to 2018.
  - Offset by lower dividend income than in 2018.

Consolidated results

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

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

[1] See "Non-GAAP measures".

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

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

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

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

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

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

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

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

3.0 Balance sheet review

3.1 Balance sheet management

Table 19 – Consolidated Balance Sheets
As at December 31

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

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

ASSETS

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

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

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

Table 20 – Loans and acceptances
As at December 31

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

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

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

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

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

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

LIABILITIES

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

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

Table 21 – Deposits
As at December 31

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

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

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

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

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

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

EQUITY

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

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

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

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

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

3.2 Capital management

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

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

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

Desjardins Group's Integrated Capital Management Framework

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

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

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

Regulatory framework and internal policies

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

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

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

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

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

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

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

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

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

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

Adjustments to capital requirements related to the COVID-19 pandemic

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

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

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

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

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

Regulatory developments

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

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

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

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

Compliance with requirements

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

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

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

Regulatory capital

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

Table 23 – Main capital components

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

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

Table 24 – Regulatory capital
As at December 31

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

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

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

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

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

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

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

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

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

Risk-weighted assets (RWA)

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

Credit risk

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

Market risk

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

Operational risk

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

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

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

Table 26 – Risk-weighted assets

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

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

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

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

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

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

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

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

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

3.3 Off-balance sheet arrangements

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

ASSETS UNDER MANAGEMENT AND UNDER ADMINISTRATION

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

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

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

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

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

CREDIT INSTRUMENTS

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

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

GUARANTEES

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

GOVERNMENT LOAN PROGRAMS

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

STRUCTURED ENTITIES

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

Securitization of the Federation's financial assets

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

3.4 Additional information related to certain risk exposures

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

Table 28 – Asset-backed securities
As at December 31

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

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

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

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

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

4.0 Risk management

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

4.1 Risk factors that could impact future results

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

Principal emerging risks

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

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

Other risk factors that could impact future results

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

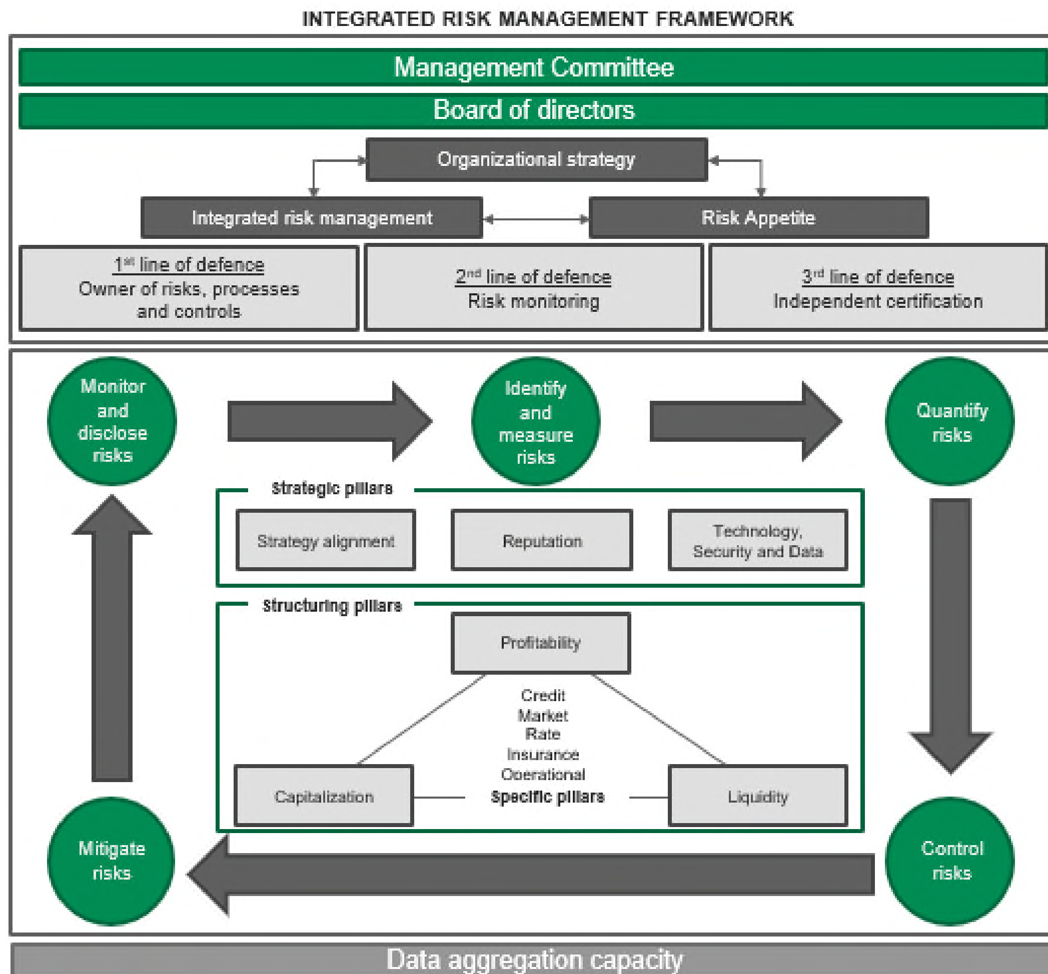
Risk factors	Description
Other factors	Other factors that may have an impact on Desjardins Group's future results include changes in tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement Desjardins Group's disaster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

4.2 Risk management

Integrated Risk Management Framework

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

INTEGRATED RISK MANAGEMENT FRAMEWORK



RISK IDENTIFICATION

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

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

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

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

RISK MEASUREMENT

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

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

Desjardins-wide integrated stress testing

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

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

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

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

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

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

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

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

Governance and model validation

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

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

RISK DISCLOSURE

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

RISK APPETITE

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

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

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

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

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

PROACTIVE RISK MANAGEMENT APPROACH

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

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

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

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

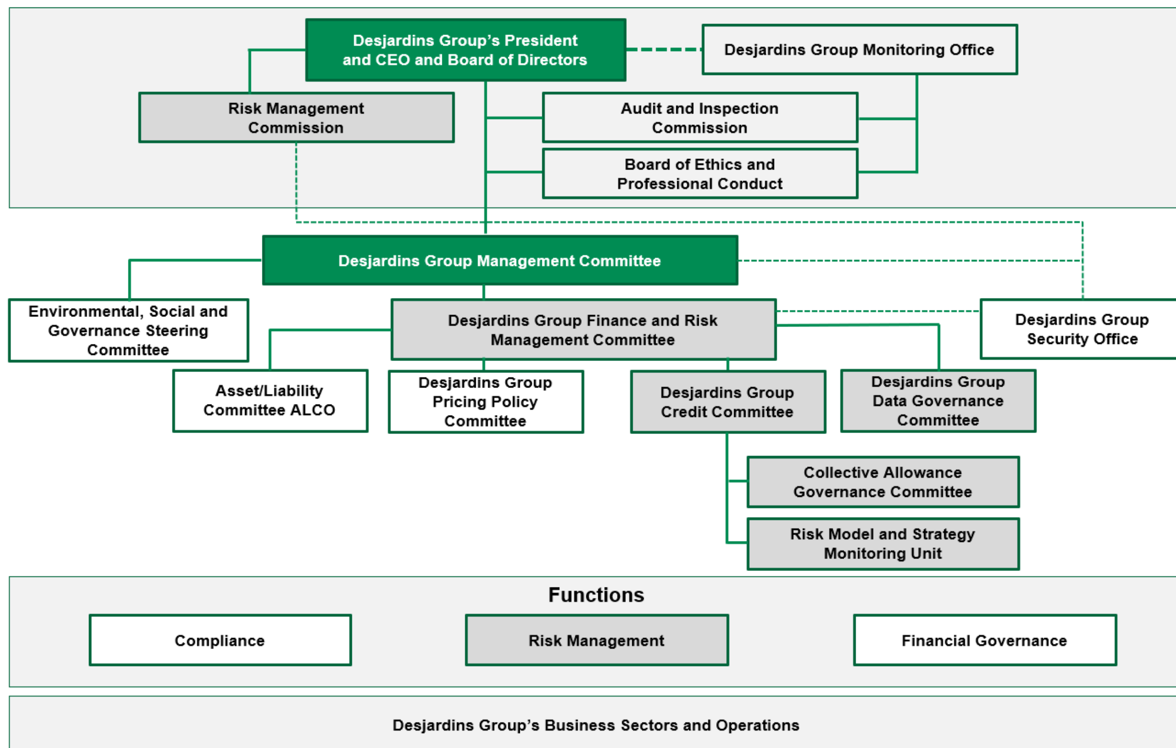
Compensation in relation to risk management

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

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

RISK MANAGEMENT GOVERNANCE

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



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

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

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

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

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

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

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

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

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

Operations management approach based on the Three Lines of Defence model

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

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

1st Line of Defence

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

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

2nd Line of Defence

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

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

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

3rd Line of Defence

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

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

Basel capital accord

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

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

Credit risk

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

Market risk

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

Operational risk

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

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

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

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

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

Credit risk

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

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

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

CREDIT RISK MANAGEMENT

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

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

Framework

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

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

Assessment of regulatory capital

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

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

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

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

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

Differences between the parameters used for accounting and regulatory capital purposes

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

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

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

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

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

Credit granting

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

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

Retail loans

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

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

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

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

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

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

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

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

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

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

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

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

Loans to businesses, sovereign borrowers and financial institutions

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

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

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

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

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

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

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

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

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

Other segments

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

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

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

Credit risk mitigation

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

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

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

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

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

Loan debt relief

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

File monitoring and management of higher risk files

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

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

Default situations

Identification of default

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

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

These criteria are applicable to all clients.

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

Impact of default

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

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

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

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

Removing default

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

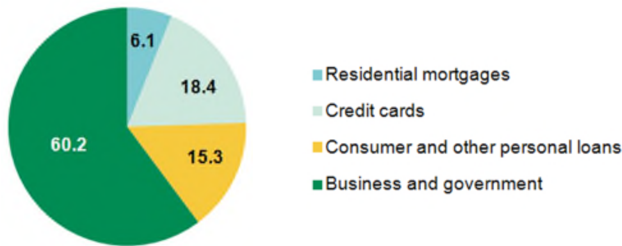
Monitoring of portfolio and reporting

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

BREAKDOWN AND QUALITY OF LOAN PORTFOLIO

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

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



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

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

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

[1] Including loans to governments.

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

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

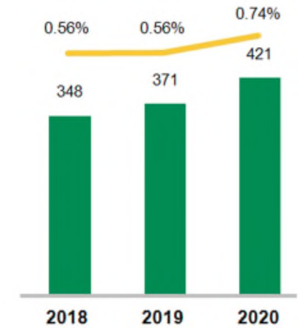
As at December 31, 2020	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 13**	**$ 1**	**$ -**	**$ -**	**$ 14**
Consumer, credit card and other personal loans	**497**	**97**	**45**	**46**	**685**
Business and government	**1**	**-**	**-**	**-**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

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

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

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

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



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

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

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

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

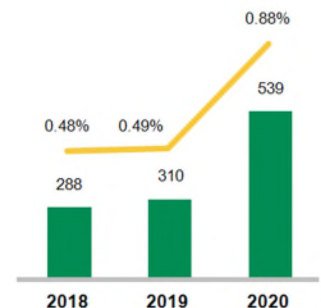
(in millions of dollars)	2020	2019	2018
Gross credit-impaired loans at the beginning of the year	$ 371	$ 348	$ 209
Gross loans that became credit-impaired during the year	1,192	1,365	777
Loans returned to unimpaired status	(758)	(1,033)	(306)
Write-offs and recoveries	(336)	(340)	(286)
Other changes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

Provision for credit losses

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

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

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



Counterparty and issuer risk

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

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

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

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

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

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

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

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

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

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

Market risk

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

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

GOVERNANCE

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

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

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

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

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

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

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

Table 36 – Market risk measures for the trading portfolio*

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

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

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

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

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

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

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

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

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

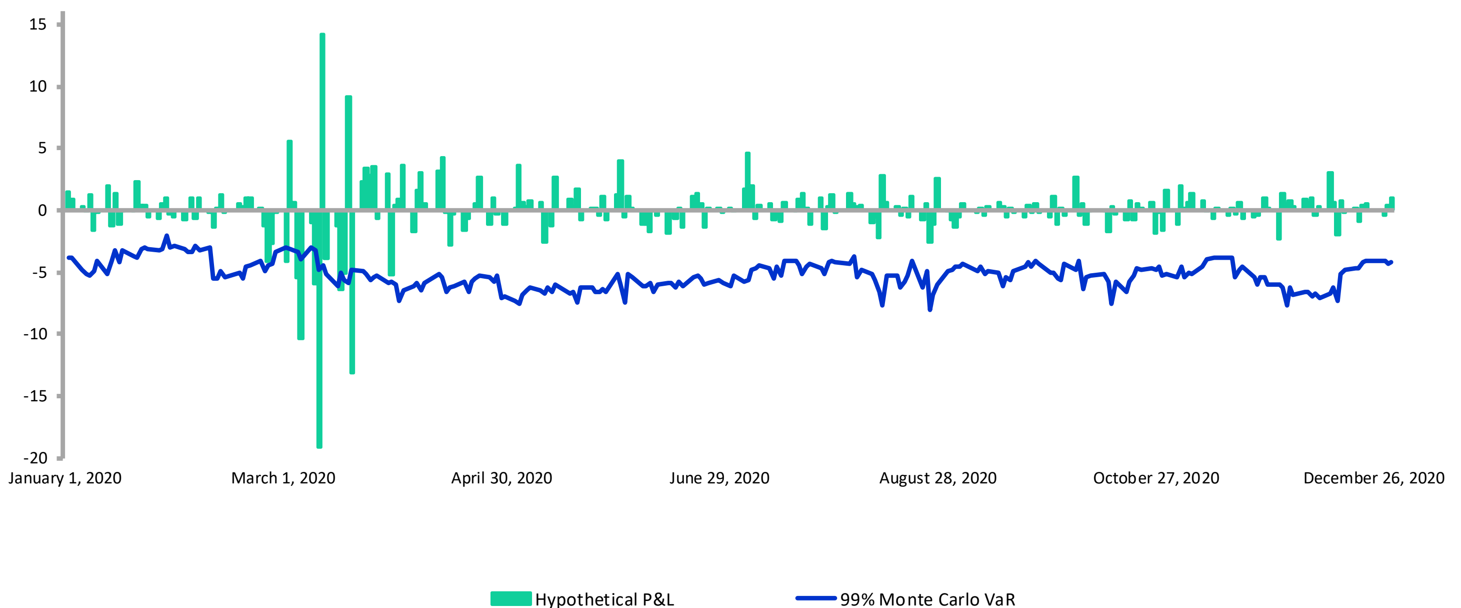
Back testing

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

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

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

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



Stress testing

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

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

STRUCTURAL INTEREST RATE RISK MANAGEMENT

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

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

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

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

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

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

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

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

(in millions of dollars)	**2020**		2019	
	Net interest income[(2)]	**Economic value of equity[(3)]**	Net interest income[(2)]	Economic value of equity[(3)]
Impact of a 100-basis-point increase in interest rates	**$ (78)**	**$ (132)**	$ (40)	$ (17)
Impact of a 25-basis-point decrease in interest rates (100-basis-point decrease as at December 31, 2019)[(4)]	**20**	**24**	38	14

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $165 million decrease in the economic value of equity before taxes as at December 31, 2020, and a $215 million decrease as at December 31, 2019. A 25-basis-point decrease in interest rates would result in an increase of $49 million in the economic value of equity before taxes as at December 31, 2020, and a 100-basis-point decrease in interest rates would result in a $228 million increase in the economic value of equity before taxes as at December 31, 2019. Additional information is provided in the "Interest rate risk management" section of Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements.

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

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

(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates. In addition, given the current low-interest-rate environment, the impact of a decrease in interest rates has been calculated using a decrease of 25 basis points as at December 31, 2020, compared to 100 basis points as at December 31, 2019.

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

PRICE RISK MANAGEMENT

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

Management of price risk related to real estate activities

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

Management of price risk related to stock markets

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

Liquidity risk

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

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

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

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

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

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

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

Liquidity risk measurement and monitoring

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

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

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

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

Liquidity risk indicators

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

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

SOURCES OF FINANCING

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

Financing programs and strategies

As Desjardins Group's treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In 2020, the Federation maintained a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

The main programs currently used by the Federation are:

Table 38 – Main financing programs

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

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

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

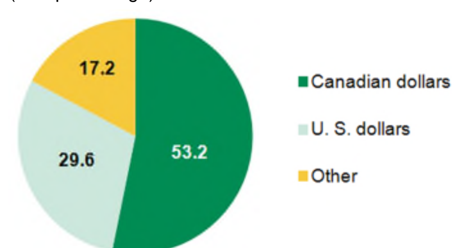
Table 39 – Remaining contractual term to maturity of wholesale funding
As at December 31

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

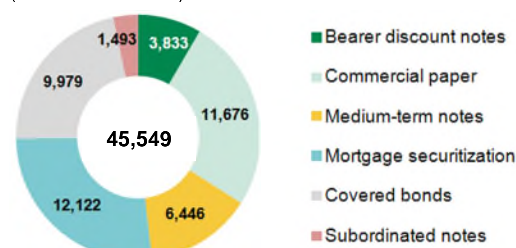
The Federation's total wholesale funding presented in the preceding table was carried out by the Federation, except for the portion of subordinated notes, which was issued by Desjardins Capital Inc. Total wholesale funding was up $1.6 billion compared to December 31, 2019, mainly because of an increase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

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

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



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



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

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

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

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

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

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

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

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

CREDIT RATINGS OF SECURITIES ISSUED AND OUTSTANDING

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

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

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

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

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

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

Table 40 – Credit ratings of securities issued and outstanding

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

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

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

Operational risk

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

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

OPERATIONAL RISK MANAGEMENT FRAMEWORK

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

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

GOVERNANCE

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

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

INFORMATION TECHNOLOGY AND SECURITY RISK

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

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

THIRD PARTY RISK

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

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

BUSINESS CONTINUITY RISK

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

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

Approaches to identifying, measuring and monitoring operational risk

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

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

Insurance risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Strategic risk

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

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

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

Reputation risk

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

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

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

Pension plan risk

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

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

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

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

Environmental or social risk

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

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

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

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

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

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

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

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

Legal and regulatory risk

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

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

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

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

5.0 Additional information

5.1 Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

5.2 Related party disclosures

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

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

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

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

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

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

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

5.3 Critical accounting policies and estimates

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

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

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

STRUCTURED ENTITIES

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

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

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans

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

Deposits

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

Subordinated notes

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

Derivative financial instruments

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

Financial instruments whose fair value equals their carrying amount

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

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

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

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

Determination of significant increases in credit risk

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

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

Definition of default and credit-impaired financial asset

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

Measurement of the loss allowance for expected credit losses

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

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

To determine the credit risk parameters, financial instruments are aggregated based on their common credit risk characteristics.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, the Federation uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. The Federation uses three scenarios to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. It may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance and that has not been incorporated into the credit risk parameters.

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

Key data and assumptions

Estimating the loss allowance for expected credit losses under IFRS 9 is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions, and therefore requires significant judgment to be exercised. The main items requiring significant judgment that affected its measurement are the following:

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

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the loss allowance for expected credit losses. Changes in the credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the allowance, while an improvement results in a decrease in the allowance.

Determination of significant increases in credit risk

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

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

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

Incorporation of forward-looking information

The Federation uses three different scenarios to determine the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The models vary depending on the portfolios and include one or several of the following main variables: gross domestic product, unemployment rate, the Consumer Price Index, housing prices, the corporate credit spread and the S&P/TSX index. The macroeconomic variable projection and the determination of the probabilities of occurrence of the three different scenarios are reviewed quarterly.

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

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

Estimated life of revolving credit facilities

The expected life of most financial instruments is equal to the maximum contractual term during which the Federation is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving credit facilities, which consist of personal and business lines of credit and credit card loans, for which their life must be estimated. To determine the life of revolving credit facilities, the Federation determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions. This estimate takes into account the period over which it was exposed to credit risk on similar financial instruments and the credit risk management actions that it expects to take once the credit risk on the financial instruments has increased.

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

Additional information about loans and the allowance for credit losses, in particular a sensitivity analysis of the allowance for credit losses, is presented in Note 7, "Loans and allowance for credit losses" to the Consolidated Financial Statements.

IMPAIRMENT OF "AVAILABLE-FOR-SALE" SECURITIES UNDER IAS 39 CONSIDERED FOR THE OVERLAY APPROACH

The Federation elected to designate certain eligible insurance operations financial assets for the overlay approach permitted by IFRS 4, "Insurance Contracts", to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, "Financial Instruments", and IFRS 17, "Insurance Contracts".

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

In determining the amount that would have been reported in the Consolidated Statements of Income if IAS 39 had been applied, the Federation considers, in particular, the impairment of "Available-for-sale" securities under IAS 39, which requires the significant use of judgment.

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires that management make estimates and assumptions. Any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

INSURANCE CONTRACT LIABILITIES

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provisions for dividends and experience refunds as well as policyholder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, policyholder dividends and related expenses. The appointed actuary of each of these subsidiaries is required to determine the actuarial liabilities needed to meet its future commitments. These actuarial liabilities are determined using the Canadian Asset Liability Method (CALM), in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Consolidated Balance Sheets of the assets that back them.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums, provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Consolidated Statements of Income for the year in which the revision occurs. The provision for claims and adjustment expenses is reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Note 16, "Insurance contract liabilities", to the Consolidated Financial Statements provides information about accounting for the various life and health and property and casualty insurance contract liabilities, the main assumptions used and the impact on profit or loss of changes to assumptions.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are liabilities of uncertain timing or amount. A provision is recognized when the Federation has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts required to settle the obligations on the reporting date, taking into account the relevant risks and uncertainties. Management must use significant judgment in determining whether a current obligation exists and in estimating the likelihood, timing and amount of any outflow of resources. The Federation regularly examines the measurement of provisions and makes, on a quarterly basis, the adjustments required based on new available information. Actual results may differ significantly from forecasts.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Federation's control or an obligation that arises from a past event and for which an outflow of resources embodying economic benefits is not probable or cannot be estimated reliably. In the normal course of its business, the Federation is involved in various litigation and legal proceedings.

Additional information is presented in Note 28, "Commitments, guarantees and contingent liabilities", to the Consolidated Financial Statements.

INCOME TAXES ON SURPLUS EARNINGS

The income tax expense on surplus earnings recognized in the Consolidated Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Consolidated Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Consolidated Statements of Comprehensive Income or the Consolidated Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of these income taxes, management must make judgments to establish assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If the Federation's interpretation differs from that of taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Note 27, "Income taxes on surplus earnings", to the Consolidated Financial Statements provides additional information on income taxes on surplus earnings.

DIVIDENDS TO MEMBER CAISSES

Dividends to member caisses presented in the Consolidated Statements of Income reflect management's best estimate. They are determined according to the Federation's distribution of the surplus earnings and are based on a resolution of the Board of Directors to recommend to the Annual General Meeting that their payment be approved. Dividend payments are recognized when approved by the member caisses. Dividends to member caisses are allocated to Treasury and Other Support to Desjardins Group Entities.

EMPLOYEE BENEFITS

The Federation participates in a pension plan and a supplemental pension plan through Desjardins Group's defined benefit group plans. It offers the majority of its employees, who meet certain criteria based on age and the number of years of plan membership, a defined benefit pension plan and a defined benefit supplemental pension plan. The Federation also offers a post-retirement benefit plan that provides medical, dental and life insurance coverage to retiring employees and their dependents.

The Federation participates in defined benefit group pension plans whose risks are shared by entities under common control. The Federation's share in the cost recognized and the net liability for the defined benefit group pension plans of Desjardins Group is mainly determined based on funding rules, as described in the plan's by-laws. The main Desjardins Group pension plan is funded by both employee and employer contributions, which are based on the financial position and the funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Federation's share in the cost of the group post-retirement benefit plan of Desjardins Group is determined based on the number of eligible insureds of the Federation as a percentage of the total number of eligible insureds for Desjardins Group as a whole.

Note 17, "Net defined benefit plan liabilities", to the Consolidated Financial Statements provides further information on accounting for defined benefit plans and on the sensitivity of the key assumptions.

5.4 Future accounting changes

Accounting standards and amendments issued by the IASB but not yet effective as at December 31, 2020 are presented below. Regulatory authorities have stated that early adoption of these standards and amendments will not be permitted, unless they indicate otherwise.

IFRS 17, "INSURANCE CONTRACTS"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", to replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance contracts.

IFRS 17 proposes a general model for the measurement of insurance contracts, as well as a simplified approach for contracts of one year or less, and a specific method for insurance contracts with direct participation features. The general model, which is based on current value, uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows. It takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as separate liabilities and recognized in profit or loss over the contract term as services are provided.

The provisions of IFRS 17 will apply retrospectively to each group of insurance contracts. When retrospective application is impracticable, the modified retrospective approach or the fair value approach may be used for annual reporting periods beginning on or after January 1, 2023.

In June 2020, the IASB issued amendments to IFRS 17, for which the initial effective date was deferred by two years to annual periods beginning on or after January 1, 2023. The Federation is currently assessing the impact on its financial statements of adopting IFRS 17 and the amendments thereto.

IFRS 9, "FINANCIAL INSTRUMENTS", IAS 39, "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" AND IFRS 7, "FINANCIAL INSTRUMENTS: DISCLOSURES"

On January 1, 2020, the Federation adopted amendments to IFRS 9, IAS 39 and IFRS 7 arising from Phase 1 of the interest rate benchmark reform project. Phase 1 amendments providing relief with respect to applying hedge accounting during the period before the replacement of an interest rate benchmark had no impact on the Federation's profit or loss or financial position.

In August 2020, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in connection with Phase 2 of its interest rate benchmark reform project. The amendments focus on the impact on the financial statements of the replacement of an interest rate benchmark.

The IASB amended IFRS 9 to add a practical expedient allowing an entity to account for a change prospectively in contractual cash flows that is required by interest rate benchmark reform by revising the effective interest rate. The practical expedient applies only if certain conditions are met.

The IASB also amended IFRS 9 and IAS 39 to add a temporary exception for hedge accounting. The IASB therefore provides relief from applying the current hedge accounting documentation requirements with respect to changes to hedged items, hedging instruments or hedged risk resulting directly from interest rate benchmark reform. The amendments allow continuing hedge accounting when changes to the hedged item or the hedging instrument occur as a result of changes that are required by the reform.

IFRS 7 was also amended to include the requirement to disclose the nature and extent of risks related to the reform and how the entity manages those risks as well as the entity's progress in completing the transition to alternative benchmark rates and how the entity is managing the transition. Amendments to these standards, which will apply to annual periods beginning on or after January 1, 2021, will not have any significant impact on the Federation's profit or loss or financial position. For more information about interest rate benchmark reform, please refer to the "Regulatory environment" section in this MD&A.

5.5 Five-year statistical review

Table 41 – Consolidated Balance Sheets
For the years ended December 31

(in millions of dollars)	2020	2019	2018[1]	2017[1][2]	2016[1][2]
ASSETS					
Cash and deposits with financial institutions	**$ 11,513**	$ 3,084	$ 2,738	$ 1,731	$ 1,212
Securities					
Securities at fair value through profit or loss	**34,958**	35,167	36,914	31,654	31,005
Available-for-sale securities	**N/A**	N/A	N/A	15,250	13,932
Securities at fair value through other comprehensive income	**40,361**	12,650	11,131	N/A	N/A
Securities at amortized cost	**29**	1,616	1,621	N/A	N/A
	75,348	49,433	49,666	46,904	44,937
Securities borrowed or purchased under reverse repurchase agreements	**11,592**	11,352	14,086	9,377	7,713
Loans					
Residential mortgages	**3,440**	4,183	4,626	4,323	3,486
Consumer, credit card and other personal loans	**19,091**	20,567	19,710	17,547	15,720
Business and government	**33,777**	40,827	37,992	37,012	33,416
	56,308	65,577	62,328	58,882	52,622
Allowance for credit losses	**(639)**	(464)	(491)	(198)	(192)
	55,669	65,113	61,837	58,684	52,430
Segregated fund net assets	**19,093**	17,026	13,234	13,379	11,965
Other assets					
Clients' liability under acceptances	**328**	380	160	31	11
Premiums receivable	**2,807**	2,689	2,378	2,098	1,961
Derivative financial instruments	**6,975**	4,795	4,376	3,772	3,706
Amounts receivable from clients, brokers and financial institutions	**2,508**	2,239	1,487	1,563	2,541
Reinsurance assets	**1,962**	2,001	1,958	2,202	2,582
Right-of-use assets	**291**	298	N/A	N/A	N/A
Investment property	**910**	944	943	817	806
Property, plant and equipment	**907**	840	811	780	769
Goodwill	**156**	121	121	121	471
Intangible assets	**424**	381	389	466	690
Investments in companies accounted for using the equity method	**1,189**	1,034	907	515	567
Deferred tax assets	**1,013**	1,015	896	746	724
Other	**2,387**	1,668	1,573	1,673	1,573
Assets of the disposal group held to be transferred	**-**	-	-	881	-
	21,857	18,405	15,999	15,665	16,401
TOTAL ASSETS	**$ 195,072**	$ 164,413	$ 157,560	$ 145,740	$ 134,658

See the next page for footnotes.

Table 41 – Consolidated Balance Sheets (continued)
For the years ended December 31

(in millions of dollars)	**2020**	2019	2018[1]	2017[1][2]	2016[1][2]
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits					
Individuals	**$ 4,331**	$ 3,715	$ 4,105	$ 4,353	$ 3,817
Business and government	**53,169**	48,924	47,398	42,598	37,999
Deposit-taking institutions	**14,906**	6,333	6,554	5,198	5,086
	72,406	58,972	58,057	52,149	46,902
Other liabilities					
Acceptances	**328**	380	160	31	11
Commitments related to securities sold short	**9,353**	10,615	10,829	9,112	8,196
Commitments related to securities lent or sold under repurchase agreements	**19,152**	10,562	16,233	10,062	9,870
Derivative financial instruments	**6,753**	4,827	3,332	3,677	2,540
Amounts payable to clients, brokers and financial institutions	**6,810**	5,552	4,105	4,247	4,659
Lease liabilities	**346**	350	N/A	N/A	N/A
Insurance contract liabilities	**34,871**	31,637	28,764	28,300	27,493
Segregated fund net liabilities	**19,089**	17,002	13,212	13,354	11,957
Net defined benefit plan liabilities	**1,984**	1,956	1,578	1,741	1,478
Deferred tax liabilities	**273**	277	254	204	247
Other	**5,649**	5,373	5,105	4,794	5,247
Liabilities of the disposal group held to be transferred	**-**	-	-	662	-
	104,608	88,531	83,572	76,184	71,698
Subordinated notes	**1,493**	1,398	1,378	1,388	1,378
TOTAL LIABILITIES	**178,507**	148,901	143,007	129,721	119,978
EQUITY					
Capital stock	**8,884**	8,884	8,779	8,537	8,066
Undistributed surplus earnings	**5,442**	5,276	4,764	5,674	4,781
Accumulated other comprehensive income	**738**	249	(9)	458	393
Reserves	**751**	330	271	540	524
Equity – Group's share	**15,815**	14,739	13,805	15,209	13,764
Non-controlling interests	**750**	773	748	810	916
TOTAL EQUITY	**16,565**	15,512	14,553	16,019	14,680
TOTAL LIABILITIES AND EQUITY	**$ 195,072**	$ 164,413	$ 157,560	$ 145,740	$ 134,658

[1] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.
[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 42 – Consolidated Statements of Income

For the years ended December 31

(in millions of dollars)	**2020**	2019[1]	2018[1][2]	2017[1][2][3]	2016[1][2][3]
Interest income					
Loans	**$ 2,229**	$ 2,806	$ 2,537	$ 2,050	$ 1,856
Securities	**377**	216	230	195	182
	2,606	3,022	2,767	2,245	2,038
Interest expense					
Deposits	**821**	1,327	1,119	750	629
Subordinated notes and other	**157**	195	158	97	110
	978	1,522	1,277	847	739
Net interest income	**1,628**	1,500	1,490	1,398	1,299
Net premiums	**10,028**	9,525	8,923	8,146	7,263
Other income					
Assessments	**394**	393	392	377	393
Service agreements	**818**	773	742	727	699
Lending fees and credit card service revenues	**634**	782	699	660	575
Brokerage and investment fund services	**954**	886	905	1,030	1,060
Management and custodial service fees	**648**	610	573	512	442
Net investment income	**2,926**	2,970	176	1,771	1,112
Overlay approach adjustment for insurance operations financial assets	**(42)**	(192)	523	N/A	N/A
Foreign exchange income	**103**	70	92	77	70
Other	**258**	557	302	313	141
	6,693	6,849	4,404	5,467	4,492
Total income	**18,349**	17,874	14,817	15,011	13,054
Provision for credit losses	**539**	310	288	278	248
Claims, benefits, annuities and changes in insurance contract liabilities	**9,257**	9,149	6,576	6,712	5,446
Non-interest expense					
Remuneration and other payments	**669**	660	563	536	492
Salaries and fringe benefits	**2,662**	2,443	2,239	2,255	2,329
Premises, equipment and furniture, including depreciation	**636**	556	496	514	437
Service agreements and outsourcing	**260**	359	341	322	306
Communications	**223**	221	219	244	265
Other	**2,786**	2,733	2,537	2,398	2,193
	7,236	6,972	6,395	6,269	6,022
Operating surplus earnings	**1,317**	1,443	1,558	1,752	1,338
Income taxes on surplus earnings	**305**	212	208	336	147
Surplus earnings before dividends to member caisses	**1,012**	1,231	1,350	1,416	1,191
Dividends to member caisses	**113**	115	70	60	25
Tax recovery on dividends to member caisses	**(30)**	(31)	(19)	(16)	(7)
Net surplus earnings for the year after dividends to member caisses	**$ 929**	$ 1,147	$ 1,299	$ 1,372	$ 1,173
Of which:					
Group's share	**$ 845**	$ 1,101	$ 1,258	$ 1,329	$ 1,088
Non-controlling interests' share	**84**	46	41	43	85

[1] Data have been reclassified to conform to the current year's presentation.

[2] In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

[3] In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

Table 43 – Selected financial measures
For the years ended December 31

(in millions of dollars and as a percentage)	2020	2019	2018[1]	2017[1][2]	2016[1][2]
Tier 1A capital ratio[3]	**21.9%**	21.6%	17.3%	18.0%	17.3%
Tier 1 capital ratio[3]	**21.9**	21.6	17.3	18.0	17.3
Total capital ratio[3]	**22.6**	21.6	17.6	18.4	17.9
Leverage ratio[3]	**8.5**	8.8	8.3	8.5	8.1
Return on equity[4]	**6.1**	8.3	8.6	9.4	8.5
Credit loss provisioning rate[4]	**0.88**	0.49	0.48	0.50	0.48
Gross credit-impaired loans[5]/gross loans and acceptances ratio[4]	**0.74**	0.56	0.56	0.14	0.18
Assets under administration[6]	**$ 458,177**	$ 437,000	$ 374,178	$ 423,574	$ 420,166
Assets under management[7]	**89,140**	77,018	66,359	66,653	59,490
Average assets[4]	**184,781**	162,914	154,106	143,110	134,333
Average net loans and acceptances[4]	**60,481**	62,752	59,973	54,977	51,213
Average deposits[4]	**70,306**	58,645	55,758	52,256	48,376

(1) In accordance with the standards in effect before the adoption by the Federation of IFRS 16, "Leases", on January 1, 2019, on a retrospective basis without restatement of comparative periods.

(2) In accordance with the standards in effect before the adoption by the Federation of IFRS 9, "Financial instruments", IFRS 15, "Revenue from contracts with customers", and amendments to IFRS 4, "Insurance contracts", on January 1, 2018, on a retrospective basis without restatement of comparative periods, as applicable.

(3) On September 16, 2020, the AMF issued a notice stating that the Federation's capital ratios had to be calculated on the basis of the exposure of all the entities comprising Desjardins Group. Comparative data have been restated to conform to the presentation required by this change. For more information, see Section 3.2, "Capital management", to this MD&A.

(4) See "Non-GAAP measures".

(5) Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39.

(6) Data for 2019, 2018 and 2017 have been restated to conform to the current year's presentation.

(7) Assets under management may also be administered by the Federation. If applicable, they are included in assets under administration.