

# COMBINED FINANCIAL STATEMENTS OF THE DESJARDINS CAISSES IN QUÉBEC

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## Management's Responsibility for Financial Reporting

The Combined Financial Statements of the Desjardins caisses in Québec (the Caisses) are the responsibility of the management of the *Fédération des caisses Desjardins du Québec* (the Federation), which is responsible for ensuring reporting integrity and accuracy.

These Combined Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada's generally accepted accounting principles. These Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable.

Federation management is responsible for the accuracy of the Combined Financial Statements of the Caisses and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. Such controls include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices to ensure the Combined Financial Statements fairly represent the financial position of the Caisses.

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

For the purposes of approving the financial information contained in the Combined Financial Statements of the Caisses, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The commission is mandated by the Board of Directors to review the Combined Financial Statements of the Caisses. The Audit and Inspection Commission has six independent directors who are members of the Board of Directors of the Federation, four who are elected and two who are co-opted by the Board of Directors. In addition, it has two representatives of the insurance subsidiaries and two observers, who help ensure the necessary alignment with the Risk Management Commission, insurance subsidiaries and the caisse network. The Audit and Inspection Commission exercises an oversight role for management to develop and implement adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

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

**Guy Cormier**  
President and Chief Executive Officer  
Desjardins Group

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

Lévis, Québec  
February 23, 2022

## Annual report by the Audit and Inspection Commission

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

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

The AIC reviews the Combined Financial Statements of the Desjardins caisses in Québec. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets and fraud detection. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the caisse network in Québec. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines various files relating to developments in the caisse network, including information on the financial position of the caisses and any special circumstances detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the allowance for credit losses.

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

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

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

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

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

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

The AIC held seven meetings and one training session for its members in fiscal 2021. As at December 31, 2021, the six independent directors who are members of the AIC are: Michel Magnan, FCPA, FCA; Lisa Baillargeon, CPA, CMA; Louis Babineau; Luc Bachand; Jordan Baril-Furino and Stéphane Corbeil. The two representatives of the insurance subsidiaries are: Robert St-Aubin, FCPA, FCA and Clarence Turgeon, FCPA, FCA; and the two observers are Kathleen Bilodeau and Michel Doré. Johanne Charbonneau, FCPA, FCGA, Sonia Corriveau, Jean-François Laporte and Benoit Bélanger also participated in the AIC's activities before taking on new roles at other Desjardins Group governing bodies or until the end of their mandate in 2021.

**Michel Magnan, FCPA, FCA**  
Chair

Montréal, Québec  
February 18, 2022

# Independent auditor's report

## To the members of the *Fédération des caisses Desjardins du Québec*

### *Our opinion*

In our opinion, the accompanying separate combined financial statements present fairly, in all material respects, the financial position of the Desjardins caisses in Québec (the Caisses) as at December 31, 2021 and 2020, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### **What we have audited**

The Caisses's separate combined financial statements comprise:

- the combined balance sheets as at December 31, 2021 and 2020;
- the combined statements of income for the years then ended;
- the combined statements of comprehensive income for the years then ended;
- the combined statements of changes in equity for the years then ended;
- the combined statements of cash flows for the years then ended; and
- the notes to the separate combined financial statements, which include significant accounting policies and other explanatory information.

### *Basis for opinion*

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

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

### **Independence**

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

### *Responsibilities of management and those charged with governance for the separate combined financial statements*

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

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

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

### *Auditor's responsibilities for the audit of the separate combined financial statements*

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

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

- Identify and assess the risks of material misstatement of the separate combined financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Caisses's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Caisses's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Caisses to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate combined financial statements, including the disclosures, and whether the separate combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Caisses to express an opinion on the separate combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

**PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.<sup>(1)</sup>**

<sup>(1)</sup> CPA auditor, CA, public accountancy permit No. A111799

Montréal, Québec

February 23, 2022

# Combined Balance Sheets

(in millions of Canadian dollars)	Notes	As at December 31, 2021	As at December 31, 2020
<b>ASSETS</b>			
<b>Cash and deposits with financial institutions</b>		<b>\$ 8,239</b>	<b>\$ 6,637</b>
<b>Securities</b>	6		
Securities at fair value through profit or loss		1	1
Securities at fair value through other comprehensive income		10,813	10,689
Securities at amortized cost		9,677	8,540
		20,491	19,230
<b>Securities borrowed or purchased under reverse repurchase agreements</b>		<b>143</b>	<b>—</b>
<b>Loans</b>	7 and 8		
Residential mortgages		140,636	127,311
Consumer and other personal loans		5,910	6,098
Business and government		39,011	35,749
		185,557	169,158
Allowance for credit losses	7	(406)	(450)
		185,151	168,708
<b>Other assets</b>			
Derivative financial instruments	16	5,004	4,328
Investment in the Federation		11,491	9,642
Investment in the <i>Fonds de sécurité Desjardins</i>		1,305	1,322
Right-of-use assets	9	285	301
Property, plant and equipment	10	583	608
Deferred tax assets	22	21	61
Other	11	870	803
		19,559	17,065
<b>TOTAL ASSETS</b>		<b>\$ 233,583</b>	<b>\$ 211,640</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Deposits</b>	12		
Individuals		\$ 126,928	\$ 119,837
Business and government		47,676	42,153
		174,604	161,990
<b>Other liabilities</b>			
Commitments related to securities lent or sold under repurchase agreements		3,829	1,933
Derivative financial instruments	16	4,646	3,609
Lease liabilities	9	293	305
Interest payable		549	614
Net defined benefit plan liabilities	14	491	1,091
Other	15	834	826
		10,642	8,378
<b>Borrowings</b>	13	<b>22,373</b>	<b>18,414</b>
<b>TOTAL LIABILITIES</b>		<b>207,619</b>	<b>188,782</b>
<b>EQUITY</b>			
Capital stock	17	117	156
Distributable surplus earnings		1,569	1,470
Accumulated other comprehensive income	18	429	452
Reserves		23,849	20,780
<b>TOTAL EQUITY</b>		<b>25,964</b>	<b>22,858</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 233,583</b>	<b>\$ 211,640</b>

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

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

**Guy Cormier**  
Chair of the Board

**Johanne Charbonneau, FCPA, FCGA**  
Vice-Chair of the Board

# Combined Statements of Income

For the years ended December 31

(in millions of Canadian dollars)	Notes	2021	2020
<b>INTEREST INCOME</b>			
Loans		\$ 4,651	\$ 4,949
Securities		238	252
		<b>4,889</b>	<b>5,201</b>
<b>INTEREST EXPENSE</b>			
Deposits		1,079	1,287
Borrowings and other		227	392
		<b>1,306</b>	<b>1,679</b>
<b>NET INTEREST INCOME</b>	20	<b>3,583</b>	<b>3,522</b>
<b>OTHER INCOME</b>			
Deposit and payment service charges		390	355
Distribution of Desjardins products and services		633	577
Net investment income (loss)	20	(167)	815
Net income on the investment in the Federation		1,143	692
Net income on the investment in the <i>Fonds de sécurité Desjardins</i>		7	55
Other		234	218
		<b>2,240</b>	<b>2,712</b>
<b>TOTAL INCOME</b>		<b>5,823</b>	<b>6,234</b>
<b>PROVISION FOR CREDIT LOSSES</b>	7	<b>19</b>	<b>324</b>
<b>NON-INTEREST EXPENSE</b>			
Salaries and fringe benefits		1,244	1,243
Assessments paid to Desjardins Group components		420	412
Premises, equipment and furniture, including depreciation		264	277
Service agreements and outsourcing		555	415
Community development expenses		53	47
Other	21	525	509
		<b>3,061</b>	<b>2,903</b>
<b>OPERATING SURPLUS EARNINGS</b>		<b>2,743</b>	<b>3,007</b>
Income taxes on surplus earnings	22	322	506
<b>SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS</b>		<b>2,421</b>	<b>2,501</b>
Member dividends		376	320
Tax recovery on member dividends	22	(100)	(83)
<b>NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS</b>		<b>\$ 2,145</b>	<b>\$ 2,264</b>

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

# Combined Statements of Comprehensive Income

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
<b>Net surplus earnings for the year after member dividends</b>	<b>\$ 2,145</b>	<b>\$ 2,264</b>
<b>Other comprehensive income, net of income taxes</b>		
<b>Items that will not be reclassified subsequently to the Combined Statements of Income</b>		
Remeasurement of net defined benefit plan liabilities	430	(1)
Share of other comprehensive income from the investment in the Federation	593	19
	<b>1,023</b>	<b>18</b>
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	(166)	188
Reclassification of net (gains) losses to the Combined Statements of Income	20	(73)
	<b>(146)</b>	<b>115</b>
Share of other comprehensive income from the investment in the Federation	245	248
Reclassification to the Combined Statements of Income related to the share of other comprehensive income from the investment in the Federation	(98)	(166)
	<b>147</b>	<b>82</b>
Share of other comprehensive income from the investment in the Fonds de sécurité Desjardins	(23)	27
Reclassification to the Combined Statements of Income related to the share of other comprehensive income from the investment in the <i>Fonds de sécurité Desjardins</i>	(1)	(11)
	<b>(24)</b>	<b>16</b>
	<b>(23)</b>	<b>213</b>
<b>Total other comprehensive income, net of income taxes</b>	<b>1,000</b>	<b>231</b>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 3,145</b>	<b>\$ 2,495</b>

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

## Income taxes on other comprehensive income

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

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
<b>Item that will not be reclassified subsequently to the Combined Statements of Income</b>		
Remeasurement of net defined benefit plan liabilities	\$ 151	\$ —
	<b>151</b>	<b>—</b>
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	(59)	66
Reclassification of net (gains) losses to the Combined Statements of Income	8	(25)
	<b>(51)</b>	<b>41</b>
<b>Total income tax expense</b>	<b>\$ 100</b>	<b>\$ 41</b>



# Combined Statements of Changes in Equity

For the years ended December 31

	Reserves												
	Capital stock (Note 17)	Distributable surplus earning	Accumulated other comprehensive income (Note 18)	Appreciation reserve (investments in the Federation's investment funds)	Appreciation reserve (derivative financial instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve	Reserve for future member dividends	Community development fund	Total reserves	Total equity	
(in millions of Canadian dollars)													
<b>BALANCE AS AT DECEMBER 31, 2019</b>	\$ 271	\$ 1,401	\$ 239	\$ 4,845	\$ 19	\$ (795)	\$ 12,864	\$ 532	\$ 978	\$ 137	\$ 18,580	\$ 20,491	
Net surplus earnings for the year after member dividends	—	2,264	—	—	—	—	—	—	—	—	—	2,264	
Other comprehensive income for the year	—	18	213	—	—	—	—	—	—	—	—	231	
Comprehensive income for the year	—	2,282	213	—	—	—	—	—	—	—	—	2,495	
Equity transactions related to the investment in the Federation	—	—	—	(14)	—	—	—	—	—	—	(14)	(14)	
Redemption of permanent shares	(105)	—	—	—	—	—	—	—	—	—	—	(105)	
Redemption of surplus shares	(10)	—	—	—	—	—	—	—	—	—	—	(10)	
Remuneration on capital stock	—	—	—	—	—	—	—	(1)	—	—	(1)	(1)	
Transfer between surplus earnings to be distributed and reserves	—	(2,213)	—	671	445	(26)	922	—	181	20	2,213	—	
Equity transactions relating to related party transactions	—	—	—	(7)	—	9	—	—	—	—	2	2	
<b>BALANCE AS AT DECEMBER 31, 2020</b>	\$ 156	\$ 1,470	\$ 452	\$ 5,495	\$ 464	\$ (812)	\$ 13,786	\$ 531	\$ 1,159	\$ 157	\$ 20,780	\$ 22,858	
Net surplus earnings for the year after member dividends	—	2,145	—	—	—	—	—	—	—	—	—	2,145	
Other comprehensive income for the year	—	1,023	(23)	—	—	—	—	—	—	—	—	1,000	
Comprehensive income for the year	—	3,168	(23)	—	—	—	—	—	—	—	—	3,145	
Redemption of permanent shares	(33)	—	—	—	—	—	—	—	—	—	—	(33)	
Redemption of surplus shares	(6)	—	—	—	—	—	—	—	—	—	—	(6)	
Transfer between surplus earnings to be distributed and reserves	—	(3,069)	—	1,702	(209)	460	1,045	—	53	18	3,069	—	
<b>BALANCE AS AT DECEMBER 31, 2021</b>	\$ 117	\$ 1,569	\$ 429	\$ 7,197	\$ 255	\$ (352)	\$ 14,831	\$ 531	\$ 1,212	\$ 175	\$ 23,849	\$ 25,964	

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

# Combined Statements of Cash Flows

For the years ended December 31

(in millions of Canadian dollars)	2021	2020
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Operating surplus earnings	\$ 2,743	\$ 3,007
Non-cash adjustments <sup>(1)</sup> :		
Provision for credit losses	19	324
Depreciation of right-of-use assets and property, plant and equipment	89	94
Amortization of premiums and discounts	91	57
Net realized (gains) losses on securities classified as at fair value through other comprehensive income	28	(98)
Net income on the investment in the Federation	(1,143)	(692)
Net income on the investment in the <i>Fonds de sécurité Desjardins</i>	(7)	(55)
Change in operating assets and liabilities <sup>(1)</sup> :		
Securities borrowed or purchased under reverse repurchase agreements	(143)	—
Loans	(16,463)	(10,632)
Derivative financial instruments, net amount	361	(6)
Deposits	12,614	25,851
Commitments related to securities lent or sold under repurchase agreements	1,896	613
Other	(21)	(689)
Income taxes paid on surplus earnings	(436)	(289)
Payment of member dividends	(323)	(303)
	(695)	17,182
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Repayment of lease liabilities	(47)	(48)
Transactions related to borrowings:		
Net change in lines of credit	5,024	(4,154)
Net change in term borrowings	(1,065)	(2,452)
Redemption of permanent shares	(33)	(105)
Redemption of surplus shares	(6)	(10)
Remuneration on capital stock	(1)	(4)
	3,872	(6,773)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(10,571)	(15,687)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	8,152	8,256
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	841	821
Amount received from the investment in the Federation	39	58
Acquisitions of property, plant and equipment	(49)	(61)
Proceeds from disposals of property, plant and equipment	13	2
	(1,575)	(6,611)
<b>Net increase in cash and cash equivalents</b>	<b>1,602</b>	<b>3,798</b>
Cash and cash equivalents at beginning of year	6,637	2,839
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 8,239</b>	<b>\$ 6,637</b>
<b>Supplemental information on cash flows from (used in) operating activities</b>		
Interest paid	\$ 1,357	\$ 1,719
Interest received	4,860	5,192

<sup>(1)</sup> An amount of \$192 million has been reclassified from non-cash adjustments to change in operating assets and liabilities to conform to the current year's Combined Financial Statements presentation.

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

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

### NOTE 1 - BASIS OF PRESENTATION

#### Nature of operations

The Desjardins caisses in Québec (the Caisses) are cooperatives whose purpose is to receive the savings of their members in order to invest them profitably as well as to extend credit and supply other financial products and services to their members. Their mission also includes fostering cooperation and promoting economic, social and cooperative education. They are governed by the *Act Respecting Financial Services Cooperatives* (the Act).

The Caisses are individually registered with the *Autorité des marchés financiers* (AMF) in Québec. They are also members of the *Fonds de sécurité Desjardins*, whose main purpose is to establish and administer a security, liquidity or mutual benefit fund for the benefit of the Desjardins caisses in Québec.

The Caisses are members of the *Fédération des caisses Desjardins du Québec* (the Federation), which controls other components that form Desjardins Group.

#### Combined Financial Statements

These Separate Combined Financial Statements (the Combined Financial Statements) are presented in addition to the Combined Financial Statements of Desjardins Group, as provided under IAS 27, "Separate Financial Statements". These financial statements have been prepared to present the financial position, the financial performance and the cash flows of the Caisses.

These Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Caisses' financial statements are a combination of the accounts of the Desjardins caisses in Québec. The capital stock of the Caisses represents the aggregate of the capital stock issued by the Caisses.

#### Statement of compliance

These Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the AMF, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Combined Financial Statements of the Caisses for the current year. These reclassifications had no impact on the Caisses' profit or loss or total assets and liabilities.

The Combined Financial Statements for the year ended December 31, 2021 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 23, 2022.

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

#### Significant judgments, estimates and assumptions

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

The COVID-19 pandemic continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Combined Financial Statements. This specifically affects the allowance for expected credit losses. For more information on significant judgments made to estimate the allowance for expected credit losses, see Note 7, "Loans and allowance for credit losses".

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

#### Scope of the reporting entity

The Combined Financial Statements of the Caisses include the assets, liabilities, operating results and cash flows of the Caisses. The financial statements of all entities have been prepared using similar accounting policies. All intercaisse transactions and balances have been eliminated.

#### Presentation and functional currency

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

### CHANGES IN ACCOUNTING POLICIES

#### Interest rate benchmark reform

On January 1, 2021, the Caisses adopted amendments to IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 7, "Financial Instruments: Disclosures" in connection with Phase 2 of the interest rate benchmark reform (IRBR) project. These amendments supplement the amendments adopted on January 1, 2020 arising from Phase 1 and focus on the impact on the financial statements of the replacement of the interest rate benchmark.

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

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 had no material impact on the Caisses' profit or loss or financial position.

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities.

To ensure a smooth transition from interest rate benchmarks to risk-free rates, the Caisses have joined an interest rate benchmark reform working group formed by Desjardins Group (the "Desjardins IRBR Working Group"). The mandate of the Desjardins IRBR Working Group is to analyze all aspects of this reform, identify and mitigate the risks it poses, as well as coordinate and execute a transition plan. The Caisses are exposed to several risks in relation to interest rate benchmark reform, including interest and operational risks, which mainly arise from updating systems and processes and modifying contractual clauses.

The Desjardins IRBR Working Group also monitors closely the evolution of the expected timeframe for the retirement of certain interest rate benchmarks, and its work continues to progress in accordance with the timeline set out in the transition plan.

As at December 31, 2021, the Caisses were not exposed to financial instruments that are subject to the interest rate benchmark reform with a formal cessation plan and that have yet to transition to risk-free benchmark rates.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

### SIGNIFICANT ACCOUNTING POLICIES

#### a) Financial assets and liabilities

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

#### Classification and measurement

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

##### Contractual cash flow characteristics

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

##### Business models

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

The Caisses' business models are defined as follows:

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

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

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

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

- Changes in fair value of financial assets included in this class are recorded under "Net investment income (loss)" in the Combined Statements of Income.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

- (ii) Financial assets "Classified as at fair value through profit or loss" include the following:
- Debt instruments that are managed for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
  - Equity instruments.
  - Derivative financial instruments.
- (iii) Financial assets "Designated as at fair value through profit or loss" are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

The Caisses held no financial instruments included in this measurement category at the reporting date.

- (iv) Financial assets included in the "At fair value through other comprehensive income" class comprise financial assets "Classified as at fair value through other comprehensive income" and "Designated as at fair value through other comprehensive income". Therefore:
- Changes in fair value of financial assets included in this class, except for changes related to the allowance for expected credit losses and exchange gains and losses on financial assets "Classified as at fair value through other comprehensive income", are recorded in the Combined Statements of Comprehensive Income as net unrealized gains and losses. For financial assets "Classified as at fair value through other comprehensive income", gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets "Designated as at fair value through other comprehensive income", gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
  - Premiums and discounts on the purchase of financial assets "At fair value through other comprehensive income" are amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" in the Combined Statements of Income.
- (v) Financial assets "Classified as at fair value through other comprehensive income" include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- (vi) Financial assets "Designated as at fair value through other comprehensive income" include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis.

The Caisses held no financial instruments included in this measurement category at the reporting date.

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

Securities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the "Amortized cost" class is presented under "Interest income – Loans" in the Combined Statements of Income.

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

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

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

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

- (i) Financial liabilities included in the "At fair value through profit or loss" class comprise financial liabilities "Classified as at fair value through profit or loss" and "Designated as at fair value through profit or loss". Therefore:
- Changes in fair value of financial liabilities included in this class are recorded under "Net investment income (loss)" in the Combined Statements of Income.
  - Interest expense related to financial liabilities included in the "At fair value through profit or loss" class is presented under "Net investment income (loss)".
- (ii) Financial liabilities "Classified as at fair value through profit or loss" are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking. Derivative financial instruments are also classified as held for trading.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

The Caisses held no financial liabilities included in this class at the reporting date.

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

Financial liabilities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the "Amortized cost" class is recognized under "Interest expense" in the Combined Statements of Income.

### **Determination of the fair value of financial instruments**

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

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

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

### Loans

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

### Deposits and borrowings

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

### Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. This fair value is presented without taking into account the impact of legally enforceable master netting agreements. However, the Caisses adjust the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of the Caisses, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 16, "Derivative financial instruments", specifies the nature of derivative financial instruments held by the Caisses.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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", some items included in "Other assets – Other", "Commitments related to securities lent or sold under repurchase agreements", "Interest payable" and some items included in "Other liabilities – Other".

### **Transaction costs**

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

### **Offsetting of financial assets and liabilities**

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

### **Derecognition of financial assets and liabilities**

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but the Caisses have the obligation to pay them to a third party under certain conditions, or when the Caisses transfer 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 Caisses, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, the Caisses derecognize the financial asset over which they do not retain control and recognize 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 Caisses continue to recognize the asset in the Combined Balance Sheets to the extent of their continuing involvement in that asset.

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

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

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

### **b) Cash and deposits with financial institutions**

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

### **c) Securities**

#### **Securities sold under repurchase agreements and securities lent**

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

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

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



## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Loans

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

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

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

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

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

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

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

### e) Investment in the Federation

Each of the Caisses has significant influence on the Federation, even though they hold less than 20% of voting rights, as they have the ability to influence the financial and operating policy decisions of the Federation. However, the Caisses exercise a collective power over the Federation. The collectivity of the Caisses is founded on the existence and the role of the Federation given the powers that are granted to it by the Caisses and the legislative framework. As a result, the Caisses as a group maintain their significant influence over the Federation.

The Caisses hold securities in a number of investment funds issued by the Federation, which entitle them to the return from subsidiaries of the Federation, as well as securities in the General Fund. The Caisses elected to account for this investment using the equity method. Under this method, the investment is initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in the Federation's equity. Income from this investment is presented in the Combined Statements of Income under "Net income on the investment in the Federation".

### f) Investment in the *Fonds de sécurité Desjardins*

Although the Caisses hold no equity securities in the *Fonds de sécurité Desjardins*, they collectively control it as a result of their exposure to the variable returns of the *Fonds de sécurité Desjardins* and their ability to exercise control to affect the amount of their returns. The *Fonds de sécurité Desjardins* is a subsidiary of the Caisses, and the Caisses elected to account for that subsidiary using the equity method. Income from this subsidiary is presented in the Combined Statements of Income under "Net income on the investment in the *Fonds de sécurité Desjardins*".

### g) Impairment of financial instruments

At each reporting date, the Caisses recognize an allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees. This allowance is estimated based on an impairment model that comprises three stages:

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

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

### Determination of significant increases in credit risk

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

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

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

### Definition of default and credit-impaired financial asset

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

### Measurement of the allowance for expected credit losses

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

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

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

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

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

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

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

### **Expected life**

The expected life of most financial instruments is equal to the maximum contractual term during which the Caisses are 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. Their life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

### **Recognition of the allowance for expected credit losses**

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

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

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

### **Foreclosed assets**

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

### **Loan write-off**

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

## **h) Leases**

The Caisses analyze contracts newly entered into or modified to assess whether they are, or contain, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Caisses are mainly party to operating leases as lessees.

### **Lessee**

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

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

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

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

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

### i) Property, plant and equipment

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

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

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

#### Depreciation

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

	Depreciation periods
Land	Non-depreciable
Buildings	15 to 60 years
Equipment, furniture and other	3 to 10 years
Leasehold improvements	Expected term of the lease

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

#### Derecognition

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

### j) Impairment of non-financial assets

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

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

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

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **k) Deposits and borrowings**

Deposits and borrowings are financial liabilities classified in the "Financial liabilities at amortized cost" category. Interest expense calculated using the effective interest rate is recognized in profit or loss for the year under "Interest expense – Deposits" and "Interest expense – Borrowings".

### **l) Provisions and contingent liabilities**

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

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

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

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Caisses 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.

### **m) Derivative financial instruments**

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of the Caisses' derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, interest rate swaps as well as interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 16, "Derivative financial instruments".

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value in the Combined Balance Sheets.

### **Hybrid financial instruments**

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

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

### **Objectives of holding derivatives**

The Caisses use derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow the Caisses to generate income on their own trading activities. These instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under "Net investment income (loss)" in the Combined Statements of Income.

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

The Caisses elected not to apply hedge accounting for these derivative financial instruments, given the complexity of documentation requirements.

### **n) Financial guarantees**

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

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

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

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

### **o) Distributable surplus earnings**

Distribution comes under the jurisdiction of the general meeting of each caisse. However, according to the normative framework of the Federation, distributable surplus earnings must be applied first for the purpose of ensuring the payment of interest on permanent shares, as well as for the purpose of establishing or maintaining the required level of capitalization through transfers to the stabilization reserve and the general reserve.

### **p) Reserves**

Reserves are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The appreciation reserve consists of the following three components:

- The "Appreciation reserve – Investments in the Federation's investments funds" is comprised of uncollected income generated by shares of the Federation's subsidiaries accounted for using the equity method.
- The "Appreciation reserve – Derivative financial instruments" comprises gains and losses resulting from the change in net fair value of derivative financial instruments.
- The "Appreciation reserve – Employee benefit plans" includes the Caisses' share of the actuarial deficit of the common pension and group insurance plans.

The general reserve is made up of amounts appropriated by the Caisses, according to the conditions stipulated in the normative framework. This reserve can only be used to eliminate a deficit and, when surplus earnings and the stabilization reserve are not sufficient, to pay interest on permanent shares and surplus shares.

The stabilization reserve consists of amounts appropriated by the Caisses. Amounts appropriated to this reserve are essentially used to pay interest on permanent shares.

The reserve for future member dividends is made up of amounts appropriated by the Caisses. Amounts appropriated to this reserve are used to pay member dividends and to appropriate amounts to the Community Development Fund.

The Community Development Fund is a reserve that includes the amounts allocated by the general meeting of each caisse. The amounts recorded in these accounts are to be used to assist in community development, according to the conditions stipulated in the Caisses' normative framework.

### **q) Revenue recognition**

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

#### **Recognition criteria**

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

#### **Net interest income**

Interest income is recognized using the effective interest method for all financial instruments measured at "Amortized cost", for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

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

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



## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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

### Other income

The Caisses earn revenue from deposit and payment service charges and distribution of Desjardins products and services.

Revenue from deposit and payment service charges consists mainly of service charges and charges related to payment orders issued without sufficient funds. This revenue is recognized when the transaction is carried out based on the agreement in effect with the member.

Revenue from the distribution of Desjardins products and services comprises fees for the financial activities carried by the Federation's subsidiaries through the Caisses. This revenue is recognized when the service is rendered, based on the agreements in effect with the various subsidiaries of the Federation.

### r) Foreign currency translation

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

### s) Income taxes on surplus earnings

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

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

### Current income taxes

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

### Deferred income taxes

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

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

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

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

- i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss).
- ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the difference will reverse in the foreseeable future and that a taxable profit will be available against which the difference can be utilized.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

### t) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends take into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Integrated Financial Plan, which provides for member dividends based on Desjardins Group's financial capacity and capitalization. The difference between the amount of member dividends actually paid following the general meetings held by the Caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

The member dividends calculation is based on the average balances maintained in the following product families: Accounts, Loans and Lines of Credit, Savings and Investment and Funds. For credit card volumes, member dividends are calculated based on net purchases for the relevant year. For the insurance product family, member dividends are calculated based on the premium paid for the relevant year. Member dividends are recognized under "Member dividends" in the Combined Statements of Income.

### u) Employee benefits

#### Short-term benefits

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

#### Post-employment benefits

##### Pension and post-retirement benefit plans

The Caisses offer to a majority of their employees a defined benefit pension plan and a defined benefit supplemental pension plan. They also offer a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

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

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

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

Net pension plan and other post-retirement benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

The Caisses participate in defined benefit group plans whose risks are shared by entities under common control. The Caisses' share in the cost recognized and the liability of 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 determined based on the financial position and funding policy of the plan. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

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

## FUTURE ACCOUNTING CHANGES

As at December 31, 2021, there were no accounting standards issued by the IASB but not yet effective as at such date that would have an impact on the Caisses.



## NOTE 3 - CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

### CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

As at December 31, 2021	Classified as at fair value through profit or loss	Classified as at fair value through other comprehensive income <sup>(1)</sup>	Amortized cost <sup>(1)</sup>	Total
<b>Financial assets</b>				
Cash and deposits with financial institutions	\$ —	\$ —	\$ 8,239	\$ 8,239
Securities	1	10,813	9,677	20,491
Securities borrowed or purchased under reverse repurchase agreements	—	—	143	143
Loans	—	—	185,151	185,151
Other financial assets				
Derivative financial instruments	5,004	—	—	5,004
Other	—	—	724	724
<b>Total financial assets</b>	<b>\$ 5,005</b>	<b>\$ 10,813</b>	<b>\$ 203,934</b>	<b>\$ 219,752</b>
<b>Financial liabilities</b>				
Deposits	\$ —	\$ —	\$ 174,604	\$ 174,604
Other financial liabilities				
Commitments related to securities lent or sold under repurchase agreements	—	—	3,829	3,829
Derivative financial instruments	4,646	—	—	4,646
Interest payable	—	—	549	549
Other	—	—	533	533
Borrowings	—	—	22,373	22,373
<b>Total financial liabilities</b>	<b>\$ 4,646</b>	<b>\$ —</b>	<b>\$ 201,888</b>	<b>\$ 206,534</b>

<sup>(1)</sup> As at December 31, 2021, the allowance on securities at "Amortized cost" was insignificant and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totaled \$1 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

As at December 31, 2020	Classified as at fair value through profit or loss	Classified as at fair value through other comprehensive income <sup>(1)</sup>	Amortized cost <sup>(1)</sup>	Total
<b>Financial assets</b>				
Cash and deposits with financial institutions	\$ —	\$ —	\$ 6,637	\$ 6,637
Securities	1	10,689	8,540	19,230
Loans	—	—	168,708	168,708
Other financial assets				
Derivative financial instruments	4,328	—	—	4,328
Other	—	—	760	760
<b>Total financial assets</b>	<b>\$ 4,329</b>	<b>\$ 10,689</b>	<b>\$ 184,645</b>	<b>\$ 199,663</b>
<b>Financial liabilities</b>				
Deposits	\$ —	\$ —	\$ 161,990	\$ 161,990
Other financial liabilities				
Commitments related to securities lent or sold under repurchase agreements	—	—	1,933	1,933
Derivative financial instruments	3,609	—	—	3,609
Interest payable	—	—	614	614
Other	—	—	453	453
Borrowings	—	—	18,414	18,414
<b>Total financial liabilities</b>	<b>\$ 3,609</b>	<b>\$ —</b>	<b>\$ 183,404</b>	<b>\$ 187,013</b>

<sup>(1)</sup> As at December 31, 2020, the allowance on securities at "Amortized cost" was insignificant and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totaled \$1 million. Detailed information on the allowance for credit losses on loans is presented in Note 7, "Loans and allowance for credit losses".

During the years ended December 31, 2021 and 2020, there were no material reclassifications of financial instruments.

## NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS

### FAIR VALUE HIERARCHY

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

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

### Transfers between levels

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

### HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Securities				
Other securities	\$ 1	\$ —	\$ —	\$ 1
Other issuers	1	—	—	1
Derivative financial instruments				
Interest rate contracts	—	990	—	990
Foreign exchange contracts	—	37	—	37
Other contracts	—	3,977	—	3,977
	—	5,004	—	5,004
<b>Total financial assets at fair value through profit or loss</b>	<b>1</b>	<b>5,004</b>	<b>—</b>	<b>5,005</b>
<b>Financial assets at fair value through other comprehensive income</b>				
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	3,628	2,215	—	5,843
Provincial governmental entities and municipal corporations in Canada	3,131	1,137	—	4,268
Other securities				
Financial institutions	—	702	—	702
<b>Total financial assets at fair value through other comprehensive income</b>	<b>6,759</b>	<b>4,054</b>	<b>—</b>	<b>10,813</b>
<b>Total financial assets</b>	<b>\$ 6,760</b>	<b>\$ 9,058</b>	<b>\$ —</b>	<b>\$ 15,818</b>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Other liabilities				
Derivative financial instruments				
Interest rate contracts	\$ —	\$ 641	\$ —	\$ 641
Foreign exchange contracts	—	37	—	37
Other contracts	—	3,968	—	3,968
<b>Total financial liabilities</b>	<b>\$ —</b>	<b>\$ 4,646</b>	<b>\$ —</b>	<b>\$ 4,646</b>

## NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

As at December 31, 2020	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Securities				
Other securities				
Other issuers	\$ 1	\$ —	\$ —	\$ 1
	1	—	—	1
Derivative financial instruments				
Interest rate contracts	—	1,761	—	1,761
Foreign exchange contracts	—	49	—	49
Other contracts	—	2,518	—	2,518
	—	4,328	—	4,328
<b>Total financial assets at fair value through profit or loss</b>	1	4,328	—	4,329
<b>Financial assets at fair value through other comprehensive income</b>				
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	4,826	1,215	—	6,041
Provincial governmental entities and municipal corporations in Canada	3,216	924	—	4,140
Other securities				
Financial institutions	—	475	—	475
Other issuers	—	33	—	33
<b>Total financial assets at fair value through other comprehensive income</b>	8,042	2,647	—	10,689
<b>Total financial assets</b>	\$ 8,043	\$ 6,975	\$ —	\$ 15,018
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Other liabilities				
Derivative financial instruments				
Interest rate contracts	\$ —	\$ 1,066	\$ —	\$ 1,066
Foreign exchange contracts	—	49	—	49
Other contracts	—	2,494	—	2,494
<b>Total financial liabilities</b>	\$ —	\$ 3,609	\$ —	\$ 3,609

During the years ended December 31, 2021 and 2020, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for financial instruments measured at fair value.

### HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

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

As at December 31, 2021	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	\$ 9,677	\$ 9,659	\$ —	\$ 9,659	\$ —
Loans	185,151	184,223	—	—	184,223
<b>Financial liabilities</b>					
Deposits	174,604	175,559	—	175,559	—
Borrowings	22,373	22,433	—	22,433	—

  

As at December 31, 2020	Carrying amount	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Securities	\$ 8,540	\$ 8,635	\$ —	\$ 8,635	\$ —
Loans	168,708	170,805	—	—	170,805
<b>Financial liabilities</b>					
Deposits	161,990	164,231	—	164,231	—
Borrowings	18,414	18,553	—	18,553	—

## NOTE 5 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

Over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy.

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

	Associated amounts not set off in the Combined Balance Sheets <sup>(1)</sup>					
	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets <sup>(2)</sup>	Financial instruments <sup>(3)</sup>	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2021						
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	\$ 143	\$ —	\$ 143	\$ 143	\$ —	\$ —
Derivative financial instruments	1,023	—	1,023	656	—	367
Total financial assets	\$ 1,166	\$ —	\$ 1,166	\$ 799	\$ —	\$ 367
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	\$ 3,829	\$ —	\$ 3,829	\$ 143	\$ 3,684	\$ 2
Derivative financial instruments	672	—	672	656	—	16
Total financial liabilities	\$ 4,501	\$ —	\$ 4,501	\$ 799	\$ 3,684	\$ 18

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

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

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

			Associated amounts not set off in the Combined Balance Sheets			
			Net amounts presented in the Combined Balance Sheets <sup>(1)</sup>	Financial instruments <sup>(2)</sup>	Financial collateral held / pledged	Residual amounts not set off
As at December 31, 2020						
Financial assets						
Derivative financial instruments	\$ 1,803	\$ —	\$ 1,803	\$ 1,074	\$ —	\$ 729
Total financial assets	\$ 1,803	\$ —	\$ 1,803	\$ 1,074	\$ —	\$ 729
Financial liabilities						
Derivative financial instruments	\$ 1,074	\$ —	\$ 1,074	\$ 1,074	\$ —	\$ —
Total financial liabilities	\$ 1,074	\$ —	\$ 1,074	\$ 1,074	\$ —	\$ —

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

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

## NOTE 6 - SECURITIES

### MATURITIES OF SECURITIES

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

	Terms to maturity						Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	
<b>As at December 31, 2021</b>							
<b>Financial assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Securities							
Other securities							
Other issuers	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1
<b>Total financial assets at fair value through profit or loss</b>	—	—	—	—	—	1	1
<b>Financial assets at fair value through other comprehensive income</b>							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	218	2,495	3,037	93	—	—	5,843
Provincial governmental entities and municipal corporations in Canada	267	1,956	2,045	—	—	—	4,268
Other securities							
Financial institutions	243	379	80	—	—	—	702
<b>Total financial assets at fair value through other comprehensive income</b>	728	4,830	5,162	93	—	—	10,813
<b>Financial assets at amortized cost</b>							
Securities							
Other securities							
Financial institutions	3,926	3,827	1,920	4	—	—	9,677
<b>Total financial assets at amortized cost</b>	3,926	3,827	1,920	4	—	—	9,677
<b>Total securities</b>	\$ 4,654	\$ 8,657	\$ 7,082	\$ 97	\$ —	\$ 1	\$ 20,491

	Terms to maturity						Total
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years	No specific maturity	
<b>As at December 31, 2020</b>							
<b>Financial assets</b>							
<b>Financial assets at fair value through profit or loss</b>							
Securities							
Other securities							
Other issuers	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ 1
<b>Total financial assets at fair value through profit or loss</b>	—	—	—	—	—	1	1
<b>Financial assets at fair value through other comprehensive income</b>							
Securities							
Debt securities issued or guaranteed by:							
Canadian governmental entities	420	3,123	2,446	52	—	—	6,041
Provincial governmental entities and municipal corporations in Canada	147	1,951	2,027	15	—	—	4,140
Other securities							
Financial institutions	234	207	34	—	—	—	475
Other issuers	33	—	—	—	—	—	33
<b>Total financial assets at fair value through other comprehensive income</b>	834	5,281	4,507	67	—	—	10,689
<b>Financial assets at amortized cost</b>							
Securities							
Other securities							
Financial institutions	4,781	2,496	1,246	17	—	—	8,540
<b>Total financial assets at amortized cost</b>	4,781	2,496	1,246	17	—	—	8,540
<b>Total securities</b>	\$ 5,615	\$ 7,777	\$ 5,753	\$ 84	\$ —	\$ 1	\$ 19,230

## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which the Caisses estimate a allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. Since December 31, 2021, credit quality has been reported based on the risk levels defined in Note 24, "Financial instrument risk management". Comparative figures have been adjusted to conform with the presentation for the current year. For more information on credit quality according to risk levels, see the tables presented in the "Credit risk" section of Note 24, "Financial instrument risk management".

#### Loans

As at December 31, 2021	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3 <sup>(1)</sup>	
<b>Residential mortgages</b>				
Excellent	\$ 47,464	\$ 26	\$ —	\$ 47,490
Very low	62,462	2,266	—	64,728
Low	16,079	8,292	—	24,371
Moderate	984	2,128	—	3,112
High	1	615	—	616
Default	—	122	197	319
<b>Total gross residential mortgages</b>	<b>\$ 126,990</b>	<b>\$ 13,449</b>	<b>\$ 197</b>	<b>\$ 140,636</b>
Allowance for credit losses	(61)	(65)	(15)	(141)
<b>Total net residential mortgages</b>	<b>\$ 126,929</b>	<b>\$ 13,384</b>	<b>\$ 182</b>	<b>\$ 140,495</b>
<b>Consumer and other personal loans</b>				
Excellent	\$ 2,991	\$ —	\$ —	\$ 2,991
Very low	1,375	—	—	1,375
Low	990	120	—	1,110
Moderate	61	159	—	220
High	—	131	—	131
Default	—	69	14	83
<b>Total gross consumer and other personal loans</b>	<b>\$ 5,417</b>	<b>\$ 479</b>	<b>\$ 14</b>	<b>\$ 5,910</b>
Allowance for credit losses	(9)	(17)	(9)	(35)
<b>Total net consumer and other personal loans</b>	<b>\$ 5,408</b>	<b>\$ 462</b>	<b>\$ 5</b>	<b>\$ 5,875</b>
<b>Business and government loans</b>				
Acceptable risk:				
Investment grade	\$ 11,211	\$ 483	\$ —	\$ 11,694
Other than investment grade	19,902	3,795	—	23,697
Under watch	1,147	1,851	—	2,998
Default	—	81	541	622
<b>Total gross business and government loans</b>	<b>\$ 32,260</b>	<b>\$ 6,210</b>	<b>\$ 541</b>	<b>\$ 39,011</b>
Allowance for credit losses	(68)	(58)	(104)	(230)
<b>Total net business and government loans</b>	<b>\$ 32,192</b>	<b>\$ 6,152</b>	<b>\$ 437</b>	<b>\$ 38,781</b>
<b>Total gross loans</b>	<b>\$ 164,667</b>	<b>\$ 20,138</b>	<b>\$ 752</b>	<b>\$ 185,557</b>
Allowance for credit losses	(138)	(140)	(128)	(406)
<b>Total net loans</b>	<b>\$ 164,529</b>	<b>\$ 19,998</b>	<b>\$ 624</b>	<b>\$ 185,151</b>

<sup>(1)</sup> As at December 31, 2021, 99.3% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit risk mitigation" section of Note 24, "Financial instrument risk management".

## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

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

#### Loans (continued)

As at December 31, 2020	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3 <sup>(1)</sup>	
<b>Residential mortgages</b>				
Excellent	\$ 43,125	\$ —	\$ —	\$ 43,125
Very low	35,003	1,266	—	36,269
Low	27,395	15,697	—	43,092
Moderate	919	2,601	—	3,520
High	2	760	—	762
Default	—	188	355	543
<b>Total gross residential mortgages</b>	<b>\$ 106,444</b>	<b>\$ 20,512</b>	<b>\$ 355</b>	<b>\$ 127,311</b>
Allowance for credit losses	(54)	(91)	(24)	(169)
<b>Total net residential mortgages</b>	<b>\$ 106,390</b>	<b>\$ 20,421</b>	<b>\$ 331</b>	<b>\$ 127,142</b>
<b>Consumer and other personal loans</b>				
Excellent	\$ 2,123	\$ —	\$ —	\$ 2,123
Very low	2,368	—	—	2,368
Low	979	167	—	1,146
Moderate	58	185	—	243
High	—	135	—	135
Default	—	59	24	83
<b>Total gross consumer and other personal loans</b>	<b>\$ 5,528</b>	<b>\$ 546</b>	<b>\$ 24</b>	<b>\$ 6,098</b>
Allowance for credit losses	(10)	(20)	(18)	(48)
<b>Total net consumer and other personal loans</b>	<b>\$ 5,518</b>	<b>\$ 526</b>	<b>\$ 6</b>	<b>\$ 6,050</b>
<b>Business and government loans</b>				
Acceptable risk:				
Investment grade	\$ 9,319	\$ 717	\$ —	\$ 10,036
Other than investment grade	15,404	6,628	—	22,032
Under watch	1,016	2,033	—	3,049
Default	—	126	506	632
<b>Total gross business and government loans</b>	<b>\$ 25,739</b>	<b>\$ 9,504</b>	<b>\$ 506</b>	<b>\$ 35,749</b>
Allowance for credit losses	(45)	(84)	(104)	(233)
<b>Total net business and government loans</b>	<b>\$ 25,694</b>	<b>\$ 9,420</b>	<b>\$ 402</b>	<b>\$ 35,516</b>
<b>Total gross loans</b>	<b>\$ 137,711</b>	<b>\$ 30,562</b>	<b>\$ 885</b>	<b>\$ 169,158</b>
Allowance for credit losses	(109)	(195)	(146)	(450)
<b>Total net loans</b>	<b>\$ 137,602</b>	<b>\$ 30,367</b>	<b>\$ 739</b>	<b>\$ 168,708</b>

<sup>(1)</sup> As at December 31, 2020, 99.2% of credit-impaired loans were fully or partially secured, generally by immovable, movable or other security. Additional information on collateral held as security and other credit enhancements is presented in the "Credit risk mitigation" section of Note 24, "Financial instrument risk management".

## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

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

#### Off-balance sheet items<sup>(1)</sup>

As at December 31, 2021	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Residential mortgages, consumer and other personal loans</b>				
Excellent	\$ 21,592	\$ —	\$ —	\$ 21,592
Very low	12,333	26	—	12,359
Low	1,662	1,087	—	2,749
Moderate	96	253	—	349
High	—	56	—	56
Default	—	2	25	27
<b>Total</b>	<b>\$ 35,683</b>	<b>\$ 1,424</b>	<b>\$ 25</b>	<b>\$ 37,132</b>
Allowance for credit losses	(7)	(7)	—	(14)
<b>Total, net of allowance for credit losses</b>	<b>\$ 35,676</b>	<b>\$ 1,417</b>	<b>\$ 25</b>	<b>\$ 37,118</b>
<b>Business and government</b>				
Acceptable risk:				
Investment grade	\$ 11,149	\$ 116	\$ —	\$ 11,265
Other than investment grade	4,164	1,546	—	5,710
Under watch	126	338	—	464
Default	—	4	105	109
<b>Total</b>	<b>\$ 15,439</b>	<b>\$ 2,004</b>	<b>\$ 105</b>	<b>\$ 17,548</b>
Allowance for credit losses	—	(1)	—	(1)
<b>Total, net of allowance for credit losses</b>	<b>\$ 15,439</b>	<b>\$ 2,003</b>	<b>\$ 105</b>	<b>\$ 17,547</b>
<b>Total off-balance sheet items</b>	<b>\$ 51,122</b>	<b>\$ 3,428</b>	<b>\$ 130</b>	<b>\$ 54,680</b>
Allowance for credit losses	(7)	(8)	—	(15)
<b>Total off-balance sheet items, net of allowance for credit losses</b>	<b>\$ 51,115</b>	<b>\$ 3,420</b>	<b>\$ 130</b>	<b>\$ 54,665</b>

<sup>(1)</sup> Loan commitments for which the Caisses estimate an allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which they estimate an allowance for expected credit losses comprise guarantees and standby letters of credit.

As at December 31, 2020	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
<b>Residential mortgages, consumer and other personal loans</b>				
Excellent	\$ 19,335	\$ —	\$ —	\$ 19,335
Very low	7,765	9	—	7,774
Low	4,400	1,111	—	5,511
Moderate	105	284	—	389
High	—	59	—	59
Default	—	—	41	41
<b>Total</b>	<b>\$ 31,605</b>	<b>\$ 1,463</b>	<b>\$ 41</b>	<b>\$ 33,109</b>
Allowance for credit losses	(7)	(9)	—	(16)
<b>Total, net of allowance for credit losses</b>	<b>\$ 31,598</b>	<b>\$ 1,454</b>	<b>\$ 41</b>	<b>\$ 33,093</b>
<b>Business and government</b>				
Acceptable risk:				
Investment grade	\$ 10,055	\$ 254	\$ —	\$ 10,309
Other than investment grade	3,239	2,826	—	6,065
Under watch	137	448	—	585
Default	—	10	143	153
<b>Total</b>	<b>\$ 13,431</b>	<b>\$ 3,538</b>	<b>\$ 143</b>	<b>\$ 17,112</b>
Allowance for credit losses	—	(1)	—	(1)
<b>Total, net of allowance for credit losses</b>	<b>\$ 13,431</b>	<b>\$ 3,537</b>	<b>\$ 143</b>	<b>\$ 17,111</b>
<b>Total off-balance sheet items</b>	<b>\$ 45,036</b>	<b>\$ 5,001</b>	<b>\$ 184</b>	<b>\$ 50,221</b>
Allowance for credit losses	(7)	(10)	—	(17)
<b>Total off-balance sheet items, net of allowance for credit losses</b>	<b>\$ 45,029</b>	<b>\$ 4,991</b>	<b>\$ 184</b>	<b>\$ 50,204</b>

<sup>(1)</sup> Loan commitments for which the Caisses estimate an allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which they estimate an allowance for expected credit losses comprise guarantees and standby letters of credit.



## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

### ALLOWANCE FOR CREDIT LOSSES

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

For the year ended December 31, 2021	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
<b>Residential mortgages</b>				
<b>Balance at beginning of year</b>	\$ 56	\$ 94	\$ 24	\$ 174
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	65	(61)	(4)	—
Stage 2	(13)	24	(11)	—
Stage 3	—	(3)	3	—
Net remeasurement due to transfers <sup>(2)</sup>	(18)	23	12	17
Changes in risks, parameters and models <sup>(3)</sup>	(69)	(2)	12	(59)
New originations or acquisitions <sup>(4)</sup>	52	20	—	72
Derecognition and maturities <sup>(5)</sup>	(12)	(24)	(10)	(46)
Net drawdowns (repayments) <sup>(6)</sup>	2	(3)	1	—
Other	—	—	2	2
	7	(26)	5	(14)
Write-offs and recoveries	—	—	(14)	(14)
<b>Balance at end of year</b>	\$ 63	\$ 68	\$ 15	\$ 146
<b>Consumer and other personal loans</b>				
<b>Balance at beginning of year</b>	\$ 15	\$ 26	\$ 18	\$ 59
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	25	(22)	(3)	—
Stage 2	(3)	9	(6)	—
Stage 3	—	(2)	2	—
Net remeasurement due to transfers <sup>(2)</sup>	(9)	8	15	14
Changes in risks, parameters and models <sup>(3)</sup>	(16)	7	18	9
New originations or acquisitions <sup>(4)</sup>	3	2	—	5
Derecognition and maturities <sup>(5)</sup>	(2)	(6)	(16)	(24)
Net drawdowns (repayments) <sup>(6)</sup>	1	(1)	(1)	(1)
	(1)	(5)	9	3
Write-offs and recoveries	—	—	(18)	(18)
<b>Balance at end of year</b>	\$ 14	\$ 21	\$ 9	\$ 44
<b>Business and government</b>				
<b>Balance at beginning of year</b>	\$ 45	\$ 85	\$ 104	\$ 234
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	39	(37)	(2)	—
Stage 2	(13)	25	(12)	—
Stage 3	—	(8)	8	—
Net remeasurement due to transfers <sup>(2)</sup>	(3)	7	34	38
Changes in risks, parameters and models <sup>(3)</sup>	(65)	(21)	43	(43)
New originations or acquisitions <sup>(4)</sup>	67	25	—	92
Derecognition and maturities <sup>(5)</sup>	(13)	(19)	(45)	(77)
Net drawdowns (repayments) <sup>(6)</sup>	11	2	7	20
	23	(26)	33	30
Write-offs and recoveries	—	—	(33)	(33)
<b>Balance at end of year</b>	\$ 68	\$ 59	\$ 104	\$ 231
<b>Total balances at end of year</b>	\$ 145	\$ 148	\$ 128	\$ 421
<b>Composed of</b>				
Loans	\$ 138	\$ 140	\$ 128	\$ 406
Off-balance sheet items <sup>(7)</sup>	7	8	—	15

<sup>(1)</sup> Represent transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.

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

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

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

<sup>(7)</sup> The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

### ALLOWANCE FOR CREDIT LOSSES (continued)

	Non-credit impaired		Credit-impaired	Allowance for
	Stage 1	Stage 2	Stage 3	credit losses
For the year ended December 31, 2020				
<b>Residential mortgages</b>				
<b>Balance at the beginning of year</b>	\$ 22	\$ 25	\$ 18	\$ 65
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	50	(49)	(1)	—
Stage 2	(23)	32	(9)	—
Stage 3	—	(5)	5	—
Net remeasurement due to transfers <sup>(2)</sup>	(17)	26	18	27
Changes in risks, parameters and models <sup>(3)</sup>	(8)	70	14	76
New originations or acquisitions <sup>(4)</sup>	36	18	—	54
Derecognition and maturities <sup>(5)</sup>	(6)	(17)	(8)	(31)
Net drawdowns (repayments) <sup>(6)</sup>	2	(6)	1	(3)
	34	69	20	123
Write-offs and recoveries	—	—	(14)	(14)
<b>Balance at end of year</b>	\$ 56	\$ 94	\$ 24	\$ 174
<b>Consumer and other personal loans</b>				
<b>Balance at the beginning of year</b>	\$ 11	\$ 14	\$ 13	\$ 38
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	26	(25)	(1)	—
Stage 2	(5)	10	(5)	—
Stage 3	—	(3)	3	—
Net remeasurement due to transfers <sup>(2)</sup>	(10)	12	21	23
Changes in risks, parameters and models <sup>(3)</sup>	(9)	22	28	41
New originations or acquisitions <sup>(4)</sup>	4	3	—	7
Derecognition and maturities <sup>(5)</sup>	(2)	(6)	(16)	(24)
Net drawdowns (repayments) <sup>(6)</sup>	—	(1)	—	(1)
	4	12	30	46
Write-offs and recoveries	—	—	(25)	(25)
<b>Balance at end of year</b>	\$ 15	\$ 26	\$ 18	\$ 59
<b>Business and government</b>				
<b>Balance at the beginning of year</b>	\$ 17	\$ 17	\$ 84	\$ 118
<i>Provision for credit losses</i>				
Transfers to <sup>(1)</sup> :				
Stage 1	27	(26)	(1)	—
Stage 2	(26)	40	(14)	—
Stage 3	(1)	(5)	6	—
Net remeasurement due to transfers <sup>(2)</sup>	(6)	9	37	40
Changes in risks, parameters and models <sup>(3)</sup>	(13)	43	52	82
New originations or acquisitions <sup>(4)</sup>	43	20	—	63
Derecognition and maturities <sup>(5)</sup>	(5)	(13)	(28)	(46)
Net drawdowns (repayments) <sup>(6)</sup>	9	—	11	20
Other	—	—	(4)	(4)
	28	68	59	155
Write-offs and recoveries	—	—	(39)	(39)
<b>Balance at end of year</b>	\$ 45	\$ 85	\$ 104	\$ 234
<b>Total balances at end of year</b>	\$ 116	\$ 205	\$ 146	\$ 467
<b>Composed of</b>				
Loans	\$ 109	\$ 195	\$ 146	\$ 450
Off-balance sheet items <sup>(7)</sup>	7	10	—	17

<sup>(1)</sup> Represent transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.

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

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

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

<sup>(7)</sup> The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

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

### KEY DATA AND ASSUMPTIONS

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

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

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

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

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to its estimated PD. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see Note 24, "Financial instrument risk management". Changes in the borrowers' credit risk rating have an impact on determining significant increases in credit risk, as this is mainly based on the change in the borrower's PD, and measuring the allowance for expected credit losses.

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

#### Determination of significant increases in credit risk

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

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

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.

#### Incorporation of forward-looking information

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

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

The major uncertainty resulting from the COVID-19 pandemic continue to make 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. Therefore, it requires management to make significant judgments to revise the assumptions concerning forward-looking information. Considering the atypical nature of the current economic crisis, management continues to apply expert credit judgment in measuring the allowance for expected credit losses. This expert judgment is applied with respect to the degree of correlation between input data related to forward-looking indicators and expected credit losses to consider the impact of this unprecedented situation. It also continues to be applied to consider the impact of government support measures, which are at an unprecedented level and have been continuously evolving since the outset of the pandemic.

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

### KEY DATA AND ASSUMPTIONS (*continued*)

#### Incorporation of forward-looking information (*continued*)

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

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

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

<sup>(2)</sup> Macroeconomic variables related to the Canadian economy.

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

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

<sup>(2)</sup> Macroeconomic variables related to the Canadian economy.

As at December 31, 2021, the COVID-19 pandemic continued to give rise to much uncertainty, in particular with respect to the progression of the Omicron variant and the loss of efficacy of vaccines. To this is added the uncertainty surrounding supply chains and the hike in inflation. The year-end situation led to a downward revision in the economic forecast for the beginning of 2022.

After an exceptional year when real GDP growth in Québec exceeded 6%, the base scenario forecasts that economic growth will be less than 3% for 2022. The pace would then converge to a level close to potential GDP growth, which is approximately 1.5% per year. The unemployment rate, which is already under 5% in Québec, should rise temporarily due to health measures. As a result of demographic changes, the unemployment rate should stand below 4.5% over the next few years, causing many businesses to continue to feel the impact of labour scarcity. Under this scenario, inflation should reach a peak at the beginning of 2022 and ease back towards the 2% target by the end of 2022 or the beginning of 2023 if most constraints affecting supply subside. This scenario also forecasts an increase in key interest rates that should help reducing inflation pressures and have a moderating impact on the housing market, even reducing slightly house prices.

In the downside scenario, real GDP would decrease further in the first quarter of 2022, with unemployment rising even more. There would be a rebound in spring 2022, but it would be less robust than in the base scenario. In addition, supply problems might last longer, which would keep inflation in 2022 at a level that is almost as high as in the base scenario. Interest rates hikes would still be announced, but they would have a more significant negative impact on the economy, especially in 2023, when a new recession could possibly occur. The downside scenario assumes also a more significant correction in house prices of approximately 25%.

## NOTE 7 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (continued)

### KEY DATA AND ASSUMPTIONS (continued)

#### Incorporation of forward-looking information (continued)

The upside scenario essentially assumes a swifter economic recovery than in the base scenario. This recovery would be supported by a quicker withdrawal of health restrictions and a faster resolution of supply problems. The unemployment rate could drop to close to 3% over the next few years under this scenario. Inflationary pressures would still be significant, but they would result this time from strong demand and not from supply constraints. More key interest rate increases are assumed under this scenario, which would eventually limit growth in house prices after a robust 2022.

The development of the economic outlook after December 31, 2021 will be considered in estimating the allowance for expected credit losses in future periods.

#### Estimated life of revolving credit facilities

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

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

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

#### Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2021	As at December 31, 2020
Under IFRS 9	\$ 293	\$ 321
<b>Weighting of 100% assigned to the scenario</b>		
Base	\$ 214	\$ 243
Upside	188	216
Downside	569	581

#### Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at December 31, 2021	As at December 31, 2020
Under IFRS 9	\$ 293	\$ 321
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	\$ 256	\$ 283

## NOTE 8 - DERECOGNITION OF FINANCIAL ASSETS

### FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

#### Financial assets transferred for securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program. Under this program, the Caisses transfer to the Federation interests in securitized mortgage loans insured by Canada Mortgage and Housing Corporation (CMHC).

However, in these transactions, the Caisses retain substantially all the risks, in particular prepayment and interest rate risks. These loans therefore continue to be recognized on the Caisses' balance sheets.

#### Financial assets transferred for the covered bond programs

The Caisses transfer residential mortgage loans to the Federation as part of covered bond issuance programs. The mortgage loans are then legally transferred to consolidated structured entities by the Federation. However, as part of these transactions, the Caisses retain substantially all the risks, in particular prepayment and interest rate risks. Consequently, these loans continue to be recognized on the Caisses' balance sheets. Furthermore, the Caisses undertook to make their mortgage loans available to the Federation, to a maximum of the eligible loans for the covered bond programs.

#### Securities lent or sold under repurchase agreements

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

The following table presents the carrying amount and the fair value of financial assets transferred by the Caisses but not derecognized.

	As at December 31, 2021	As at December 31, 2020
<b>Financial assets transferred but not derecognized</b>		
Financial assets transferred for securitization	\$ 12,828	\$ 12,295
Financial assets transferred for the covered bond programs	12,687	11,623
Securities sold under repurchase agreements <sup>(1)</sup>	3,687	1,934
	<b>\$ 29,202</b>	<b>\$ 25,852</b>

<sup>(1)</sup> The fair value of securities sold under repurchase agreements was \$3,687 million (\$1,934 million in 2020). The carrying amount and fair value of the corresponding financial liabilities were \$3,686 million and \$3,686 million, respectively (\$1,933 million and \$1,933 million in 2020).

### FINANCIAL ASSETS TRANSFERRED AND DERECOGNIZED

#### Canada Emergency Business Account federal program

Desjardins Group participates in the Canada Emergency Business Account (CEBA) federal program, implemented in collaboration with Export Development Canada (EDC) in response to the COVID-19 pandemic. Under this program, the Caisses grant loans that are funded by the government. We have determined that these loans qualified for derecognition as all cash flows are remitted to EDC and, in addition, substantially all the risks and rewards of ownership of the loans have been transferred. The Caisses have a continued involvement with these derecognized loans as they service them. As at December 31, 2021, loans outstanding amounting to \$4.2 billion have been granted to the Caisses' members and clients under the CEBA program (\$3.5 billion as at December 31, 2020).

## NOTE 9 - LEASES

### LEASES – AS LESSEE

The carrying amount of right-of-use assets, for which the underlying assets are buildings, is \$285 million as at December 31, 2021 (\$301 million as at December 31, 2020).

During fiscal 2021, the Caisses entered into leases that increased right-of-use assets by \$101 million (\$76 million as at December 31, 2020).

The depreciation of right-of-use assets, for which the underlying assets are buildings, is \$31 million for the year ended December 31, (\$31 million as at December 31, 2020).

The following table presents amounts recognized in the Combined Statements of Income for the years ended December 31.

	2021	2020
Interest expense on lease liabilities	\$ 8	\$ 9
Short-term leases	13	12
Variable lease payments not included in the measurement of the lease liability	27	27

### LEASES – AS LESSOR

#### Operating leases

Lease income is presented in Note 10, "Property, plant and equipment", and includes mainly fixed lease payments.

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

	2021	2020
Under 1 year	\$ 4	\$ 5
1 to 2 years	3	3
Over 2 to 3 years	2	3
Over 3 to 4 years	1	2
Over 4 to 5 years	1	1
Over 5 years	2	1
<b>Total future lease payments</b>	<b>\$ 13</b>	<b>\$ 15</b>

## NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings	Furniture, fixtures and other	Leasehold improvements	Total
<b>Cost</b>					
As at December 31, 2019	\$ 68	\$ 764	\$ 498	\$ 272	\$ 1,602
Additions	—	25	13	23	61
Disposals	—	(10)	(17)	(8)	(35)
Other	—	(10)	—	—	(10)
As at December 31, 2020	\$ 68	\$ 769	\$ 494	\$ 287	\$ 1,618
Additions	—	25	11	13	49
Disposals	(1)	(12)	(63)	(30)	(106)
Other	(1)	(8)	—	—	(9)
<b>As at December 31, 2021</b>	<b>\$ 66</b>	<b>\$ 774</b>	<b>\$ 442</b>	<b>\$ 270</b>	<b>\$ 1,552</b>

	Land	Buildings	Furniture, fixtures and other	Leasehold improvements	Total
<b>Accumulated depreciation</b>					
As at December 31, 2019	\$ —	\$ 435	\$ 394	\$ 170	\$ 999
Depreciation	—	23	23	17	63
Disposals	—	(9)	(17)	(7)	(33)
Other	—	(19)	—	—	(19)
As at December 31, 2020	\$ —	\$ 430	\$ 400	\$ 180	\$ 1,010
Depreciation	—	22	20	16	58
Disposals	—	(11)	(60)	(22)	(93)
Other	—	(6)	—	—	(6)
<b>As at December 31, 2021</b>	<b>\$ —</b>	<b>\$ 435</b>	<b>\$ 360</b>	<b>\$ 174</b>	<b>\$ 969</b>

	Land	Buildings	Furniture, fixtures and other	Leasehold improvements	Total
<b>Net carrying amount</b>					
<b>As at December 31, 2021</b>	<b>\$ 66</b>	<b>\$ 339</b>	<b>\$ 82</b>	<b>\$ 96</b>	<b>\$ 583</b>
As at December 31, 2020	\$ 68	\$ 339	\$ 94	\$ 107	\$ 608

As at December 31, 2021, an amount of \$10 million (\$15 million as at December 31, 2020) included in the buildings balance represented costs related to buildings under construction. In addition, the Caisses had commitments amounting to \$28 million (\$21 million as at December 31, 2020) related to buildings.



## NOTE 11 - OTHER ASSETS - OTHER

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

	As at December 31, 2021	As at December 31, 2020
Interest receivable	\$ 372	\$ 442
Accounts receivable	352	318
Taxes receivable	83	—
Prepaid expenses	53	29
Other	10	14
	<b>\$ 870</b>	<b>\$ 803</b>

## NOTE 12 - DEPOSITS

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

The following table presents the breakdown of deposits.

	As at December 31, 2021				As at December 31, 2020			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 64,852	\$ 5,292	\$ 56,784	\$ 126,928	\$ 59,395	\$ 4,785	\$ 55,657	\$ 119,837
Business and government	41,099	506	6,071	47,676	35,159	457	6,537	42,153
	<b>\$ 105,951</b>	<b>\$ 5,798</b>	<b>\$ 62,855</b>	<b>\$ 174,604</b>	<b>\$ 94,554</b>	<b>\$ 5,242</b>	<b>\$ 62,194</b>	<b>\$ 161,990</b>

## NOTE 13 - BORROWINGS

Borrowings are recognized at amortized cost on the Combined Balance Sheets and are comprised of the following items.

	As at December 31, 2021	As at December 31, 2020
Lines of credit, bearing interest at a rate ranging from 0.50% to 0.74% (0.50% to 0.81% as at December 31, 2020)	\$ 6,856	\$ 1,832
Term loans, bearing interest at rates ranging from 0.46% to 3.12% (weighted average rate of 1.07% as at December 31, 2021 and 1.13% as at December 31, 2020), repayable periodically and maturing at various dates until 2025	15,517	16,082
Term loans, bearing interest at a fixed rate of 5.15%, repaid early in full during the year	—	500
	<b>\$ 22,373</b>	<b>\$ 18,414</b>

## NOTE 14 - EMPLOYEE BENEFITS - PENSION AND POST-RETIREMENT BENEFIT PLANS

### CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

This note should be read in conjunction with Note 17, "Employee benefits – Pension and post-retirement benefit plans" to the audited Combined Financial Statements of Desjardins Group for the year ended December 31, 2021 approved on February 23, 2022, which presents the defined benefit group plans as well as the risks related to retirement plans.

### GROUP PLANS

#### Pension plan

The Caisses participate in a pension plan and a supplemental pension plan through Desjardins Group's defined benefit group plans. Consequently, the caisses recognize their share in the liabilities of these plans in its Combined Balance Sheets.

#### Post-retirement benefit plan

For employees meeting certain criteria based on age and the number of years of participation in the plan, the Caisses offer a post-retirement benefit plan, including medical, dental and life insurance, to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. Consequently, the Caisses recognize their share in the liabilities of these plans on the Combined Balance Sheets.

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

	As at December 31, 2021		As at December 31, 2020	
<b>Net defined benefit plan liabilities</b>				
Group plans				
Pension plans	\$	42	27 %	\$ 587 30 %
Post-retirement benefit plan		449	60	504 60
<b>Total net defined benefit plan liabilities</b>	\$	491		\$ 1,091

	As at December 31, 2021		As at December 31, 2020	
<b>Defined benefit plan cost recognized</b>				
Group plans				
Pension plans	\$	128		\$ 142
Post-retirement benefit plan		14		13
<b>Total defined benefit plan cost recognized</b>	\$	142		\$ 155

	As at December 31, 2021		As at December 31, 2020	
<b>Remeasurement of net defined benefit plan liabilities</b>				
Group plans				
Pension plans	\$	(520)		\$ (41)
Post-retirement benefit plan		(61)		42
<b>Total remeasurement of net defined benefit plan liabilities</b>	\$	(581)		\$ 1

## NOTE 15 - OTHER LIABILITIES - OTHER

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

	As at December 31, 2021		As at December 31, 2020	
Accounts payable and other accrued liabilities	\$	404		\$ 358
Member dividends payable		376		323
Taxes payable		—		91
Provisions for risks and expenses		16		18
Other		38		36
	\$	834		\$ 826

## NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS

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

### Interest rate contracts

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

### Foreign exchange contracts

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

### Other derivative financial contacts

Other derivative financial contracts used by the Caisses include stock index options which are related to financial index transactions.

### Options

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

## NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### MATURITIES AND FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				As at December 31, 2021	As at December 31, 2020
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Notional amount	Notional amount
<b>Interest rate contracts</b>						
<b>Over-the-counter contracts</b>						
Interest rate swaps	\$ 33,725	\$ 53,173	\$ 27,990	\$ 4,385	\$ 119,273	\$ 119,743
	33,725	53,173	27,990	4,385	119,273	119,743
<b>Foreign exchange contracts</b>						
<b>Over-the-counter contracts</b>						
Forward contracts	1,078	457	8	—	1,543	1,441
Options purchased	557	212	8	—	777	702
Options written	557	212	8	—	777	702
	2,192	881	24	—	3,097	2,845
<b>Other contracts<sup>(1)</sup></b>						
<b>Over-the-counter contracts</b>						
Options purchased	6,365	16,558	9,487	1,587	33,997	32,273
Options written	6,340	16,527	9,474	1,585	33,926	31,960
	12,705	33,085	18,961	3,172	67,923	64,233
<b>Total derivative financial instruments</b>	<b>\$ 48,622</b>	<b>\$ 87,139</b>	<b>\$ 46,975</b>	<b>\$ 7,557</b>	<b>\$ 190,293</b>	<b>\$ 186,821</b>

<sup>(1)</sup> Includes contracts related to indexed term savings products.

The following table presents the fair value of derivative financial instruments recognized in the Combined Balance Sheets.

	As at December 31, 2021			As at December 31, 2020		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
<b>Trading purposes</b>						
Interest rate contracts						
Interest rate swaps	\$ 119,273	\$ 990	\$ 640	\$ 119,743	\$ 1,761	\$ 1,066
	119,273	990	640	119,743	1,761	1,066
Foreign exchange contracts						
Forward contracts	1,543	19	19	1,441	30	30
Options purchased	777	19	—	702	19	—
Options written	777	—	19	702	—	19
	3,097	38	38	2,845	49	49
Other contracts						
Options purchased	33,997	3,976	—	32,273	2,518	—
Options written	33,926	—	3,968	31,960	—	2,494
	67,923	3,976	3,968	64,233	2,518	2,494
<b>Total – Trading purposes</b>	<b>190,293</b>	<b>5,004</b>	<b>4,646</b>	<b>186,821</b>	<b>4,328</b>	<b>3,609</b>
<b>Total derivative financial instruments before impact of master netting agreements</b>	<b>\$ 190,293</b>	<b>\$ 5,004</b>	<b>\$ 4,646</b>	<b>\$ 186,821</b>	<b>\$ 4,328</b>	<b>\$ 3,609</b>
Less:						
Impact of master netting agreements <sup>(1)</sup>	—	656	656	—	1,074	1,074
<b>Total derivative financial instruments after impact of master netting agreements</b>	<b>\$ 190,293</b>	<b>\$ 4,348</b>	<b>\$ 3,990</b>	<b>\$ 186,821</b>	<b>\$ 3,254</b>	<b>\$ 2,535</b>

<sup>(1)</sup> Impact of offsetting credit exposure when the Caisses hold master netting agreements without the intention of settling on a net basis or simultaneously.

## NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward the Caisses at a time when the fair value of the instrument is positive for the Caisses. The manner in which the Caisses assess this risk as well as the objectives, policies and methods they use to manage it are presented in Note 24, "Financial instrument risk management".

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

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

	As at December 31, 2021				As at December 31, 2020			
	Notional amount	Replacement cost	Credit risk equivalent	Risk- weighted balance	Notional amount	Replacement cost	Credit risk equivalent	Risk- weighted balance
<b>Interest rate contracts</b>								
Interest rate swaps	\$ 119,273	\$ 990	\$ 58	\$ 40	\$ 119,743	\$ 1,761	\$ 1,819	\$ 364
	119,273	990	58	40	119,743	1,761	1,819	364
<b>Foreign exchange contracts</b>								
Forward contracts	1,543	19	60	113	1,441	30	44	9
Options purchased	777	19	38	92	702	19	36	7
Options written	777	—	—	—	702	—	—	—
	3,097	38	98	205	2,845	49	80	16
<b>Other contracts</b>								
Options purchased	33,997	3,976	3,976	795	32,273	2,518	2,519	504
Options written	33,926	—	—	—	31,960	—	—	—
	67,923	3,976	3,976	795	64,233	2,518	2,519	504
<b>Total derivative financial instruments before impact of master netting agreements</b>	<b>\$ 190,293</b>	<b>\$ 5,004</b>	<b>\$ 4,132</b>	<b>\$ 1,040</b>	<b>\$ 186,821</b>	<b>\$ 4,328</b>	<b>\$ 4,418</b>	<b>\$ 884</b>
Less:								
Impact of master netting agreements <sup>(1)</sup>	—	656	—	40	—	1,074	—	331
<b>Total derivative financial instruments after impact of master netting agreements</b>	<b>\$ 190,293</b>	<b>\$ 4,348</b>	<b>\$ 4,132</b>	<b>\$ 1,000</b>	<b>\$ 186,821</b>	<b>\$ 3,254</b>	<b>\$ 4,418</b>	<b>\$ 553</b>

<sup>(1)</sup> Impact of offsetting credit exposure when the Caisses hold master netting agreements without the intention of settling on a net basis or simultaneously.

## NOTE 16 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK (continued)

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

	As at December 31, 2021		As at December 31, 2020	
	Replacement cost	Risk-weighted balance	Replacement cost	Risk-weighted balance
Credit risk rating <sup>(1)</sup>				
AAA, AA+, AA, AA-	\$ 4,991	\$ 938	\$ 4,320	\$ 880
Not rated	13	102	8	4
	5,004	1,040	4,328	884
Less:				
Impact of master netting agreements <sup>(2)</sup>	656	40	1,074	331
<b>Total after impact of master netting agreements</b>	<b>\$ 4,348</b>	<b>\$ 1,000</b>	<b>\$ 3,254</b>	<b>\$ 553</b>
Type of counterparty				
Financial institutions	\$ 4,991	\$ 938	\$ 4,320	\$ 880
Other	13	102	8	4
	5,004	1,040	4,328	884
Less:				
Impact of master netting agreements <sup>(2)</sup>	656	40	1,074	331
<b>Total after impact of master netting agreements</b>	<b>\$ 4,348</b>	<b>\$ 1,000</b>	<b>\$ 3,254</b>	<b>\$ 553</b>

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

<sup>(2)</sup> Impact of offsetting credit exposure when the Caisses hold master netting agreements without the intention of settling on a net basis or simultaneously.

## NOTE 17 - CAPITAL STOCK

### AUTHORIZED

Capital stock comprises qualifying shares, permanent shares and surplus shares.

The Caisses may issue an unlimited number of qualifying shares with a par value of \$5, redeemable at the option of the Caisses in the cases set forth in the Act. Qualifying shares give their member holder one vote for the caisse that issued them, regardless of the number of qualifying shares of such caisse held.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of \$10 and \$1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. Interest is determined and approved annually by the Federation's Board of Directors. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after approval.

### ISSUED AND PAID SHARES

	As at December 31, 2021	As at December 31, 2020
Qualifying shares	\$ 25	\$ 25
Permanent shares	74	107
Surplus shares	18	24
	<b>\$ 117</b>	<b>\$ 156</b>

### REDEMPTION OF SHARES

#### Permanent shares

In 2018, the AMF authorized, subject to certain conditions, the redemption for cancellation of all permanent shares.

#### Surplus shares

In 2014, the AMF authorized, subject to certain conditions, the redemption for cancellation of all surplus shares subject to certain conditions.

## NOTE 18 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2021	As at December 31, 2020
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>		
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income <sup>(1)</sup>	\$ (50)	\$ 96
Share of other comprehensive income from the investment in the Federation	485	338
Share of other comprehensive income from the investment in the <i>Fonds de sécurité Desjardins</i>	(6)	18
<b>Accumulated other comprehensive income</b>	<b>\$ 429</b>	<b>\$ 452</b>

<sup>(1)</sup> Reflects an allowance for credit losses of \$1 million as at December 31, 2021 (\$1 million as at December 31, 2020) on securities classified as at fair value through other comprehensive income.

## NOTE 19 - CAPITAL MANAGEMENT

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

### DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

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

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

### COMPLIANCE WITH REQUIREMENTS

The Act provides that the Federation has the obligation to ensure that the caisse network maintains adequate capital to ensure its sustainability. In addition, the Act now recognizes the "integrated financial group" status of Desjardins Group and formalizes a financial solidarity between the caisse network, the Federation and the *Fonds de sécurité* (the Desjardins Cooperative Group / *Groupe coopératif Desjardins*). In this context, the caisses do not have capitalization requirements on an individual basis. To ensure Desjardins Group's capitalization objectives and the Act requirements are met, the Federation oversees the financial performance and the contribution of the Caisses in Québec to the capital adequacy of the Desjardins Cooperative Group.

## NOTE 20 - NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

### NET INTEREST INCOME

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

For the years ended December 31	2021	2020
<b>Interest income on financial assets</b>		
At amortized cost	\$ 4,781	\$ 5,066
At fair value through other comprehensive income	108	135
	<b>4,889</b>	<b>5,201</b>
<b>Interest expense on financial liabilities</b>		
At amortized cost	1,306	1,679
	<b>\$ 3,583</b>	<b>\$ 3,522</b>

### NET INVESTMENT INCOME (LOSS)

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

For the years ended December 31	2021			2020		
	Interest income and expense	Change in fair value	Total	Interest income and expense	Change in fair value	Total
<b>Net investment income (loss) on financial assets and liabilities</b>						
Classified as at fair value through profit or loss	\$ 210	\$ (349)	\$ (139)	\$ 91	\$ 626	\$ 717
Classified as at fair value through other comprehensive income	—	(28)	(28)	—	98	98
	<b>\$ 210</b>	<b>\$ (377)</b>	<b>\$ (167)</b>	<b>\$ 91</b>	<b>\$ 724</b>	<b>\$ 815</b>



## NOTE 21 - NON-INTEREST EXPENSE – OTHER

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

	2021	2020
Communications	\$ 118	\$ 118
Expenses related to deposits, services and other	118	96
Other employee expenses	71	75
Professional fees	36	43
Other	182	177
	<b>\$ 525</b>	<b>\$ 509</b>

## NOTE 22 - INCOME TAXES ON SURPLUS EARNINGS

### INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

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

	2021	2020
<b>Combined Statements of Income</b>		
Current income taxes		
Current income tax expense on surplus earnings	\$ 391	\$ 439
Adjustments for current tax of prior years	(9)	(82)
Tax recovery on member dividends	(100)	(83)
	<b>282</b>	<b>274</b>
Deferred income taxes		
Origination and reversal of temporary differences	(70)	114
Changes in tax rates	3	(3)
Adjustments for deferred tax of prior years	7	38
	<b>(60)</b>	<b>149</b>
	<b>\$ 222</b>	<b>\$ 423</b>
<b>Combined Statements of Comprehensive Income</b>		
Deferred income taxes	\$ 100	\$ 41
	<b>100</b>	<b>41</b>
<b>Total income tax expense</b>	<b>\$ 322</b>	<b>\$ 464</b>

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

	2021	2020
Income taxes on surplus earnings	\$ 322	\$ 506
Tax recovery on dividends	(100)	(83)
<b>Income taxes on surplus earnings</b>	<b>\$ 222</b>	<b>\$ 423</b>

## NOTE 22 - INCOME TAXES ON SURPLUS EARNINGS (continued)

### TAX RATE RECONCILIATION

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

	2021	2020
Income taxes at the combined statutory rate of 26.50% (26.50% in 2020)	\$ 727	\$ 796
Tax recovery on member dividends	(100)	(83)
Small business deduction	(6)	(6)
Non-taxable investment income and other items	(296)	(187)
Changes in tax rates	3	(3)
Non-deductible expenses	3	3
Adjustments for current and deferred tax of prior years	(2)	(44)
Income tax recovery resulting from an election for a deduction transferred by the Federation	(107)	(52)
Other	—	(1)
	\$ 222	\$ 423

### DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		Combined Statements of Income	
	As at December 31, 2021	As at December 31, 2020	2021	2020
<b>Deferred tax assets</b>				
Lease liabilities	\$ 76	\$ 80	\$ 4	\$ (5)
Property, plant and equipment	8	9	1	11
Allowance for credit losses	76	83	7	(43)
Net defined benefit plan liabilities	128	284	5	(3)
	288	456	17	(40)
<b>Deferred tax liabilities</b>				
Right-of-use assets	74	78	(4)	2
Securities and other financial instruments	55	197	(91)	163
Other	138	120	18	24
	267	395	(77)	189
<b>Net deferred income tax assets (liabilities)</b>	<b>\$ 21</b>	<b>\$ 61</b>	<b>\$ (60)</b>	<b>\$ 149</b>

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

	As at December 31, 2021	As at December 31, 2020
Deferred tax assets <sup>(1)</sup>	\$ 21	\$ 61

<sup>(1)</sup> Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was \$20 million (\$20 million as at December 31, 2020).

## NOTE 23 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

### COMMITMENTS AND FINANCIAL GUARANTEES

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

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

	As at December 31, 2021	As at December 31, 2020
Commitments		
Credit commitments	\$ 54,251	\$ 49,867
Documentary letters of credit	14	15
Financial guarantees		
Guarantees and standby letters of credit	415	339

#### Credit commitments

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

#### Documentary letters of credit

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

#### Guarantees and standby letters of credit

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

#### Other indemnification agreements

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

## NOTE 23 - COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES (*continued*)

### ASSETS PLEDGED AS COLLATERAL

In the normal course of operations, the Caisses enter into asset pledge agreements with related parties and receive from their members and clients assets as collateral that they are permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

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

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

	As at December 31, 2021	As at December 31, 2020
<b>Caisses' financial assets pledged as collateral:</b>		
Securities	\$ 3,687	\$ 1,934
<b>Assets from third parties:</b>		
Assets held as collateral that may be sold or repledged	144	—
	<b>\$ 3,831</b>	<b>\$ 1,934</b>
<b>Use of assets:</b>		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	\$ 3,831	\$ 1,934
	<b>\$ 3,831</b>	<b>\$ 1,934</b>

### LITIGATION

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

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT

The Caisses are exposed to different types of financial instruments risks in the normal course of operations, such as credit risk, market risk and liquidity risk.

The objective of the members of the Caisses' boards of directors in risk management, together with management and the Federation, is to optimize the risk-return trade-off by applying integrated risk management strategies, frameworks and procedures to all their operations.

To ensure sound and prudent management of the risks inherent in their operations, the Caisses' boards of directors adopted frameworks and rely in particular on laws and regulations, the *Desjardins Code of Professional Conduct* as well the frameworks of the Federation and Desjardins Group.

### CREDIT RISK

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

The Caisses are exposed to credit risk mainly through their loans, which represented 79.4% of assets on the balance sheet as at December 31, 2021, compared to 79.9% at the end of 2020. In the current COVID-19 pandemic context, Desjardins Group introduced several relief measures to support its members and mitigate the impact of this crisis. Government authorities also implemented several programs to stabilize the situation and support the economy. Although the future effects remain uncertain, the credit portfolio is rigorously monitored to take into account the medium- to long-term impact.

### Credit risk management

The Caisses are responsible for the credit risk inherent in their lending activities. For this purpose, the Caisses and their centres, as applicable, have an approval limit assigned by the Risk Management Executive Division of Desjardins Group (RMED) as well as management frameworks and tools.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

### CREDIT RISK *(continued)*

#### Framework

A set of policies and standards govern all aspects of credit risk management at Desjardins Group. These frameworks define, among other things:

- The minimum risk management principles.
- The roles and responsibilities of the main parties involved.

These frameworks are rounded out by the credit practices of the Federation. These practices are adopted by the Federation and are applicable to the Caisses and their centres. They set out, in particular:

- The conditions related to approval limits.
- The rules related to management and control of credit activities.
- The financing terms and conditions applicable to borrowers.

#### Credit granting

The Caisses and their centres, as applicable, are primarily responsible for approving the files, although some credit activities are outsourced to other units of the Federation. The RMED assigns them approval limits and approves any commitment 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.

#### Measurement 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. Risk-weighted assets (RWA) calculations are used to measure the Caisses' credit risk as well as market risk and operational risk. The Caisses have adopted, through the Federation, 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) on loan products. The Federation uses the Standardized Approach to measure the credit risk for certain exposures related to less significant components as well as assets classes that are immaterial in terms of amounts and perceived risk.

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 personal and business retail clients as well certain non-retail client portfolios. For retail clients, behavioural models are used. These models include predictive features related in particular to borrower and account-specific factors such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, for regulatory purposes, the PD from scoring models is:

- Adjusted slightly upward (prudential margins) to compensate for the historical volatility of PD.
- Calibrated by groups of products, for behavioural models applicable to personal clients, according to the following drivers: residential mortgages, loans and lines of credit.

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 for LGD, EAD of off-balance sheet exposures is adjusted upward to take into account the possible effects of an economic slowdown.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

### CREDIT RISK *(continued)*

#### Differences between financial measurements and regulatory measurements

The allowance for expected credit losses measured for accounting purposes under IFRS 9 is mainly based on the parameters used to calculate regulatory capital under the Internal Ratings-Based Approach, namely PD, LGD and EAD. However, there are some differences between the two methods, and the main differences are presented in the following table.

	Regulatory capital	IFRS 9
<b>PD</b>	<ul style="list-style-type: none"> <li>Estimated using a long-term average for a full economic cycle.</li> <li>Projected over the next 12 months.</li> <li>Definition of default associated to an instrument for which payments have been past due for over 90 days, plus certain other criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Estimated at a point in time for the next 12 months or for the lifetime of the instrument.</li> <li>Based on past experience, current conditions and relevant forward-looking information.</li> <li>Will correspond to the definition of default used for regulatory capital purposes.</li> </ul>
<b>LGD</b>	<ul style="list-style-type: none"> <li>Based on losses that would be expected during an economic downturn.</li> <li>Subject to certain regulatory floors.</li> <li>Takes into account all direct and indirect recovery costs.</li> <li>Discounted to account for the recovery period until default using the discount rate required for regulatory capital purposes.</li> </ul>	<ul style="list-style-type: none"> <li>Based on past experience, current conditions and relevant forward-looking information.</li> <li>Excessive conservatism and floors are excluded.</li> <li>Takes into account only direct recovery costs.</li> <li>Discounted to account for the recovery period until default using the initial effective interest rate.</li> </ul>
<b>EAD</b>	<ul style="list-style-type: none"> <li>Corresponds to drawn amounts plus expected use of undrawn amounts before default.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Discounting</b>	<ul style="list-style-type: none"> <li>No discounting between the date of default and the reporting date.</li> </ul>	<ul style="list-style-type: none"> <li>Discounted from the date of default to the reporting date using the initial effective interest rate.</li> </ul>

More specifically, credit and counterparty risk exposures include 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 have been applied.
- 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 techniques, including collateral, guarantees and credit derivatives.

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

For portfolios assessed using the Internal Ratings-Based Approach, the RMED 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. If necessary, i.e. 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 controls 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.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

#### Personal loans

Personal loan portfolios consist of residential mortgages, personal loans and lines of credit. 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 approval 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 evaluates the creditworthiness of each member on a monthly basis. This process ensures the quick, valid identification and management of problem loans.

The following table presents PD tranches in relation with risk levels.

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

#### Business loans

These loans include retail loans, loans to public bodies, loans to the housing sector and loans to other businesses. Desjardins Group uses internal models to calculate credit risk of the SMEs similar to other retail client exposures asset classes.

The following table presents Desjardins ratings in relation with risk levels.

Risk levels	Desjardins ratings
Acceptable risk	
Investment grade	[1 – 4]
Other than investment grade	[4.5 – 7]
Under watch	[7.5 – 9.75]
Default	10

#### 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 and based on the products used 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 a detailed analysis of the 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 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.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT (*continued*)

### CREDIT RISK (*continued*)

#### Credit risk mitigation

When a loan is granted to a member, the Caisses generally obtain, directly or through their centre, collateral to mitigate the member's credit risk. Such collateral normally takes the form of assets such as capital assets, receivables, inventory, equipment, securities (government securities or equities) or cash. It may also take the form of a suretyship.

For some portfolios, programs offered by various organizations, in particular CMHC and *La Financière agricole du Québec*, are used in addition to customary collateral. As at December 31, 2021, guaranteed or insured loans represented 23.5% of the Caisses' total gross loans, compared to 25.5% at the end of 2020. These additional measures ensure that residual credit risk is minimal for loan portfolios for which such guarantees are obtained. A credit enhancement offered by a guarantor is considered a credit risk mitigation technique when the guarantor meets certain specific criteria.

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. As a result, such an assessment is required whenever any new loan is granted. 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, 2021, there were no significant changes made to the credit risk mitigation policies, and there were no significant changes in the quality of assets held as collateral.

#### 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 Caisses and their centres, as applicable, are 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 make it possible to monitor the position of high-risk borrowers as well as changes in the corrective measures formulated. In addition, a report accounting for credit activities, covering changes in credit quality, financial issues and non-compliance with the frameworks raised by internal controls, is submitted quarterly to the Caisses' Board of Directors.

#### Default situations

##### Default identification

According to the regulatory definition, the following two criteria are used to identify a default situation:

- Quantitative criterion: The borrower's arrears exceed 90 days.
- Qualitative criterion: The Caisses estimate that it is unlikely that the borrower will repay its debt in full without appropriate measures such as the realization of a security or collateral (if any).

These criteria apply to all client bases.

##### Default assignment

Default assignment consists in assigning the identified default on a single exposure to all the commitments of the same borrower as well as other entities in its borrowing group. This assignment varies depending on the types of clients.

For personal clients, the Caisses do not assign any default to other exposures.

For retail businesses, small residential rental properties and small commercial rental properties, the default is assigned only to the exposure of such borrower related to commitments with a single entity in the group scope of Desjardins Group. For purposes of applying this criterion, the caisse network is considered a single entity.

For non-retail businesses and public organizations, the default is entirely assigned to all the borrower's commitments throughout the group scope of Desjardins Group. The default may also be assigned to other entities in its borrowing group based on a case-by-case analysis.



## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

### CREDIT RISK *(continued)*

#### Default situations *(continued)*

##### Default exit

When the default is identified using the quantitative criterion, the exit may occur immediately for retail businesses, small residential rental properties and small commercial rental properties clients. Alternatively, the default exit generally occurs after a minimum period of three to six months if certain conditions stated in the credit risk frameworks are met.

Additional information on credit risk related to the recognition and measurement of the allowance for credit losses are presented in Notes 2, "Significant accounting policies", and 7, "Loans and allowance for credit losses".

#### Counterparty and issuer risk

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

The RMED sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to different components based on their needs.

With respect to securities presented in the Combined Balance Sheets, the Caisses' 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.

The Caisses use 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 indexes. The vast majority of the Caisses' derivative financial instruments are negotiated by mutual agreement with the Federation. The other instruments are exchange-traded contracts, consisting mainly of futures executed on established stock exchanges. Counterparty risk for these derivative financial instruments is therefore considered low.

### LIQUIDITY RISK

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

#### Liquidity risk management and liquidity reserves

The Caisses manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations. Managing this risk involves, for the Caisses, maintaining a sufficient level of liquid securities. In addition, the Caisses ensure, through Desjardins Group, that they have stable and diversified sources of funding, monitor indicators and have a contingency plan in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group has established policies describing the principles, limits, risk appetite and tolerance 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. At the Desjardins Group level, the implementation of Basel III strengthens international minimum liquidity requirements through the application of regulatory liquidity ratios.

The minimum liquid asset levels to be maintained by a caisse are prescribed by a standard and a regulation. Daily management of these securities and the reserve level to be maintained is centralized at Desjardins Group's Treasury and is subject to monitoring by the RMED under the supervision of the Desjardins Group 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.

#### Sources of funding and contingency plan

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. In addition, Desjardins Group may issue covered bonds and be active on the market for securitization of CMHC-insured loans.

Desjardins Group has a liquidity contingency plan. The Desjardins Group Finance and Risk Management Committee would 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 this plan is to allow quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in capital markets or economic conditions. In the event that a caisse experiences financial difficulties, Desjardins Group has set up certain financial intervention procedures to support it. In addition, the Act grants the Federation all the powers necessary to make up for the operating deficit of a caisse that does not have an adequate general reserve.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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

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

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

	As at December 31, 2021									
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 9 months	9 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 6,961	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,278	\$ 8,239
<b>Securities</b>										
Securities at fair value through profit or loss	—	—	—	—	—	—	—	—	1	1
Securities at fair value through other comprehensive income	—	90	141	141	356	2,152	7,840	93	—	10,813
Securities at amortized cost	389	574	970	723	1,270	2,493	3,254	4	—	9,677
Securities borrowed or purchased under reverse repurchase agreements	143	—	—	—	—	—	—	—	—	143
<b>Loans</b>										
Residential mortgages <sup>(1)</sup>	2,505	3,290	6,536	5,728	6,514	19,266	82,792	7,770	6,235	140,636
Consumer and other personal loans <sup>(1)</sup>	30	18	28	28	30	118	577	2,642	2,439	5,910
Business and government <sup>(1)</sup>	4,398	3,528	4,838	4,560	4,895	3,374	8,173	1,362	3,883	39,011
Allowance for credit losses	—	—	—	—	—	—	—	—	(406)	(406)
Derivative financial instruments	23	122	324	152	330	1,683	2,221	149	—	5,004
Investment in the Federation	—	—	—	—	—	—	—	—	11,491	11,491
Investment in the <i>Fonds de sécurité Desjardins</i>	—	—	—	—	—	—	—	—	1,305	1,305
Right-of-use assets	—	—	—	—	—	—	—	—	285	285
Property, plant and equipment	—	—	—	—	—	—	—	—	583	583
Deferred tax assets	—	—	—	—	—	—	—	—	21	21
Other	628	107	40	14	6	—	—	—	75	870
<b>Total assets</b>	<b>\$ 15,077</b>	<b>\$ 7,729</b>	<b>\$ 12,877</b>	<b>\$ 11,346</b>	<b>\$ 13,401</b>	<b>\$ 29,086</b>	<b>\$ 104,857</b>	<b>\$ 12,020</b>	<b>\$ 27,190</b>	<b>\$ 233,583</b>

<sup>(1)</sup> Amounts repayable on demand are classified under "No stated maturity".

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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

	As at December 31, 2021									
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 9 months	9 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits</b>										
Individuals <sup>(1)</sup>	\$ 4,638	\$ 4,251	\$ 9,921	\$ 4,745	\$ 7,054	\$ 13,708	\$ 12,311	\$ 159	\$ 70,141	\$ 126,928
Business and government <sup>(1)</sup>	1,219	362	744	414	811	1,170	1,275	76	41,605	47,676
Commitments related to securities lent or sold under repurchase agreements	3,829	—	—	—	—	—	—	—	—	3,829
Derivative financial instruments	21	121	318	149	312	1,561	2,105	59	—	4,646
Lease liabilities	3	6	9	9	9	33	89	135	—	293
Interest payable	68	111	100	39	29	123	69	1	9	549
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	491	491
Other	250	150	376	—	—	—	—	—	58	834
Borrowings	428	919	1,225	1,336	1,371	5,119	5,119	—	6,856	22,373
Total equity	—	—	—	—	—	—	—	—	25,964	25,964
<b>Total liabilities and equity</b>	<b>\$ 10,456</b>	<b>\$ 5,920</b>	<b>\$ 12,693</b>	<b>\$ 6,692</b>	<b>\$ 9,586</b>	<b>\$ 21,714</b>	<b>\$ 20,968</b>	<b>\$ 430</b>	<b>\$ 145,124</b>	<b>\$ 233,583</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(2)</sup>	\$ —	\$ —	\$ —	\$ 20	\$ —	\$ —	\$ —	\$ —	\$ 54,231	\$ 54,251
Documentary letters of credit	3	2	6	1	2	—	—	—	—	14
Guarantees and standby letters of credit	40	54	126	81	67	18	20	1	8	415

<sup>(1)</sup> Deposits payable on demand or upon notice are considered as having "No stated maturity".

<sup>(2)</sup> Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Caisses' discretion.

	As at December 31, 2020									
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 9 months	9 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 3,568	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,069	\$ 6,637
<b>Securities</b>										
Securities at fair value through profit or loss	—	—	—	—	—	—	—	—	1	1
Securities at fair value through other comprehensive income	33	123	208	79	390	2,219	7,570	67	—	10,689
Securities at amortized cost	671	1,167	1,647	808	488	1,498	2,243	18	—	8,540
<b>Loans</b>										
Residential mortgages <sup>(1)</sup>	2,160	2,840	6,755	6,169	8,146	22,456	69,410	3,637	5,738	127,311
Consumer and other personal loans <sup>(1)</sup>	31	17	26	31	32	113	507	2,720	2,621	6,098
Business and government <sup>(1)</sup>	4,159	3,439	4,939	4,703	4,946	2,588	5,806	1,548	3,621	35,749
Allowance for credit losses	—	—	—	—	—	—	—	—	(450)	(450)
Derivative financial instruments	20	142	335	159	174	723	2,764	11	—	4,328
Investment in the Federation	—	—	—	—	—	—	—	—	9,642	9,642
Investment in the Fonds de sécurité Desjardins	—	—	—	—	—	—	—	—	1,322	1,322
Right-of-use assets	—	—	—	—	—	—	—	—	301	301
Property, plant and equipment	—	—	—	—	—	—	—	—	608	608
Deferred tax assets	—	—	—	—	—	—	—	—	61	61
Other	611	41	72	13	5	—	—	—	61	803
<b>Total assets</b>	<b>\$ 11,253</b>	<b>\$ 7,769</b>	<b>\$ 13,982</b>	<b>\$ 11,962</b>	<b>\$ 14,181</b>	<b>\$ 29,597</b>	<b>\$ 88,300</b>	<b>\$ 8,001</b>	<b>\$ 26,595</b>	<b>\$ 211,640</b>

<sup>(1)</sup> Amounts repayable on demand are classified under "No stated maturity".

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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

As at December 31, 2020										
	Less than 1 month	1 month to 3 months	3 months to 6 months	6 months to 9 months	9 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits</b>										
Individuals <sup>(1)</sup>	\$ 3,957	\$ 3,410	\$ 7,874	\$ 4,830	\$ 6,751	\$ 14,011	\$ 14,517	\$ 230	\$ 64,257	\$ 119,837
Business and government <sup>(1)</sup>	1,330	443	662	468	724	1,314	1,471	122	35,619	42,153
Commitments related to securities lent or sold under repurchase agreements	1,933	—	—	—	—	—	—	—	—	1,933
Derivative financial instruments	5	157	351	181	158	671	2,036	50	—	3,609
Lease liabilities	3	6	9	9	9	33	90	146	—	305
Interest payable	84	119	108	53	40	81	115	1	13	614
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	1,091	1,091
Other	254	92	324	90	—	—	—	—	66	826
Borrowings	425	781	1,075	1,150	1,142	5,272	6,237	500	1,832	18,414
Total equity	—	—	—	—	—	—	—	—	22,858	22,858
<b>Total liabilities and equity</b>	<b>\$ 7,991</b>	<b>\$ 5,008</b>	<b>\$ 10,403</b>	<b>\$ 6,781</b>	<b>\$ 8,824</b>	<b>\$ 21,382</b>	<b>\$ 24,466</b>	<b>\$ 1,049</b>	<b>\$ 125,736</b>	<b>\$ 211,640</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(2)</sup>	\$ —	\$ —	\$ —	\$ 20	\$ —	\$ —	\$ —	\$ —	\$ 49,847	\$ 49,867
Documentary letters of credit	4	1	5	2	3	—	—	—	—	15
Guarantees and standby letters of credit	35	41	91	57	57	22	15	2	19	339

<sup>(1)</sup> Deposits payable on demand or upon notice are considered as having "No stated maturity".

<sup>(2)</sup> Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Caisse's discretion.

### 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.

The Caissees are exposed to market risk primarily through positions taken in the course of their traditional financing and savings recruitment activities. The Caissees, together with the Federation and Desjardins Group, have adopted policies that set out the principles, limits and procedures to use in managing market risk.

#### Structural interest rate risk management

The Caissees are 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.

Sound and prudent management is applied to optimize net interest income while minimizing the negative incidence of interest rate movements. Structural interest rate risk is managed globally for the caisses network as well as individually for each Caisse.

#### Market risk management for the caisse network

The policies and the standard established by the Federation describe the principles, limits and procedures to use in managing market risk. Simulations are used at the caisse network level to measure the effect of different variables on changes in net interest income and the economic value of equity for all the Caissees.

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 behaviour, and in pricing. Desjardins Group's asset and liability management committee 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 COVID-19 pandemic context, the situation remains under control as portfolios are properly matched.

## NOTE 24 - FINANCIAL INSTRUMENT RISK MANAGEMENT *(continued)*

### MARKET RISK *(continued)*

The following table presents the potential impact before income taxes of a sudden and sustained 100-basis-point increase in interest rates and a 25-basis-point decrease in interest rates on net interest income and the economic value of equity for the Caisses.

	As at December 31, 2021		As at December 31, 2020	
	Net interest income <sup>(1)</sup>	Economic value of equity <sup>(2)</sup>	Net interest income <sup>(1)</sup>	Economic value of equity <sup>(2)</sup>
Impact of a 100-basis-point increase in interest rates	\$ 109	\$ (8)	\$ 105	\$ (34)
Impact of a 25-basis-point decrease in interest rates <sup>(3)</sup>	(24)	8	(13)	14

<sup>(1)</sup> Represents the interest rate sensitivity of net interest income for the next 12 months.

<sup>(2)</sup> Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

<sup>(3)</sup> The results of the impact of a decrease in interest rates take into consideration the use of a floor so as not to have a negative interest rate.

### Structural interest rate risk management for each Caisse

The structural interest rate risk to which each Caisse is exposed is managed in accordance with a strategy that involves setting targets and actions to be taken when a caisse finds itself outside the limits set out in the standard of the caisse network.

### 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, the Caisses 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. A Desjardins Group policy on market risk has set foreign exchange risk exposure limits, which are monitored by the RMED. To allow them to properly control this risk, the Caisses also use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps. The Caisses' residual exposure to this risk is low because they reduce their foreign exchange risk by using derivative financial instruments.

## NOTE 25 - RELATED PARTY DISCLOSURES

The Caisses' related parties mainly include the Federation and its subsidiaries, the *Fonds de sécurité Desjardins* and employee benefit plans. They also include the Caisses' key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

### TRANSACTIONS WITH THE CAISSES' RELATED PARTIES

Transactions with the Caisses' related parties were entered under normal market terms and were initially recognized at fair value.

These transactions and balances as at the reporting dates are as follows:

	2021			2020		
	Federation <sup>(1)</sup>	Other related parties <sup>(2)</sup>	Total	Federation <sup>(1)</sup>	Other related parties <sup>(2)</sup>	Total
<b>Combined Statements of Income</b>						
Interest income	\$ (88)	\$ —	\$ (88)	\$ (119)	\$ —	\$ (119)
Interest expense	(298)	—	(298)	(463)	—	(463)
Other income	2,147	4	2,151	1,334	5	1,339
Other expenses	(1,376)	(62)	(1,438)	(1,197)	(65)	(1,262)
<b>Combined Balance Sheets</b>						
Cash and deposits with financial institutions	\$ 7,412	\$ —	\$ 7,412	\$ 5,986	\$ —	\$ 5,986
Securities	9,685	—	9,685	8,562	—	8,562
Securities borrowed or purchased under reverse repurchase agreements	97	13	110	—	—	—
Other assets	5,438	4	5,442	4,703	5	4,708
Deposits	(144)	38	(106)	(37)	41	4
Other liabilities	3,962	97	4,059	3,105	—	3,105
Borrowings	22,373	—	22,373	18,414	—	18,414
<b>Other</b>						
Commitments given	\$ 35	\$ —	\$ 35	\$ 35	\$ —	\$ 35
Guarantees given	3,195	97	3,292	1,953	—	1,953
Guarantees received	115	13	128	29	—	29

<sup>(1)</sup> The Federation includes the *Fédération des caisses Desjardins du Québec* and its subsidiaries.

<sup>(2)</sup> Other related parties are mainly composed of the *Fonds de sécurité Desjardins* and the employee benefit plan for employees of the Caisses.

### KEY MANAGEMENT PERSONNEL COMPENSATION

The Caisses' key management personnel comprises the members of the Board of Directors and Management Committee of Desjardins Group. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Caisses.

For the years ended December 31, the compensation of the Caisses' key management personnel was as follows:

	2021	2020
Short-term benefits	\$ 16	\$ 13
Other long-term and post-employment benefits	8	5
	\$ 24	\$ 18

## NOTE 26 - SUBSEQUENT EVENT

On January 1, 2022, the Federation paid \$631 million to the Caisses through a reduction of capital on FIN-5A capital shares followed by a conversion into H capital shares with a par value of \$1 per share. FIN-5A capital shares were converted into H capital shares at the fair value of FIN-5A capital shares, and the difference between the fair value and the carrying amount will be recognized in combined profit or loss for fiscal year 2022. FIN-5A capital shares entitled their holders to the return of the Federation's subsidiaries, while H capital shares do not. As a result, the Caisses will no longer recognize income from this investment which totalled \$1,106 million for the year ended December 31, 2021.

In addition, the Federation redeemed the capital shares of the general fund held by the Caisses at their par value for \$3 billion as well the capital shares of the other investment funds held by the Caisses at their fair value. As a result, the Caisses will no longer recognize income from this investment which totalled \$37 million for the year ended December 31, 2021.