Desjardins

Fédération des caisses Desjardins du Québec

Financial Report

First quarter of 2019

FINANCIAL HIGHLIGHTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019[1]	December 31, 2018	March 31, 2018
Net interest income	**$ 365**	$ 398	$ 368
Net premiums	**2,345**	2,246	2,164
Other operating income[2]	**942**	856	964
Operating income[2]	**3,652**	3,500	3,496
Investment income[2]	**1,257**	216	295
Total income	**4,909**	3,716	3,791
Provision for credit losses	**84**	63	89
Claims, benefits, annuities and changes in insurance contract liabilities	**3,120**	1,821	1,656
Non-interest expense	**1,658**	1,598	1,628
Income taxes on surplus earnings	**(9)**	6	59
Surplus earnings before dividends to member caisses	**$ 56**	$ 228	$ 359
Contribution to consolidated surplus earnings by business segment[3]			
Personal and Business Services	**$ 79**	$ 52	$ 106
Wealth Management and Life and Health Insurance	**139**	183	206
Property and Casualty Insurance	**(81)**	25	26
Treasury and Other Support to Desjardins Group Entities	**(81)**	(32)	21
	$ 56	$ 228	$ 359
Indicators			
Return on equity[2]	**1.7%**	5.8%	9.4%
Credit loss provisioning rate[2]	**0.55**	0.40	0.62

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.

(2) See “Basis of presentation of financial information”.

(3) The breakdown by line item is presented in Note 12, “Segmented information”, to the Interim Consolidated Financial Statements.

Balance sheet and indicators

(in millions of dollars and as a percentage)	As at March 31, 2019[1]	As at December 31, 2018
Balance sheet		
Assets	**$ 162,449**	$ 157,560
Net loans and acceptances	**60,859**	61,997
Deposits	**57,430**	58,057
Equity	**14,836**	14,553
Indicators		
Assets under administration[2]	**$ 405,297**	$ 373,558
Assets under management[3]	**70,720**	66,359
Tier 1A capital ratio	**16.3%**	15.7%
Tier 1 capital ratio	**16.3**	15.7
Total capital ratio	**16.3**	15.7
Leverage ratio	**7.9**	7.4
Gross credit-impaired loans/gross loans and acceptances[4]	**0.64**	0.56

(1) The information presented as at March 31, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.
(2) Data for 2018 have been reclassified to conform to the current period’s presentation, notwithstanding the standard adopted on January 1, 2019.
(3) Assets under management may also be administered by the Federation. When this is the case, they are included in assets under administration.
(4) See “Basis of presentation of financial information”.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, May 14, 2019 – For the first quarter ended March 31, 2019, the Federation posted surplus earnings before dividends to member caisses of $56 million, a $303 million decrease compared to the corresponding quarter of 2018, mainly because of the performance of the property and casualty insurance segment, where surplus earnings were down $107 million compared to the same period in 2018. The higher current-year claims experience for the segment, essentially due to difficult weather conditions, contributed to the increased frequency of claims compared to the corresponding period in 2018. In addition, the decrease in the Federation’s surplus earnings was due to a reduction in the fair value of derivative financial instruments associated with hedging activities as well as lower gains on the sale of securities and real estate investments than in 2018. It should also be remembered that a profit related to the restructuring of Interac Corp. had been recognized in the first quarter of 2018.

This result reflects the contribution of $79 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment contributed $139 million to surplus earnings, while the Property and Casualty Insurance segment experienced a deficit of $81 million.

“Difficult weather conditions this winter and spring had a major impact on the performance of our property and casualty insurer, due to an important jump in home insurance claims compared to 2018,” said President and CEO Guy Cormier. “These difficult conditions are ongoing, and Desjardins is wholeheartedly committed to those affected by the floodings. We are empathetic and attentive to our members and clients in these difficult times and are offering them relief. Despite the impact of weather conditions on our results in property and casualty insurance, Desjardins performed well in the first quarter due to its highly diversified activities and the good results posted by the other business segments. I’m also proud of the growth in member dividends. Our member dividends are now more accessible and consistent, and more effectively recognize member loyalty. Starting this year, 840,000 more members will receive a member dividend.”

The Federation complies with Basel III rules and maintains very good capitalization. As at March 31, 2019, its Tier 1A and total capital ratios were both 16.3%, compared to 15.7% as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Fédération des caisses Desjardins du Québec* (the Federation) is a cooperative entity of Desjardins Group (Desjardins Group or Desjardins). Desjardins Group comprises the Desjardins caisses in Quebec and Ontario (the caisses), the Federation and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*.

The role of the Federation and of its main subsidiaries is presented in "The Federation's profile".

The Management's Discussion and Analysis (MD&A) dated May 14, 2019 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended March 31, 2019, in comparison to previous periods. The Federation reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements), including the notes thereto, as at March 31, 2019, and the Federation's 2018 Annual Report (the 2018 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

The Federation's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements in this MD&A include, but are not limited to, comments about the Federation's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions formulated may be incorrect, or the predictions, forecasts or other forward-looking statements as well as the Federation's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially.

A number of factors, many of which are beyond the Federation's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", of the Federation's 2018 annual MD&A, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory risk, environmental or social risk, and the risk related to pension plans.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to cyber threats, technological advancement and regulatory developments, household indebtedness and real estate market trends, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which the Federation operates; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by the Federation; new products and services to maintain or increase the Federation's market share; geographic concentration; acquisitions and joint arrangements; credit ratings; and climate change. Additional information on these factors is found in Section 4.0, "Risk management" of the Federation's 2018 annual MD&A.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement the Federation's disaster recovery plan within a reasonable time, the potential impact of international conflicts, and the Federation's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on the Federation's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of the Federation's 2018 annual MD&A.

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

The significant economic assumptions underlying the forward-looking statements in this document are described in Section 1.4 "Economic environment and outlook" of the Federation's 2018 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section.

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

SIGNIFICANT EVENT IN 2019

Flooding in Quebec, eastern Ontario and New Brunswick

Just like its peers in the insurance industry, Desjardins Group is closely monitoring the flooding in Quebec, eastern Ontario and New Brunswick. Based on the information available to date and the fact that this is an ongoing situation, the floods themselves will not have a significant impact on Federation's financial results.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. These Interim Consolidated Financial Statements of the Federation have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements as a result of the adoption of IFRS 16, "Leases", on January 1, 2019. For more information about the accounting policies applied, see the Annual and Interim Consolidated Financial Statements.

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

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

Gross credit-impaired loans/gross loans and acceptances

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

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

Average loans and acceptances – Average deposits – Average equity

The average balances for these items are used to measure growth. They are equal to averages of the amounts presented in the Consolidated Financial Statements at the end of the quarters calculated starting from the quarter prior to the period concerned.

Loss ratio – Expense ratio – Combined ratio

These ratios are used to measure the performance of the Property and Casualty Insurance segment.

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

The loss ratio is comprised of the following ratios:

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

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

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Net premiums	**$ 1,184**	$ 1,150	$ 1,059
Net premiums considered in the ratio denominators	**$ 1,184**	$ 1,150	$ 1,059
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 1,101**	$ 857	$ 815
Market yield adjustment (MYA)	**(77)**	(43)	27
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 1,024**	$ 814	$ 842
Loss ratio	**86.5%**	70.8%	79.5%
Non-interest expense	**$ 307**	$ 299	$ 277
Other expenses excluded from the expense ratio(1)	**1**	(6)	(4)
Operating expenses	**$ 308**	$ 293	$ 273
Expense ratio	**26.0%**	25.5%	25.8%
Combined ratio	**112.5%**	96.3%	105.3%

(1) Comes mainly from investment management expenses as well as certain other expenses.

Return on equity

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019(1)	December 31, 2018	March 31, 2018
Surplus earnings before dividends to member caisses	**$ 56**	$ 228	$ 359
Non-controlling interests' share	**3**	(8)	(9)
Group's share	**$ 59**	$ 220	$ 350
Average equity before non-controlling interests' share	**$ 13,947**	$ 14,964	$ 15,143
Return on equity(2)	**1.7%**	5.8%	9.4%

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

(2) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

Income

Operating income

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

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

Investment income

Investment income includes net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Consolidated Statements of Income. Investment income also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Consolidated Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss. The presentation of 2017 investment income does not take into account the standards and amendments adopted on January 1, 2018 and is therefore compliant with IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

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

(in millions of dollars)	For the three-month periods ended		
	March 31, 2019[(1)]	December 31, 2018	March 31, 2018
Presentation of income in the Consolidated Financial Statements			
Net interest income	**$ 365**	$ 398	$ 368
Net premiums	**2,345**	2,246	2,164
Other income			
Assessments	**98**	97	99
Service agreements	**186**	193	184
Lending fees and credit card service revenues	**210**	177	186
Brokerage and investment fund services	**214**	211	255
Management and custodial service fees	**147**	138	143
Net investment income (loss)[(2)]	**1,424**	(42)	126
Overlay approach adjustment for insurance operations financial assets	**(167)**	258	169
Foreign exchange income	**14**	29	27
Other	**73**	11	70
Total income	**$ 4,909**	$ 3,716	$ 3,791
Presentation of income in the MD&A			
Net interest income	**$ 365**	$ 398	$ 368
Net premiums	**2,345**	2,246	2,164
Other operating income			
Assessments	**98**	97	99
Service agreements	**186**	193	184
Lending fees and credit card service revenues	**210**	177	186
Brokerage and investment fund services	**214**	211	255
Management and custodial service fees	**147**	138	143
Foreign exchange income	**14**	29	27
Other	**73**	11	70
Operating income	**3,652**	3,500	3,496
Investment income			
Net investment income (loss)[(2)]	**1,424**	(42)	126
Overlay approach adjustment for insurance operations financial assets	**(167)**	258	169
Investment income	**1,257**	216	295
Total income	**$ 4,909**	$ 3,716	$ 3,791

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

(2) The breakdown of this line item is presented in Note 11, "Net interest income and net investment income", to the Interim Consolidated Financial Statements.

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Provision for credit losses	**$ 84**	$ 63	$ 89
Average gross loans	**61,771**	62,278	58,410
Average gross acceptances	**152**	206	37
Average gross loans and acceptances	**$ 61,923**	$ 62,484	$ 58,447
Credit loss provisioning rate(1)	**0.55%**	0.40%	0.62%

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

THE FEDERATION'S PROFILE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group, and acts as a financial agent on Canadian and international capital markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The Federation's mission is also to ensure risk management and capital management for Desjardins Group and look after the financial health of the *Groupe coopératif Desjardins*, which comprises the Desjardins caisses in Quebec, the Federation and the *Fonds de sécurité Desjardins*, as well as its sustainability pursuant to the *Act respecting financial services cooperatives*. The Federation had 238 member caisses in Quebec and Ontario as at March 31, 2019.

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

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

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

CHANGES IN THE REGULATORY ENVIRONMENT

This section presents items related to changes in the regulatory environment that apply to Desjardins Group as a whole, including those specific to the Federation and its components.

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2018 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital.

The Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions

On June 13, 2018, the Quebec National Assembly passed Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* (the Act), which applies to all institutions and intermediaries operating in Quebec's financial sector. The main goal of the Act is to update and modernize the legislative framework for Quebec's financial sector so that the financial institutions that it governs will have all the levers they need to operate in a very competitive environment and governance that is consistent with best practices. The Act affects a series of laws, such as the *Act respecting insurance*, the *Act respecting financial services cooperatives*, the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act*. The *Act respecting financial service cooperatives* has been amended, among other things, to prescribe the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares.

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

The amendments to the *Deposit Insurance Act* (to be renamed the *Deposit Institutions and Deposit Protection Act* as of June 13, 2019) provide for new rules for the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Quebec insurers. A significant change in this new legislation is to allow insurers to sell insurance over the Internet. A few changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules for insurance brokers in offering products and new rules applicable to distributing products without a representative. In addition, in property and casualty insurance, the Act makes it mandatory for divided co-owners to have co-ownership insurance.

Generally speaking, the provisions of the Act applicable to financial services cooperatives came into force on July 13, 2018, one month after assent, but there are several exceptions. Among these, the chapter concerning the Cooperative Group came into force when the first internal by-law of the Cooperative Group was passed on December 7, 2018. The new provisions of the *Insurers Act*, for their part, will come into force on June 13, 2019 or subsequently, as the case may be, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act.*

Desjardins Group is continuing its work to update its frameworks in order to reflect the new requirements.

Rules concerning capital instruments

The Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions (OSFI) applicable to Canadian financial institutions includes requirements for Non-Viability Contingent Capital as part of regulatory capital. Desjardins Group, under the AMF's guideline on adequacy of capital base standards for financial services cooperatives, is subject to similar rules applicable to non-viability contingent capital in its regulatory capital. However, Desjardins Group has not issued any instrument subject to these rules, given that discussions with the AMF are still underway on how Desjardins Group will apply them.

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

In June 2018, proposals for significant changes to the PCMLTFA and its regulations were published by the Department of Finance Canada. Desjardins Group is participating in work sessions with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Department of Finance Canada and other industry players to discuss these and other changes to the Canadian money laundering and terrorist financing (ML/TF) regime. While preparing for the implementation of these legislative changes, Desjardins Group is continuing to closely monitor developments to assess their impact on its operations.

Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. Desjardins Group continues to closely monitor developments in these draft reforms, for which the scope and timetable remain uncertain at this time.

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

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

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

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

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

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

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

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In Canada, the *Guidelines for obtaining meaningful consent*, which took effect on January 1, 2019, tighten the standards imposed on organizations for obtaining meaningful consent for the collection, use and disclosure of personal information. In Europe, the control authorities in charge of applying the *General Data Protection Regulation* (GDPR) imposed harsh penalties in January 2019 for the first time on organizations that had failed to respect the regulation. Desjardins Group continues to closely monitor this file since several of its competitors are subject to it in whole or in part. Considering the number of consultations that have taken place involving the various privacy commissioners in Canada, Desjardins Group expects that stricter rules will be adopted for the protection of personal information, and it is keeping a close watch in order to assess the potential impacts on its operations.

Pillar 3 disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These requirements related to the third pillar aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. In 2018, the AMF presented an update of its guideline under which new requirements took effect on March 31, 2019. These include the expected treatment of the leverage ratio, the composition of capital and total loss absorbing capacity.

Report on Ontario's auto insurance system

Following the Ontario government's recent economic update concerning, among other things, property insurance and general insurance, the current automobile insurance plan will undergo another review. In the update, the government showed that it wanted to make automobile insurance more affordable for Ontario drivers. The Financial Services Regulatory Authority of Ontario (FSRA), the regulator that will be overseeing the province's financial regime beginning in June 2019, will in particular study how insurance rates are regulated. The FSRA aims to be a modern and innovative regulator capable of responding to the dynamic pace of change in marketplace, industry and consumer expectations. The Canadian insurance industry, which includes Desjardins Group, is actively working with the current government to ensure a smooth transition to the FSRA until the new reform of Ontario's automobile insurance system is in place.

Modernization of the Canadian payments system

Since 2016, Payments Canada has been carrying on a complex, multiyear initiative to modernize the Canadian payments system that mobilizes the financial industry, the federal government and Payments Canada. Desjardins Group continues to monitor developments in this project and to analyze the potential impacts and advantages of payments system modernization and the emergence of new payment technologies.

Report on Climate change-related Disclosure Project

On April 5, 2018, the CSA issued CSA *Staff Notice 51-354, Report on Climate change-related Disclosure Project*. The report summarizes the findings of its project to review the disclosure by reporting issuers of risks and financial impacts associated with climate change, and its plans for future work. The Staff Notice also mentions that the CSA will continue to monitor the quality of issuers' disclosure with respect to climate change-related matters, best practices in the area of climate change-related disclosure and the development of disclosure frameworks. Desjardins Group is closely monitoring regulatory developments in this regard.

Open banking system

The Department of Finance Canada issued a consultation paper on January 11, 2019 that presents the advantages of open banking. An open banking system could offer a secure way for Canadian consumers to consent to sharing their financial transaction data, allowing them to benefit from enhanced products and services. Desjardins Group is taking part in the industry's working groups on open banking.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The global economy grew at a slower pace in 2018, with world real GDP falling from 3.8% in 2017 to 3.6% in 2018. Even slower growth, of 3.4%, is expected for 2019. The slowdown in global trade gathered momentum as the annual change turned negative. This shift was also apparent in the growth in certain regions, including the eurozone, where the economy was hampered by factors such as rising protectionism, the restructuring of certain industries, the past appreciation of the euro and political uncertainty. The trend in euroland business and consumer confidence indicators remained negative in early 2019. The forecasts for real GDP growth in the eurozone in 2019 and 2020 have been scaled back, with expected gains of only 1.1% in 2019 and 1.3% in 2020. In the United Kingdom, Brexit consumes public discourse. Despite the extension of the deadline, the uncertainties surrounding this issue, including the potential for regulatory and tariff barriers between the United Kingdom and the European Union, are obscuring the business outlook. In China, economic growth should slow even further in 2019, and the government has slightly reduced its growth targets for real GDP. Economic conditions in China will nevertheless depend, at least in part, on its trade negotiations with the United States.

The first quarter of 2019 was marked by a spectacular and broad-based rally on the stock exchanges that erased much of the downturn in the closing months of 2018. This renewed confidence did not stem from an improvement in the economic environment, but rather from a marked change of tone at the main central banks. In an environment where inflation remains low, the central banks were signaling that they will not hesitate to act to support the economy and financial markets if necessary. The European Central Bank has set aside the idea of raising key interest rates in the short term and announced a new, more long-term round of funding for banks, while the Federal Reserve plans to stop reducing its bond holdings in September of this year. Less favourable economic conditions in Canada also forced the Bank of Canada to adopt a much more neutral tone. Some of investors’ fears over politics at the start of the year have also subsided. A second bout of paralysis in the U.S. government was avoided, the situation around Brexit remains very confused although a no-deal Brexit at the end of March was avoided. Commodity prices also rose in the first quarter, but the Canadian dollar’s gains were limited by disappointing domestic economic indicators.

The marked change of tone at the central banks resulted in significant downward pressure on bond rates. Investors now see a greater likelihood of rate cuts and monetary tightening. The Canadian and U.S. yield curves inverted when yields on 10-year federal bonds fell below short-term interest rates. Key interest rates in Canada and the U.S. are expected to be relatively stable for a long period of time. In this environment, bond rates should remain very low, but should rise slightly over the next few quarters as expectations of lower key interest rates gradually subside. Even though changes in commodity prices should continue to favour the Canadian dollar, it may well remain around US$0.75.

United States

Real GDP in the United States grew 2.9% in 2018, the economy’s best performance since 2015. Although several indicators have been volatile in the United States since the end of 2018, the first quarter of 2019 posted an annualized gain of 3.2%. However, domestic demand has slowed, reflecting more accurately several challenges facing the U.S. economy. One of the factors that appears to have affected household spending and the general economy is the partial shutdown of the U.S. federal government from December 22, 2018 to January 25, 2019. The positive impact of the tax cuts declared at the end of 2017 is expected to be more modest in 2019. The political protectionism of the Trump administration played a part in the slowing global economy, and this is adversely affecting the U.S. economy. This being said, the recovery seen in certain confidence indices since the start of the year is an encouraging sign. For 2019 as a whole, real GDP is expected to grow 2.6%, with a 2.2% increase expected in 2020.

Canada

The results for the fourth quarter of 2018 fell short of expectations, which were already low. Real GDP rose only 0.4% at a quarterly annualized rate and, above all, domestic demand fell 1.5%. Clearly the 0.5% drop in domestic demand in the third quarter was not only an outlier, and the situation continued to deteriorate at the end of 2018 due to slower growth in household consumption expenditures and a sharp decline in investment. Furthermore, higher interest rates and restrictive measures on mortgage credit are affecting household spending, and there is every reason to believe that these adjustments will continue in 2019. Given the cutback in crude production that was decreed by the Government of Alberta and started in January, the growth outlook for the first quarter of 2019 is relatively poor. Even if growth could gain some momentum starting in the second quarter, the gain for 2019 as a whole should be about 1.5%. Slightly faster growth of 1.7% in real GDP is forecast for 2020.

Quebec

In Quebec, sustained real GDP growth in 2017 gave way to a more moderate pace in 2018. The economy grew 2.1% in 2018 compared to 2.8% in 2017. The slowdown is expected to continue this year due to declining contributions from households and businesses. The series of interest rate hikes begun in 2017 will continue to curb consumer spending, even if the unemployment rate remains below 5.5%. The growth in retail sales slowed in 2018, in particular in motor vehicle and furniture sales, which are more sensitive to the cost of credit. Even if the rise in interest rates has ended for now, the fact that they are higher than two years ago will continue to weigh on consumption. The residential real estate market is nevertheless very buoyant for now. Property sales are strong, and the annual increase in prices has been close to 4% since the beginning of 2019. In addition, Quebec exports will grow less strongly this year. Problems in the Canadian economy will impede shipments to the other provinces, and the slowing global economy, including the U.S. economy, will affect international exports. The new trade agreement between Canada, the United States and Mexico (CUSMA) has yet to be ratified, which is delaying its implementation. Real GDP should grow 1.7% this year, a more moderate pace than last year.

REVIEW OF FINANCIAL RESULTS

IMPACT OF SIGNIFICANT TRANSACTIONS

Creation of Aviso Wealth in 2018

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. For Desjardins Group, the interest held in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. A $6 million share in Aviso Wealth was recognized in the Consolidated Statements of Income for the three-month period ended March 31, 2019.

The table below presents the operating results of the subsidiary Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., included in the Federation's financial results for the Wealth Management and Life and Health Insurance segment.

(in millions of dollars)	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Other operating income[1]	**$ -**	$ -	$ 45
Operating income[1]	**-**	-	45
Non-interest expense	**-**	-	44
Income taxes on surplus earnings	**-**	-	1
Surplus earnings before member dividends	**$ -**	$ -	$ -

(1) See "Basis of presentation of financial information".

ANALYSIS OF RESULTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019[(1)]	December 31, 2018	March 31, 2018
Results			
Net interest income	**$ 365**	$ 398	$ 368
Net premiums	**2,345**	2,246	2,164
Other operating income[(2)]			
Assessments	**98**	97	99
Service agreements	**186**	193	184
Lending fees and credit card service revenues	**210**	177	186
Brokerage and investment fund services	**214**	211	255
Management and custodial service fees	**147**	138	143
Foreign exchange income	**14**	29	27
Other	**73**	11	70
Operating income[(2)]	**3,652**	3,500	3,496
Investment income[(2)]			
Net investment income (loss)	**1,424**	(42)	126
Overlay approach adjustment for insurance operations financial assets	**(167)**	258	169
Investment income[(2)]	**1,257**	216	295
Total income	**4,909**	3,716	3,791
Provision for credit losses	**84**	63	89
Claims, benefits, annuities and changes in insurance contract liabilities	**3,120**	1,821	1,656
Non-interest expense	**1,658**	1,598	1,628
Income taxes on surplus earnings	**(9)**	6	59
Surplus earnings before dividends to member caisses	**$ 56**	$ 228	$ 359
Contribution to consolidated surplus earnings by business segment[(3)]			
Personal and Business Services	**$ 79**	$ 52	$ 106
Wealth Management and Life and Health Insurance	**139**	183	206
Property and Casualty Insurance	**(81)**	25	26
Treasury and Other Support to Desjardins Group Entities	**(81)**	(32)	21
	$ 56	$ 228	$ 359
Indicators			
Return on equity[(2)]	**1.7%**	5.8%	9.4%
Credit loss provisioning rate[(2)]	**0.55**	0.40	0.62

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, “Leases”, adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”, to the Interim Consolidated Financial Statements.
(2) See “Basis of presentation of financial information”.
(3) The breakdown by line item is presented in Note 12, “Segmented information”, to the Interim Consolidated Financial Statements.

COMPARISON OF THE FIRST QUARTERS OF 2019 AND 2018

Surplus earnings

For the first quarter ended March 31, 2019, the Federation posted surplus earnings before dividends to member caisses of $56 million, a $303 million decrease compared to the corresponding quarter of 2018, mainly because of the performance of the property and casualty insurance segment, where surplus earnings were down $107 million compared to the same period in 2018. The higher current-year claims experience for the segment, essentially due to difficult weather conditions, contributed to the increased frequency of claims compared to the corresponding period in 2018. In addition, the decrease in the Federation's surplus earnings was due to a reduction in the fair value of derivative financial instruments associated with hedging activities as well as lower gains on the sale of securities and real estate investments than in 2018. It should also be remembered that a profit related to the restructuring of Interac Corp. had been recognized in the first quarter of 2018.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $79 million,** down $27 million, or 25.5%, compared to the first quarter of 2018.
  - Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
  - Offset by growth in payment and financing activities.
- Wealth Management and Life and Health Insurance: **Contribution of $139 million,** down $67 million compared to the first quarter of 2018.
  - Gains on the sale of securities and real estate investments were lower than in 2018.
  - Offset by a reduction in investment portfolio provisions.
- Property and Casualty Insurance: **Deficit of $81 million,** compared to net surplus earnings of $26 million for the first quarter of 2018.
  - Higher current-year claims experience than in the comparative quarter of 2018, essentially due to difficult weather conditions that contributed to the increased frequency of claims compared to the corresponding period in 2018.
  - Offset by an increase in net premiums.

- **Return on equity was 1.7%,** compared to 9.4% for the quarter ended March 31, 2018, mainly because of the decrease in surplus earnings, as explained earlier.

Operating income

Operating income totalled $3,652 million, up $156 million, or 4.5%, compared to the first quarter of 2018.

Net interest income was down $3 million, or 0.8%, to total $365 million, compared to $368 million for the same period in 2018.

Net premiums were up $181 million, or 8.4%, compared to the first quarter of 2018, to total $2,345 million as at March 31, 2019.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,197 million,** up $54 million, or 4.7%, due to business growth.
  - Premiums up $54 million, with annuities accounting for $51 million and individual insurance for $3 million.

Property and Casualty Insurance segment

- **Net premiums of $1,184 million,** up $125 million, or 11.8%, due to the following:
  - Growth in the average premium reflecting the current trend in the Canadian P&C insurance market.
  - Larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income stood at $942 million, which is a decrease of $22 million, or 2.3%, compared to the first quarter of 2018, mainly on account of the decrease in income following the transaction involving Qtrade Canada Inc.
This decrease was partially offset by:

- Growth in business volumes from payment and financing activities.
- Smaller increase than in first quarter 2018 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm) and arising from the favourable developments in claims taken over.
- Income from the interest in Aviso Wealth.

Investment income

Investment income totalled $1,257 million, up $962 million compared to the first quarter of 2018, essentially because of the following:

- Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
  - Offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Changes for the most part due to fluctuations in the fair value of the bond portfolio as a result of a larger decrease in market interest rates than in the comparative quarter.
- Increase in the fair value of matched bonds in the Property and Casualty Insurance segment compared to a decrease in the comparative quarter of 2018, mainly on account of lower market interest rates in the first quarter of 2019, whereas rates were higher in the first quarter of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

This increase was partially offset by:

- Decrease in the fair value of derivative financial instruments associated with the Federation's hedging operations.
- Net gains on the sale of common shares, less than in first quarter 2018, related to the rebalancing of the portfolio with the new strategic allocation target.
- Smaller gains on the sale of securities and real estate investments than in 2018.
- Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.

Total income

Total income amounted to $4,909 million, an increase of $1,118 million, or 29.5%, compared to the same period in 2018.

Provision for credit losses

The provision for credit losses totalled $84 million, down by $5 million, or 5.6%. The decrease is mainly due to the favourable updating of risk parameters, despite growth in loans outstanding and the migration of certain borrowers to higher risk ratings. The Federation has continued to present a quality loan portfolio in 2019.

- The credit loss provisioning rate was 0.55% for the first quarter of 2019, compared to 0.62% in the corresponding period of 2018.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.64% compared to 0.36% as at March 31, 2018.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $3,120 million, up $1,464 million compared to the corresponding quarter of 2018.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $2,019 million,** up $1,178 million, basically due to the increase of $1,183 million in actuarial liabilities under “Insurance contract liabilities”, which included the effect of the increase in the fair value of matched investments.

Property and Casualty Insurance segment

- **Cost of claims of $1,101 million,** up $286 million, or 35.1%, as a result of the following:
  - Growth in business, which led to a higher cost of claims.
  - The loss ratio was 86.5% for the period ended March 31, 2019, compared to 79.5% for the corresponding period in 2018:
    - Higher ratio attributable to higher current-year claims than in the corresponding period in 2018, namely 89.7% compared to 83.3%, essentially due to more difficult weather conditions which contributed to an increased frequency of claims compared to first quarter 2018.
    - Higher ratio attributable to the greater impact of catastrophes and major events than in the comparative quarter of 2018, 2.5% vs. 0.9%. The first quarter of 2019 was marked by four major events, while in the corresponding quarter of 2018, two major events were noted.
    - Offset, but to a smaller degree, by more positive developments than in first quarter 2018 concerning prior year claims, (5.7)% vs. (4.7)%.

Non-interest expense

- **Non-interest expense totalled $1,658 million,** up $30 million, or 1.8%, compared to the first quarter of 2018, essentially because of:
  - Business growth, particularly in payment and financing activities, as well as property and casualty insurance operations.

  This increase was partially offset by the following:
  - Decrease in expense following the transaction involving Qtrade Canada Inc.
  - Reduction in investment portfolio provisions.

- **Remuneration and other payments included in non-interest expense were $166 million,** for a $29 million, or 21.2%, increase compared to the same period in 2018 due to growth in sales of various Desjardins Group products by the caisse network.

Income taxes

- **Tax recovery on income taxes on surplus earnings before dividends to member caisses of $9 million,** mainly because of the income tax recovery as a result of the remuneration on F and G capital shares in first quarter 2019.

RESULTS BY BUSINESS SEGMENT

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

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

Additional information about each business segment, particularly its profile, activities, industry and 2019 strategies and priorities, can be found on pages 29 to 40 of the 2018 annual MD&A.

Personal and Business Services

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

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

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

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

Personal and Business Services – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019[(1)]	December 31, 2018	March 31, 2018
Net interest income	**$ 297**	$ 309	$ 276
Other operating income[(2)]	**451**	412	417
Operating income[(2)]	**748**	721	693
Investment income (loss)[(2)]	**18**	(22)	53
Total income	**766**	699	746
Provision for credit losses	**83**	58	89
Non-interest expense	**574**	576	521
Income taxes on surplus earnings	**30**	13	30
Net surplus earnings for the period before dividends to member caisses	**$ 79**	$ 52	$ 106
Of which:			
Group's share	**$ 79**	$ 52	$ 106
Indicators			
Average gross loans and acceptances[(2)]	**$ 31,611**	$ 31,071	$ 28,224
Average deposits[(2)]	**17,693**	18,702	17,156
Credit loss provisioning rate[(2)]	**1.06%**	0.74%	1.28%
Gross credit-impaired loans/gross loans and acceptances[(2)]	**1.24**	1.08	0.72

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

(2) See "Basis of presentation of financial information".

COMPARISON OF THE FIRST QUARTERS OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before dividends to member caisses of $79 million,** down $27 million, or 25.5%, essentially due to:
  - Profit related to the restructuring of Interac Corp., recognized in the first quarter of 2018.
  - Offset by growth in payment and financing activities.

- **Operating income of $748 million,** up $55 million, or 7.9%.
  - Increase of $21 million in net interest income as a result of year-over-year growth of $3.4 billion, or 12.0%, in the entire average portfolio of loans and acceptances outstanding, particularly consumer loans, credit card products and loans to medium-sized businesses and large corporations.
  - Other operating income of $451 million, up $34 million, or 8.2%, mainly due to the following:
    - Growth in business volume as a result of payment and financing activities.
    - Increase in income from the caisses as a result of activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services.

- **Investment income of $18 million,** down $35 million mainly as a result of the profit related to the restructuring of Interac Corp., which had been recognized in the first quarter of 2018.

- **Total income of $766 million,** up $20 million, or 2.7%.

- **Provision for credit losses of $83 million,** down $6 million, or 6.7%, primarily because of:
  - Favourable updating of risk parameters.

  This decrease was partially offset by:
  - Growth in outstandings.
  - Migration of certain borrowers to higher risk ratings.

- **Non-interest expense of $574 million,** up $53 million, or 10.2%, essentially due to:
  - Growth in payment activities, including reward program expenses, and growth in financing activities.
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services.
  - Offset by lower expenses as a result of the winding up of Zag Bank.

Wealth Management and Life and Health Insurance

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

The segment designs several lines of individual insurance (life and health) coverage as well as savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private wealth management services. The segment also includes asset management for institutional clients.

The greatest strengths of the Wealth Management and Life and Health Insurance segment include its vast and diversified Canada-wide distribution networks, which are mainly comprised of:

- Employees of the caisse network and Desjardins Business centres.
- Financial security advisers dedicated to caisse members.
- Investment advisers and private managers.
- Exclusive agents and independent partners.
- Actuarial consulting firms and group plan representatives.

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

The sector includes the operations of Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. until April 1, 2018, as well as the activities with regard to the interest in Aviso Wealth as of this same date, as mentioned in "Impact of significant transactions".

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended		
	March 31, 2019[1]	December 31, 2018	March 31, 2018
Net interest income	**$ 1**	$ 1	$ 1
Net premiums	**1,197**	1,134	1,143
Other operating income[2]	**390**	385	422
Operating income[2]	**1,588**	1,520	1,566
Investment income[2]	**1,171**	222	155
Total income	**2,759**	1,742	1,721
Provision for credit losses	**-**	4	-
Claims, benefits, annuities and changes in insurance contract liabilities	**2,019**	962	841
Non-interest expense	**567**	524	623
Income taxes on surplus earnings	**34**	69	51
Net surplus earnings for the period	**$ 139**	$ 183	$ 206
Of which:			
Group's share	**$ 139**	$ 183	$ 206
Indicators			
Net sales of savings products	**$ 1,527**	$ 973	$ 3,490
Insurance sales	**202**	91	82
Group insurance premiums	**830**	822	830
Individual insurance premiums	**215**	227	212
Annuity premiums	**152**	85	101
Segregated fund receipts	**536**	471	668

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.
(2) See "Basis of presentation of financial information".

COMPARISON OF THE FIRST QUARTERS OF 2019 AND 2018 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of $139 million,** down $67 million, or 32.5%, primarily as a result of:
  - Gains on sale of securities and real estate investments lower than in 2018.
  - Offset by a reduction in investment portfolio provisions.

- **Operating income of $1,588 million,** up $22 million, or 1.4%, essentially due to the following:
  - Increase of $54 million in premiums, with annuities accounting for $51 million, and individual insurance for $3 million.
  - Other operating income totalled $390 million, down $32 million, or 7.6%.
    - Lower income as a result of the transaction involving Qtrade Canada Inc.
    - Offset by income from the interest held in Aviso Wealth.

- **Investment income of $1,171 million,** up $1,016 million.
  - Increase primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
    - Offset by the change in actuarial liabilities leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
    - Changes for the most part due to fluctuations in the fair value of the bond portfolio, mainly as a result of the larger decline in market interest rates than in the comparative quarter.
  - However, gains on sale of securities and real estate investments were lower than in 2018.

- **Total income of $2,759 million,** up $1,038 million, or 60.3%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $2,019 million,** up $1,178 million, essentially due to an increase of $1,183 million in actuarial liabilities under "Insurance contract liabilities", which includes the effect of an increase in the fair value of matched investments.

- **Non-interest expense of $567 million,** down $56 million, or 9.0%, chiefly as a result of the following:
  - The transaction involving Qtrade Canada Inc. led to lower expenses.
  - Reduction in investment portfolio provisions.

Property and Casualty Insurance

The Property and Casualty Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes the operations of Desjardins General Insurance Group Inc. and its subsidiaries. Desjardins General Insurance Group Inc. offers a personal line of automobile and property insurance products across Canada and also provides businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Quebec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network of close to 500 agencies outside Quebec distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance and State Farm banners, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. As part of its integration plan for State Farm's Canadian operations, Desjardins Group started to switch from the State Farm banner to the Desjardins Insurance banner on May 1, 2018 The transition will be carried out by December 31, 2019.

Property and Casualty Insurance – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Net premiums	**$ 1,184**	$ 1,150	$ 1,059
Other operating income (loss)(1)	**(12)**	(72)	(21)
Operating income(1)	**1,172**	1,078	1,038
Investment income(1)	**135**	109	90
Total income	**1,307**	1,187	1,128
Claims, benefits, annuities and changes in insurance contract liabilities	**1,101**	857	815
Non-interest expense	**307**	299	277
Income taxes on surplus earnings	**(20)**	6	10
Net surplus earnings (deficit) for the period	**$ (81)**	$ 25	$ 26
Of which:			
Group's share	**$ (78)**	$ 17	$ 17
Non-controlling interests' share	**(3)**	8	9
Indicators			
Gross written premiums	**$ 1,173**	$ 1,206	$ 1,016
Loss ratio(1)	**86.5%**	70.8%	79.5%
Current year loss ratio(1)	**89.7**	80.8	83.3
Loss ratio related to catastrophes and major events(1)	**2.5**	0.1	0.9
Ratio of favourable changes in prior year claims(1)	**(5.7)**	(10.1)	(4.7)
Expense ratio(1)	**26.0**	25.5	25.8
Combined ratio(1)	**112.5**	96.3	105.3

(1) See "Basis of presentation of financial information".

COMPARISON OF THE FIRST QUARTERS OF 2019 AND 2018 – PROPERTY AND CASUALTY INSURANCE

- **Net deficit of $81 million,** compared to net surplus earnings of $26 million for the corresponding quarter in 2018, as a result of:
  - Higher claims experience for the current year than in the comparative quarter of 2018, essentially due to difficult weather conditions that contributed to the increased frequency of claims compared to the corresponding period in 2018.
  - Offset by an increase in net premiums.

- **Operating income of $1,172 million,** up $134 million, or 12.9%.

- **Net premiums of $1,184 million,** up $125 million, or 11.8%, due to:
  - Growth in the average premium, reflecting the current trend in the Canadian P&C market.
  - Larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

- **Loss totalling $12 million, presented under "Other operating income (loss)",** down a further $9 million as a result of the smaller increase than in first quarter 2018 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm arising from the favourable developments in claims taken over.

- **Investment income of $135 million,** up $45 million, mainly as a result of:
  - Increase in the fair value of matched bonds compared to a decrease in the comparative quarter of 2018, mainly on account of lower market interest rates in the first quarter of 2019, whereas rates were higher in the first quarter of 2018. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.
  - Offset by net gains on the sale of common shares, less than those recorded in first quarter 2018, related to the rebalancing of the portfolio with the new strategic allocation target.

- **Total income of $1,307 million,** up $179 million, or 15.9%.

- **Cost of claims totalling $1,101 million,** up $286 million, or 35.1%, as a result of:
  - Business growth leading to a higher cost of claims.
  - Loss ratio of 86.5% for the period ended March 31, 2019, compared to 79.5% for the corresponding period in 2018:
    - Higher ratio attributable to higher current-year claims experience than in the corresponding period in 2018, namely 89.7% compared to 83.3%, particularly on account of more difficult weather conditions which contributed to an increased frequency of claims compared to first quarter 2018.
    - Higher ratio attributable to the greater impact of catastrophes and major events than in the comparative quarter of 2018, i.e. 2.5% vs. 0.9%. The first quarter of 2019 was marked by four major events, while in the corresponding quarter of 2018, two major events were noted.
    - Offset, but to a smaller degree, by more positive developments than in first quarter 2018 concerning prior year claims, (5.7)% vs. (4.7)%.

- **Non-interest expense of $307 million,** up $30 million, or 10.8%, mainly as a result of:
  - Business growth.
  - Upward revaluation of the deferred compensation plan provision for Desjardins agents because of lower interest rates.

Treasury and Other Support to Desjardins Group Entities category

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between the caisses' liquidity surpluses or needs, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of Desjardins Capital Inc. It further includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Consolidated Financial Statements, intersegment balance eliminations are classified in this category.

The Federation does not consider an item-by-item comparative analysis of the operations in this category to be relevant given the integration of various consolidation adjustments and intersegment balance eliminations. Consequently, the Federation presents an analysis of these operations based on their contribution to surplus earnings.

Treasury and Other Support to Desjardins Group Entities

(in millions of dollars)	For the three-month periods ended		
	March 31, 2019[(1)]	December 31, 2018	March 31, 2018
Treasury activities	**$ 12**	$ 1	$ 23
Activities related to derivatives associated with hedging activities	**(72)**	(62)	5
Other[(2)]	**(21)**	29	(7)
Net surplus earnings (deficit) for the period before dividends to member caisses	**(81)**	(32)	21
Dividends to member caisses, net of income tax recovery	**-**	51	-
Net surplus earnings (deficit) for the period	**$ (81)**	$ (83)	$ 21
Of which:			
Group's share	**$ (81)**	$ (83)	$ 21

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

(2) Includes support function activities, various adjustments required to prepare the Interim Consolidated Financial Statements, and intersegment balance eliminations.

COMPARISON OF THE FIRST QUARTERS OF 2019 AND 2018 – CONTRIBUTION TO SURPLUS EARNINGS OF TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

- **Net deficit of $81 million,** compared to net surplus earnings of $21 million for the first quarter of 2018.

- **Treasury activities of $12 million,** compared to a contribution of $23 million to surplus earnings in 2018.
  - Unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.
  - Offset by higher trading income because of lower interest rates.

- **Activities related to derivatives associated with hedging activities recorded a deficit of $72 million,** compared to surplus earnings of $5 million for the corresponding period in 2018.
  - Unfavourable fluctuation in the fair value of swaps in 2019 because of a decrease in interest rates in the first quarter of 2019 compared to an increase in the same period in 2018.

- **Other activities recorded a $21 million deficit,** compared to a $7 million deficit in 2018.
  - Other activities affected, in 2019 and 2018, by expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift, thereby enhancing the member and client experience and improving productivity. They also included contributions from the *$100 Million Fund* for regional development, and amounts paid out under the Desjardins Member Advantages program.
  - Reduction in investment portfolio provisions, which mitigated the deficit.

SUMMARY OF INTERIM RESULTS

The table below presents a summary of data related to the results for the Federation's most recent eight quarters.

Results of the most recent eight quarters

(in millions of dollars)	2019	2018				2017		
	Q1(1)(2)	Q4(2)	Q3(2)	Q2(2)	Q1(2)	Q4	Q3	Q2
Net interest income	**$ 365**	$ 398	$ 382	$ 353	$ 368	$ 357	$ 364	$ 344
Net premiums	**2,345**	2,246	2,288	2,225	2,164	2,034	2,007	2,099
Other operating income(3)								
Assessments	**98**	97	97	99	99	94	93	91
Service agreements	**186**	193	179	186	184	179	187	194
Lending fees and credit card service revenues	**210**	177	172	164	186	182	154	153
Brokerage and investment fund services	**214**	211	216	223	255	245	227	293
Management and custodial service fees	**147**	138	154	144	143	147	123	125
Foreign exchange income	**14**	29	15	21	27	22	16	21
Other	**73**	11	52	163	70	(78)	330	47
Operating income(3)	**3,652**	3,500	3,555	3,578	3,496	3,182	3,501	3,367
Investment income (loss)(3)								
Net investment income (loss)	**1,424**	(42)	(213)	299	126	924	(316)	734
Overlay approach adjustment for insurance operations financial assets	**(167)**	258	76	20	169	N/A	N/A	N/A
	1,257	216	(137)	319	295	924	(316)	734
Total income	**4,909**	3,716	3,418	3,897	3,791	4,106	3,185	4,101
Provision for credit losses	**84**	63	73	63	89	74	72	59
Claims, benefits, annuities and changes in insurance contract liabilities	**3,120**	1,821	1,380	1,727	1,656	2,120	1,000	1,922
Non-interest expense	**1,658**	1,598	1,598	1,568	1,628	1,651	1,433	1,605
Income taxes on surplus earnings	**(9)**	6	68	75	59	80	89	100
Surplus earnings before dividends to member caisses	**56**	228	299	464	359	181	591	415
Dividends to member caisses, net of income tax recovery	**-**	51	-	-	-	44	-	-
Net surplus earnings for the period after dividends to member caisses	**$ 56**	$ 177	$ 299	$ 464	$ 359	$ 137	$ 591	$ 415
Of which:								
Group's share	**$ 59**	$ 169	$ 286	$ 453	$ 350	$ 128	$ 576	$ 401
Non-controlling interests' share	**(3)**	8	13	11	9	9	15	14

(1) The information presented for the three-month period ended March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.
(2) The information presented for the 2019 and 2018 quarters reflects the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.
(3) See "Basis of presentation of financial information".

Quarterly income, expenses and surplus earnings before dividends to member caisses are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. The results of the third quarter of 2017 were affected by the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, while the results of the second quarter of 2018 were affected by the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018. For more information about quarterly trends, see pages 43 to 45 of the 2018 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Consolidated Balance Sheets

(in millions of dollars and as a percentage)	As at March 31, 2019[1]		As at December 31, 2018	
Assets				
Cash and deposits with financial institutions	**$ 2,049**	**1.3%**	$ 2,738	1.7%
Securities	**53,410**	**32.9**	49,666	31.5
Securities borrowed or purchased under reverse repurchase agreements	**13,175**	**8.1**	14,086	8.9
Net loans and acceptances	**60,859**	**37.5**	61,997	39.3
Segregated fund net assets	**14,379**	**8.9**	13,234	8.4
Derivative financial instruments	**4,785**	**2.9**	4,376	2.8
Other assets	**13,792**	**8.4**	11,463	7.4
Total assets	**$ 162,449**	**100.0%**	$ 157,560	100.0%
Liabilities and equity				
Deposits	**$ 57,430**	**35.4%**	$ 58,057	36.8%
Commitments related to securities sold short	**12,129**	**7.5**	10,829	6.9
Commitments related to securities lent or sold under repurchase agreements	**13,559**	**8.3**	16,233	10.3
Derivative financial instruments	**4,214**	**2.6**	3,332	2.1
Insurance contract liabilities	**30,185**	**18.6**	28,764	18.3
Segregated fund net liabilities	**14,370**	**8.8**	13,212	8.4
Other liabilities	**14,342**	**8.8**	11,202	7.1
Subordinated notes	**1,384**	**0.9**	1,378	0.9
Equity	**14,836**	**9.1**	14,553	9.2
Total liabilities and equity	**$ 162,449**	**100.0%**	$ 157,560	100.0%

(1) The information presented as at March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

Total assets

As at March 31, 2019, the Federation's total assets stood at $162.4 billion, up by $4.9 billion, or 3.1%, since December 31, 2018. This growth was due in part to a $2.8 billion increase in securities, including those borrowed or purchased under reverse repurchase agreements. In addition, amounts receivable from clients, brokers and financial institutions included in other assets were up by $1.7 billion.

Cash and deposits with financial institutions, and securities

As at March 31, 2019, the Federation's cash and deposits with financial institutions amounted to $2.0 billion, a decrease of $689 million since December 31, 2018. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled $66.6 billion at the end of the first quarter of 2019, for an increase of $2.8 billion, or 4.4%, since the end of 2018. The increase was due to growth in market activities.

Loans and clients' liability under acceptances

As at March 31, 2019, the Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $60.9 billion, a decrease of $1.1 billion, or 1.8%, since December 31, 2018. A reduction in business and government loans, which accounted for 60.8% of the Federation's total portfolio, was largely responsible for the decrease.

Business and government loans, which reached a volume of $37.3 billion as at March 31, 2019, decreased by $851 million, or 2.2%, since December 31, 2018, particularly because of the reduction in loans to member caisses, whereas consumer, credit card and other personal loans outstanding, which totalled $19.5 billion as at March 31, 2019, were down by $235 million, or 1.2%, since December 31, 2018. The Federation's outstanding residential mortgages, which totalled $4.6 billion as at March 31, 2019, were down $46 million, or 1.0%, since December 31, 2018.

Loans and acceptances

(in millions of dollars and as a percentage)	As at March 31, 2019		As at December 31, 2018	
Residential mortgages	**$ 4,580**	**7.5%**	$ 4,626	7.4%
Consumer, credit card and other personal loans	**19,475**	**31.7**	19,710	31.5
Business and government	**37,301**	**60.8**	38,152	61.1
	61,356	**100.0%**	62,488	100.0%
Allowance for credit losses	**(497)**		(491)	
Total loans and acceptances by borrower category	**$ 60,859**		$ 61,997	
Loans guaranteed or insured(1)	**$ 5,237**		$ 5,343	

(1) Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Credit quality

Information about the quality of the Federation's loan portfolio is presented in the "Risk management" section on pages 27 and 28.

Deposits

The Federation's outstanding deposits rose to $57.4 billion as at March 31, 2019, down slightly by $0.6 billion, or 1.1%, since December 31, 2018. Deposits from individuals were down $470 million, or 11.4%, since the prior year-end to total $3.6 billion as at March 31, 2019. Lastly, outstanding deposits from deposit-taking institutions were down $169 million, or 2.1%, since December 31, 2018, to stand at $7.8 billion as at March 31, 2019.

Deposits

(in millions of dollars and as a percentage)	As at March 31, 2019		As at December 31, 2018	
Individuals	**$ 3,635**	**6.3%**	$ 4,105	7.1%
Business and government	**46,010**	**80.1**	45,998	79.2
Deposit-taking institutions	**7,785**	**13.6**	7,954	13.7
Total deposits	**$ 57,430**	**100.0%**	$ 58,057	100.0%

Business and government deposits, which accounted for 80.1% of the total deposit portfolio, were up $12 million since the end of 2018, to total $46.0 billion for first quarter 2019.

Insurance contract liabilities

The Federation's insurance contract liabilities stood at $30.2 billion as at March 31, 2019, up $1.4 billion, or 4.9%, since December 31, 2018.

Note 15, "Insurance contract liabilities", to the Annual Consolidated Financial Statements provides additional information about the Federation's insurance contract liabilities.

Equity

Equity stood at $14.8 billion as at March 31, 2019, up $283 million, or 1.9%, since the prior year-end. Net surplus earnings after dividends to member caisses, totalling $56 million for the first three months of 2019, and the issue of F capital shares for a cash consideration of $46 million, were a source of this growth.

Note 21, "Capital stock", to the Annual Consolidated Financial Statements provides additional information about the Federation's capital stock.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group as a whole, including the Federation. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of the Federation's 2018 annual MD&A.

Regulatory framework and internal policies

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

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

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

The minimum Tier 1A capital ratio that the Federation must maintain is 8%. In addition, the Tier 1 and total capital ratios must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3%.

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

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

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

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in the Federation's 2018 annual MD&A on pages 48 and 49. The "Changes in the regulatory environment" section also presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) file, regime applicable to Desjardins Group, including the TLAC guideline.

On December 7, 2017, the Group of Central Bank Governors and Heads of Supervision, the BCBS's oversight body, endorsed the outstanding Basel III post-crisis regulatory reforms. The reforms are intended to help reduce excessive variability in risk-weighted assets (RWA) and improve the comparability and transparency of financial institutions' capital ratios by:

- enhancing the robustness and risk sensitivity of the standardized approaches for credit risk, credit valuation adjustment (CVA) risk and operational risk;
- constraining the use of the internal model approaches, by placing limits on certain inputs used to calculate capital requirements under the Internal Ratings-Based (IRB) approach for credit risk and by removing the use of the internal model approaches for the CVA risk and for operational risk;
- adjusting the leverage ratio exposure measurement; and
- replacing the existing Basel I output floor with a more robust risk-sensitive floor based on the revised Basel III standardized approaches.

The BCBS has scheduled the implementation of these reforms for January 1, 2022 and the transitional provisions for applying the output floor based on the revised Basel III standardized approach.

On July 16, 2018, the OSFI released a discussion paper on the proposed implementation timelines for the final Basel III reforms in Canada. The paper also mentions the OSFI's point of view concerning some of the proposed changes. The AFM has not yet given an opinion on the timelines for adopting the new reforms.

On January 14, 2019, the BCBS published the final version of the standard "Minimum capital requirements for market risk", which addresses issues related to the implementation of the market risk standard released in January 2016 and takes into account comments received during the 2018 consultation. The BCBS has postponed implementation until January 1, 2022.

Compliance with requirements

As at March 31, 2019, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, all stood at 16.3%. The leverage ratio was 7.9%.

The Federation and its subsidiaries that are subject to minimum regulatory capital requirements were in compliance with said requirements as at March 31, 2019.

Regulatory capital

The following tables present the Federation's main capital components, regulatory capital, risk-weighted assets, capital ratios, and movements in capital during the period.

Main capital components

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

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The non-controlling interests balance is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from Tier 1A capital. The net non-deducted balance is subject to risk-weighting at a rate of 250%.

Regulatory capital and capital ratios

(in millions of dollars and as a percentage)	As at March 31, 2019	As at December 31, 2018
Tier 1A capital		
Federation's capital shares	**$ 4,812**	$ 4,767
Other capital shares	**4,012**	4,012
Reserves	**562**	271
Undistributed surplus earnings	**4,432**	4,754
Eligible accumulated other comprehensive income	**248**	(1)
Deductions[1][2]	**(3,485)**	(3,906)
Total Tier 1A capital	**10,581**	9,897
Total Tier 1 capital	**10,581**	9,897
Tier 2 capital		
Subordinated notes subject to phase-out	**672**	844
General allowance	**273**	271
Deductions[1]	**(945)**	(1,115)
Total Tier 2 capital	**-**	-
Total regulatory capital (Tiers 1 and 2)	**$ 10,581**	$ 9,897
Ratios and leverage ratio exposure		
Tier 1A capital ratio[3]	**16.3%**	15.7%
Tier 1 capital ratio[3]	**16.3**	15.7
Total capital ratio[3]	**16.3**	15.7
Leverage ratio[4]	**7.9**	7.4
Leverage ratio exposure	**$ 134,539**	$ 134,198

(1) As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.
(2) Deductions from Tier 1A are comprised of regulatory adjustments ($500 million, $499 million in 2018), for which cross-investments ($13 million, $14 million in 2018), significant investments ($2,439 million, $2,858 million in 2018), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($546 million, $549 million in 2018).
(3) As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.
(4) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk and includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013, as prescribed. In accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began on January 1, 2013. The subordinated notes issued by Desjardins Capital Inc. are subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Desjardins Group has not issued any instruments of this type as discussions concerning the application of these regulations are still in progress with the AMF.

On December 21, 2018, the Federation filed a new short form prospectus and obtained a receipt to issue, in the 12 months following the date of the receipt, F capital shares for a maximum of $125 million. This new issue started on January 15, 2019. During the first quarter of 2019, the Federation issued F capital shares for a cash consideration of $46 million.

As at March 31, 2019, the Tier 1A capital ratio was up 63 basis points compared to December 31, 2018. The higher ratio was the result of the introduction of the new capital floor in first quarter 2019, partially offset by the unfavourable impact of the switch to IFRS 16 on January 1, 2019.

Change in regulatory capital
For the three-month period ended

(in millions of dollars)	March 31, 2019
Tier 1A capital	
Balance at beginning of period	$ 9,897
Increase in reserves and undistributed surplus earnings[(1)]	(31)
Eligible accumulated other comprehensive income	249
Federation's capital shares	45
Deductions	421
Balance at end of period	10,581
Total Tier 1 capital	10,581
Tier 2 capital	
Balance at beginning of period	-
Senior notes subject to phase-out	(172)
General allowance	2
Deductions	170
Balance at end of period	-
Total capital	$ 10,581

(1) Amount including the change in defined benefit pension plan liabilities.

Risk-weighted assets (RWA)

The Federation calculates the risk-weighted assets for credit risk, market risk and operational risk. It uses the Internal Ratings-Based Approach for credit risk related to retail loan portfolios − Personal. Other exposures to credit risk are measured according to the Standardized Approach. On June 19, 2017, the Federation received the AMF’s authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. On June 29, 2018, the Federation obtained the AMF’s approval to use market risk internal models for trading portfolios while continuing to use the Standardized Approach for foreign exchange risk and commodity risk in the banking portfolio since September 30, 2018.

As indicated in the table below, risk-weighted assets totalled $64.9 billion as at March 31, 2019. Of this amount, $51.3 billion was for credit risk, $5.0 billion for market risk and $8.6 billion for operational risk. As at December 31, 2018, risk-weighted assets stood at $63.1 billion.

Risk-weighted assets

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at March 31, 2019				Total as at December 31, 2018
	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Capital requirement(2)	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	**$ -**	**$ -**	**$ 5,949**	**$ -**	**$ 5,949**	**$ -**	**$ -**	**-%**	$ -
Financial institutions	**-**	**-**	**40,543**	**8,166**	**40,543**	**8,166**	**653**	**20.1**	8,210
Businesses	**-**	**-**	**16,200**	**15,877**	**16,200**	**15,877**	**1,270**	**98.0**	15,846
Securitizations	**-**	**-**	**5**	**61**	**5**	**61**	**5**	**1,250.0**	63
Shares	**-**	**-**	**242**	**344**	**242**	**344**	**28**	**142.1**	334
SMEs similar to other retail client exposures	**-**	**-**	**2,214**	**1,706**	**2,214**	**1,706**	**136**	**77.1**	1,686
Mortgages	**2,176**	**288**	**423**	**148**	**2,599**	**436**	**35**	**16.8**	433
Other retail client exposures (excluding SMEs)	**7,030**	**3,870**	**1,062**	**797**	**8,092**	**4,667**	**373**	**57.7**	4,595
Qualifying revolving retail client exposures	**31,466**	**9,257**	**-**	**-**	**31,466**	**9,257**	**741**	**29.4**	9,156
Subtotal - Credit risk other than counterparty risk	**40,672**	**13,415**	**66,638**	**27,099**	**107,310**	**40,514**	**3,241**	**37.8**	40,323
Counterparty risk									
Sovereign borrowers	**-**	**-**	**82**	**-**	**82**	**-**	**-**	**-**	-
Financial institutions	**-**	**-**	**2,690**	**538**	**2,690**	**538**	**43**	**20.0**	554
Businesses	**-**	**-**	**16**	**14**	**16**	**14**	**1**	**87.5**	12
Trading portfolio	**-**	**-**	**1,484**	**681**	**1,484**	**681**	**54**	**45.9**	543
Credit valuation adjustment (CVA) charge	**-**	**-**	**-**	**-**	**-**	**1,587**	**127**	**-**	1,459
Additional requirements for banking and trading portfolio	**-**	**-**	**-**	**-**	**173**	**10**	**1**	**-**	14
Subtotal - Counterparty risk	**-**	**-**	**4,272**	**1,233**	**4,445**	**2,830**	**226**	**63.7**	2,582
Other assets(3)	**-**	**-**	**-**	**-**	**16,821**	**7,182**	**575**	**42.7**	5,722
Scaling factor(4)	**-**	**805**	**-**	**-**	**-**	**805**	**64**	**-**	794
Total credit risk	**40,672**	**14,220**	**70,910**	**28,332**	**128,576**	**51,331**	**4,106**	**39.9**	49,421
Market risk									
Value at Risk (VaR)	**-**	**640**	**-**	**-**	**-**	**640**	**51**	**-**	575
Stressed VaR (SVaR)	**-**	**2,258**	**-**	**-**	**-**	**2,258**	**181**	**-**	2,335
Incremental risk charge (IRC)(5)	**-**	**1,468**	**-**	**-**	**-**	**1,468**	**117**	**-**	1,732
Other(6)	**-**	**-**	**-**	**580**	**-**	**580**	**46**	**-**	754
Total market risk(7)	**-**	**4,366**	**-**	**580**	**-**	**4,946**	**395**	**-**	5,396
Operational risk(8)	**-**	**-**	**-**	**8,589**	**-**	**8,589**	**688**	**-**	8,581
Total risk-weighted assets before capital floor	**40,672**	**18,586**	**70,910**	**37,501**	**128,576**	**64,866**	**5,189**	**-**	63,398
Risk-weighted assets after the transitional provisions for the CVA charge(9)									
RWA for Tier 1A capital	**-**	**-**	**-**	**-**	**-**	**64,867**	**5,189**	**-**	63,106
RWA for Tier 1 capital	**-**	**-**	**-**	**-**	**-**	**64,867**	**5,189**	**-**	63,150
RWA for total capital	**-**	**-**	**-**	**-**	**-**	**64,867**	**5,189**	**-**	63,193
Total risk-weighted assets	**$ 40,672**	**$ 18,586**	**$ 70,910**	**$ 37,501**	**$ 128,576**	**$ 64,867**	**$ 5,189**	**-%**	$ 63,106

(1) Net exposure, after credit risk mitigation (net of loss allowance for expected credit losses on credit-impaired loans other than for retail clients (except for credit card loans) under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).

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

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

(4) The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

(5) Additional requirements representing an estimate of default risk and migration risk of products other than securitization exposed to interest rate risk.

(6) "Other" means capital requirements calculated using the Standardized Approach for foreign exchange risk and commodities risk in banking portfolios. It should be noted that since 3rd quarter 2018, the Internal Models Approach has been applied to all trading portfolios after receiving the AMF's visa. Before that time, the Standardized Approach had been used for all market risk requirements.

(7) Internal models have been used since 3rd quarter 2018 to calculate the market risk of trading portfolios instead of the Standardized Approach used previously for prior periods.

(8) Since 2nd quarter 2017, the Standardized Approach has been used to measure operational risk, replacing the Basic Indicator Approach, which had been used for prior periods.

(9) Scaling factors have been used since January 1, 2014 to account for the CVA charge in calculating the Tier 1A, Tier 1 and total capital ratios. The scaling factors were 80%, 83% and 86%, respectively, in 2018. Pursuant to AMF guidelines, the factor applied for 2019 is 100% for each of the disclosed ratios.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization. Additional information can be found in the "Off-balance sheet arrangements" section of the Federation's 2018 annual MD&A.

Note 13, "Interests in other entities", and Note 27, "Commitments, guarantees and contingent liabilities", to the Federation's Annual Consolidated Financial Statements contain information about structured entities, credit instruments, guarantees and assets pledged or held as collateral, while Note 8, "Derecognition of financial assets", to the Annual Consolidated Financial Statements provides information about the securitization of the Federation's loans.

Assets under management and under administration

As at March 31, 2019, the Federation administered, for the account of caisse members and its clients, assets worth $405.3 billion, for an increase of $31.7 billion, or 8.5%. The financial assets entrusted to the Federation as wealth manager totalled $70.7 billion as at March 31, 2019, up $4.4 billion, or 6.6%, since December 31, 2018.

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

RISK MANAGEMENT

RISK MANAGEMENT

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

The Federation is exposed to different types of risk in its normal course of operations, including credit risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment.

Risk management is a function covering all Desjardins Group operations, including those of the Federation. As a result, the description of risk management that follows is a description for Desjardins Group. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial soundness as well as its sustained and profitable growth, while complying with regulatory requirements. Desjardins Group considers risk an inextricable part of its development, and consequently strives to promote a proactive approach in which each of its business segments, employees and managers is responsible for risk management.

In the first three months of fiscal 2019, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which the Federation is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 57 to 86 of the Federation's 2018 annual MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group's control (including the Federation's control) could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 54 to 57 of the Federation's 2018 annual MD&A.

CREDIT RISK

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

The Federation is exposed to credit risk first through its direct personal, business and government loans, including through its loans to member caisses. It is also exposed through various other commitments, including letters of credit, transactions involving derivative financial instruments and securities transactions.

Quality of loan portfolio

As at March 31, 2019, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements, the allowance for credit losses totalled $497 million, up $6 million compared to December 31, 2018. This increase was mainly due to the growth in outstandings, as well as to a combination of the revision of economic scenarios and a migration of certain borrowers to higher risk ratings, thereby pushing up the collective allowance for loans included in Stage 2 of the impairment model. For more information, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements.

Gross credit-impaired loans outstanding are now considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.64% for the first quarter of 2019, compared to 0.56% as at December 31, 2018. The allowance for credit losses on credit-impaired loans totalled $127 million as at March 31, 2019, resulting in a provisioning rate of 32.2% for credit-impaired loans.

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

Gross loans past due but not credit-impaired

As at March 31, 2019

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 31	$ 1	$ 1	$ 11	$ 44
Consumer, credit card and other personal loans	603	121	56	-	780
Business and government	1	-	-	-	1
	$ 635	$ 122	$ 57	$ 11	$ 825

As at December 31, 2018

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 43	$ 3	$ -	$ 11	$ 57
Consumer, credit card and other personal loans	679	126	57	-	862
Business and government	2	-	-	-	2
	$ 724	$ 129	$ 57	$ 11	$ 921

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

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at March 31, 2019					As at December 31, 2018	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross impaired loans	Net impaired loans
	Gross loans and acceptances	Gross credit-impaired loans					
Residential mortgages	$ 4,580	$ 11	0.24%	$ 5	$ 6	$ 10	$ 5
Consumer, credit card and other personal loans	19,475	226	1.16	114	112	200	90
Business and government	37,301	157	0.42	8	149	138	132
Total loans	$ 61,356	$ 394	0.64%	$ 127	$ 267	$ 348	$ 227

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended		
	March 31, 2019	December 31, 2018	March 31, 2018
Gross credit-impaired loans at the beginning of the period under IAS 39	N/A	N/A	$ 84
Impact of adopting IFRS 9 as at January 1, 2018	N/A	N/A	125
Gross credit-impaired loans at the beginning of the last period under IFRS 9	$ 348	$ 222	209
Gross loans that became credit-impaired since the last period	484	295	115
Loans returned to unimpaired status	(359)	(80)	(33)
Write-offs and recoveries	(75)	(78)	(68)
Other changes	(4)	(11)	(14)
Gross credit-impaired loans at the end of the period	$ 394	$ 348	$ 209

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 Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs.

A large proportion of Desjardins Group's exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Desjardins Group's exposure to U.S. and European financial institutions is low, and its exposure to sovereign debt is concentrated in Canada and the U.S.

MARKET RISK

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

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

Governance

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

Management of market risk related to trading activities – Value at Risk

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

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

In addition to aggregate VaR, Desjardins Group calculates an aggregate stressed VaR (SVaR). It is calculated in the same way as aggregate VaR, except for the use of historical data. Therefore, instead of using the interval of the past year, aggregate SVaR takes into account the historical data for a crisis period of one year from September 2008.

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

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

Market risk measures for the trading portfolio

(in millions of dollars)	For the quarter ended March 31, 2019				For the quarters ended December 31, 2018		March 31, 2018	
	As at March 31, 2019	**Average**	**High**	**Low**	As at December 31, 2018	Average	As at March 31, 2018	Average
Equities	**$ 1.1**	**$ 1.1**	**$ 1.7**	**$ 0.9**	$ 1.0	$ 0.4	$ 0.4	$ 0.4
Foreign exchange	**2.0**	**1.3**	**2.0**	**0.6**	0.5	0.6	0.4	0.4
Interest rate	**3.7**	**3.5**	**5.7**	**1.6**	2.4	3.9	4.6	3.4
Specific interest rate risk(1)	**4.8**	**5.6**	**6.8**	**4.6**	5.9	7.7	8.4	6.3
Diversification effect(2)	**(7.7)**	**(7.7)**	**N/A(3)**	**N/A(3)**	(6.9)	(8.5)	(9.1)	(7.0)
Aggregate VaR	**$ 3.9**	**$ 3.8**	**$ 5.9**	**$ 2.1**	$ 2.9	$ 4.1	$ 4.7	$ 3.5
Aggregate SVaR	**$ 17.4**	**$ 15.8**	**$ 20.8**	**$ 12.2**	$ 16.0	$ 16.3	$ 22.5	$ 14.2
Incremental risk charge (IRC)	**$ 36.8**	**$ 66.2**	**$ 78.4**	**$ 36.8**	$ 75.2	$ 77.3	$ 76.3	$ 72.4

(1) Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of an issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.
(2) Represents the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.
(3) The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $3.8 million for the quarter ended March 31, 2019, which was relatively stable compared to the quarter ended December 31, 2018. The average of the aggregate SVaR was $15.8 million for the quarter ended March 31, 2019, which was also stable compared to the quarter ended December 31, 2018. The average of the incremental risk charge was $66.2 million, down $11.1 million compared to the previous quarter.

Aggregate VaR and aggregate SVaR are appropriate measures for a trading portfolio but they must be interpreted by taking into account certain limits, in particular the following ones:
- these measures do not allow future losses to be predicted if actual market fluctuations differ markedly from those used to do the calculations;
- these measures are used to determine the potential losses for a one-day holding period, and not the losses on positions that cannot be liquidated or hedged during this one-day period;
- these measures do not provide information on potential losses beyond the selected confidence level of 99%.

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

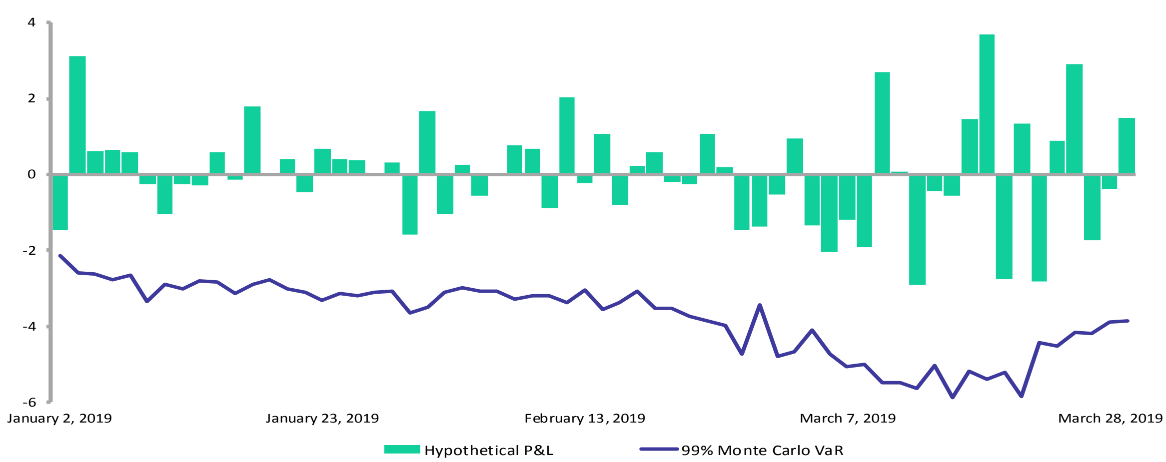
Back testing

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

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

The following chart presents changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the first quarter of 2019, there were no overages of actual or hypothetical P&L compared to VaR for Desjardins Group. Given the low number of overages in the past year, the performance of the VaR model is considered adequate.

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



Stress testing

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

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

Structural interest rate risk management

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:

- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

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

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

Interest rate sensitivity (before income taxes)(1)

(in millions of dollars)	**As at March 31, 2019**		As at December 31, 2018		As at March 31, 2018	
	Net interest income(2)	**Economic value of equity(3)**	Net interest income(2)	Economic value of equity(3)	Net interest income(2)	Economic value of equity(3)
Impact of a 100-basis-point increase in interest rates	**$ (23)**	**$ 46**	$ (21)	$ 51	$ (20)	$ 96
Impact of a 100-basis-point decrease in interest rates(4)	**24**	**(46)**	19	(54)	18	(98)

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a $247 million decrease in the economic value of equity before taxes as at March 31, 2019, and in a $215 million and $233 million decrease as at December 31, 2018 and March 31, 2018, respectively. A 100-basis-point decrease in interest rates would result in a $248 million increase in the economic value of equity before taxes as at March 31, 2019, and in a $222 million and $211 million increase as at December 31, 2018 and March 31, 2018, respectively.

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

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

(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

Foreign exchange risk management

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

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

LIQUIDITY RISK

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

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

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

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

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. The effective date of the regulatory requirements concerning the NSFR has been postponed to January 1, 2020, and Desjardins Group intends to comply with this ratio once it has become effective.

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 122.5% for the quarter ended March 31, 2019, compared to 122.1% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

The calculations are performed daily to ensure compliance with the liquidity levels to be maintained based on acute stress scenarios**.**

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation's liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows it to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $57.4 billion as at March 31, 2019, down $0.6 billion since December 31, 2018. Additional information on deposits is presented in the "Balance sheet management" section.

Financing programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first three months of 2019, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

The main programs currently used by the Federation are as follows:

Main financing programs
As at March 31, 2019

	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)	**$10 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term notes (multi-currency)	**€7 billion**

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

Remaining contractual term to maturity of wholesale funding

(in millions of dollars)	As at March 31, 2019								As at December 31, 2018
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	$ 1,683	$ 606	$ 22	$ 4	$ 2,315	$ -	$ -	$ 2,315	$ 2,798
Commercial paper	6,441	2,632	2,279	1,848	13,200	-	-	13,200	13,174
Medium-term notes	-	-	986	2,990	3,976	2,402	4,141	10,519	10,657
Mortgage loan securitization	-	511	277	753	1,541	1,181	7,376	10,098	9,820
Covered bonds	-	-	-	1,498	1,498	1,497	2,241	5,236	5,859
Subordinated notes	-	-	-	-	-	885	499	1,384	1,378
Total	$ 8,124	$ 3,749	$ 3,564	$ 7,093	$ 22,530	$ 5,965	$ 14,257	$ 42,752	$ 43,686
Including:									
Secured	$ -	$ 511	$ 277	$ 2,251	$ 3,039	$ 3,563	$ 10,116	$ 16,718	$ 17,057
Unsecured	8,124	3,238	3,287	4,842	19,491	2,402	4,141	26,034	26,629

The total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was down $934 million compared to December 31, 2018, mainly because of decrease in covered bonds and bearer discount notes.

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

Wholesale funding by currency

(in millions of dollars and as a percentage)	As at March 31, 2019		As at December 31, 2018	
Canadian dollars	**$ 19,444**	**45.5%**	$ 19,637	45.0%
U.S. dollars	**14,745**	**34.5**	13,824	31.6
Other	**8,563**	**20.0**	10,225	23.4
	$ 42,752	**100.0%**	$ 43,686	100.0%

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $598 million in the first three months of 2019. During the same period, the Federation also made an issue of 750 million euros under its covered bonds program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $25.9 billion as at March 31, 2019, compared to $26.3 billion as at December 31, 2018. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Consolidated Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $1.4 billion as at March 31, 2019, unchanged from December 31, 2018. Furthermore, to round out its financing and increase its capital base, in the first three months of 2019, the Federation issued F capital shares for a cash consideration of $46 million.

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

Credit ratings of securities issued

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

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

During the first quarter of 2019, the credit ratings assigned to Desjardins Group's senior securities remained unchanged and were affirmed by the rating agencies Standard & Poor's (S&P), DBRS, Moody's and Fitch.

After the AMF's publication, on March 20, 2019, of its regulations implementing the Bank Recapitalization (Bail-in) Regime for certain creditors and bond holders of Desjardins Group, the rating agencies assigned provisional credit ratings for the senior debt securities subject to the internal recapitalization (bail-in) Regime. Moody's, S&P, Fitch and DBRS assigned provisional credit ratings of A2, A-, AA- and AA (low), respectively. Also in relation to these regulatory changes, DBRS upgraded its negative outlook to stable for Desjardins Group's securities. S&P and Fitch kept their outlooks as stable while Moody's maintained its negative outlook. For more information, see "Changes in the Regulatory Environment", which provides more details about the internal recapitalization regime.

Credit ratings of securities issued

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

(1) Includes senior medium- and long-term debt issued before March 31, 2019, as well as senior medium- and long-term debt issued on or after this date and which is excluded from the recapitalization regime applicable to Desjardins Group.

(2) Includes senior medium- and long-term debt issued on or after March 31, 2019, which can be converted under the internal recapitalization regime applicable to Desjardins Group.

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

Contractual maturities of on-balance sheet items and off-balance sheet commitments

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

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

Note 15, "Insurance contract liabilities", to the Annual Consolidated Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments

As at March 31, 2019[1]

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 1,654	$ 435	$ 11	$ -	$ -	$ -	$ -	$ -	$ (51)	$ 2,049
Securities										
Securities at fair value through profit or loss[2]	145	557	918	1,053	1,699	3,369	9,389	17,955	4,661	39,746
Securities at fair value through other comprehensive income[2]	1,867	1,244	398	122	67	1,550	3,874	2,838	43	12,003
Securities at amortized cost	826	528	225	8	38	1	6	29	-	1,661
Securities borrowed or purchased under reverse repurchase agreements	12,681	340	122	-	32	-	-	-	-	13,175
Loans										
Residential mortgages[3]	26	80	93	265	97	586	2,149	1,270	14	4,580
Consumer, credit card and other personal loans[3]	28	81	138	195	250	1,080	5,238	5,229	7,236	19,475
Business and government[3]	7,459	2,008	1,220	1,427	1,313	6,008	11,025	1,905	4,793	37,158
Allowance for credit losses	-	-	-	-	-	-	-	-	(497)	(497)
Segregated fund net assets	-	-	-	-	-	-	-	-	14,379	14,379
Clients' liability under acceptances	122	6	15	-	-	-	-	-	-	143
Premiums receivable	188	68	14	3	-	-	-	-	2,061	2,334
Derivative financial instruments	205	141	176	246	168	985	2,475	379	10	4,785
Amounts receivable from clients, brokers and financial institutions	3,162	1	-	-	-	-	-	-	28	3,191
Reinsurance assets	33	65	73	67	58	191	354	1,026	99	1,966
Right-of-use assets	-	-	-	-	-	-	-	-	309	309
Investment property	-	-	-	-	-	-	-	-	942	942
Property, plant and equipment	-	-	-	-	-	-	-	-	806	806
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	382	382
Deferred tax assets	-	-	-	-	-	-	-	-	923	923
Other assets	439	114	88	7	7	17	47	9	2,090	2,818
Total assets	$ 28,835	$ 5,668	$ 3,491	$ 3,393	$ 3,729	$ 13,787	$ 34,557	$ 30,640	$ 38,349	$ 162,449

See page 38 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at March 31, 2019(1)

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(4)	$ 18	$ 53	$ 27	$ 40	$ 40	$ 95	$ 171	$ 7	$ 3,184	$ 3,635
Business and government(4)	8,512	3,799	3,576	3,790	3,341	5,117	11,422	2,429	4,024	46,010
Deposit-taking institutions(4)	557	179	138	232	145	677	1,898	31	3,928	7,785
Acceptances	121	6	16	-	-	-	-	-	-	143
Commitments related to securities sold short(5)	158	77	220	10	2	2,609	3,527	5,521	5	12,129
Commitments related to securities lent or sold under repurchase agreements	12,835	724	-	-	-	-	-	-	-	13,559
Derivative financial instruments	191	96	117	188	128	805	2,451	229	9	4,214
Amounts payable to clients, brokers and financial institutions	4,536	2	-	-	-	-	-	-	2,600	7,138
Lease liabilities	3	3	5	5	5	21	63	207	43	355
Insurance contract liabilities	427	768	971	868	836	1,965	4,413	17,469	2,468	30,185
Segregated fund net liabilities	-	-	-	-	-	-	-	-	14,370	14,370
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,697	1,697
Deferred tax liabilities	-	-	-	-	-	-	-	-	231	231
Other liabilities	2,496	166	37	24	129	83	81	79	1,683	4,778
Subordinated notes	-	-	-	-	-	884	-	500	-	1,384
Total equity	-	-	-	-	-	-	-	-	14,836	14,836
Total liabilities and equity	$ 29,854	$ 5,873	$ 5,107	$ 5,157	$ 4,626	$ 12,256	$ 24,026	$ 26,472	$ 49,078	$ 162,449
Off-balance sheet commitments										
Credit commitments(6)	$ 3,567	$ 646	$ 360	$ 813	$ 437	$ 2,403	$ 8,245	$ 594	$ 92,502	$ 109,567
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,455	2,455
Documentary letters of credit	-	-	-	-	-	1	-	-	-	1
Guarantees and standby letters of credit	29	95	190	376	89	14	17	71	4	885
Credit default swaps	-	-	-	-	-	-	247	-	-	247

See page 38 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2018

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 2,435	$ 308	$ -	$ -	$ -	$ -	$ -	$ -	$ (5)	$ 2,738
Securities										
Securities at fair value through profit or loss(2)	167	718	1,409	977	1,470	2,947	8,471	16,332	4,423	36,914
Securities at fair value through other comprehensive income(2)	1,594	767	755	255	293	1,261	3,607	2,556	43	11,131
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	13,728	311	47	-	-	-	-	-	-	14,086
Loans										
Residential mortgages(3)	46	19	102	110	274	547	2,210	1,306	12	4,626
Consumer, credit card and other personal loans(3)	52	65	165	189	279	1,061	5,229	5,298	7,372	19,710
Business and government(3)	7,148	1,962	1,704	1,243	1,406	5,626	10,527	1,798	6,578	37,992
Allowance for credit losses	-	-	-	-	-	-	-	-	(491)	(491)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	124	36	-	-	-	-	-	-	-	160
Premiums receivable	178	64	13	3	-	-	-	-	2,120	2,378
Derivative financial instruments	235	391	191	359	215	919	1,843	213	10	4,376
Amounts receivable from clients, brokers and financial institutions	1,455	1	-	-	-	-	-	-	31	1,487
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	943	943
Property, plant and equipment	-	-	-	-	-	-	-	-	811	811
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
Deferred tax assets	-	-	-	-	-	-	-	-	896	896
Other assets	297	95	75	3	12	9	26	5	1,958	2,480
Total assets	$ 28,621	$ 4,985	$ 4,734	$ 3,298	$ 4,019	$ 12,569	$ 32,308	$ 28,581	$ 38,445	$ 157,560

See page 38 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2018

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(4)	$ 659	$ 101	$ 33	$ 28	$ 42	$ 90	$ 142	$ 3	$ 3,007	$ 4,105
Business and government(4)	7,926	5,480	2,142	3,575	3,872	7,396	10,200	2,129	3,278	45,998
Deposit-taking institutions(4)	149	151	377	105	169	691	1,852	13	4,447	7,954
Acceptances	124	36	-	-	-	-	-	-	-	160
Commitments related to securities sold short(5)	19	490	136	38	1	780	4,316	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,233	-	-	-	-	-	-	-	-	16,233
Derivative financial instruments	128	148	163	119	156	656	1,704	248	10	3,332
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	430	783	929	847	800	1,853	4,286	16,289	2,547	28,764
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,578	1,578
Deferred tax liabilities	-	-	-	-	-	-	-	-	254	254
Other liabilities	2,298	407	288	30	15	95	102	42	1,828	5,105
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	14,553	14,553
Total liabilities and equity	$ 30,044	$ 7,600	$ 4,068	$ 4,742	$ 5,055	$ 12,440	$ 22,602	$ 24,272	$ 46,737	$ 157,560
Off-balance sheet commitments										
Credit commitments(6)	$ 3,792	$ 138	$ 687	$ 571	$ 1,052	$ 2,469	$ 7,778	$ 496	$ 90,432	$ 107,415
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under lease contracts	4	7	11	11	10	38	94	167	-	342
Documentary letters of credit	-	1	-	-	-	-	-	-	-	1
Guarantees and standby letters of credit	18	79	78	191	374	12	16	75	4	847
Credit default swaps	-	-	-	-	-	-	537	-	-	537

(1) The information presented as at March 31, 2019 takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.
(2) Equity securities are classified under "No stated maturity".
(3) Amounts repayable on demand are classified under "No stated maturity".
(4) Deposits payable on demand or after notice are considered as having "No stated maturity".
(5) Amounts are presented by remaining contractual maturity of the underlying security.
(6) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation's discretion.

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

Asset-backed securities

(in millions of dollars)	As at March 31, 2019		As at December 31, 2018	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities(1)	**$ 136**	**$ 139**	$ 138	$ 140

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

Leveraged finance loans and subprime loans

(in millions of dollars)	As at March 31, 2019	As at December 31, 2018
Leveraged finance loans(1)	**$ 76**	$ 81
Alt-A mortgage loans(2)	**18**	18
Subprime residential mortgage loans(3)	**2**	2

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

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended March 31, 2019, the Federation did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on page 87 of the 2018 annual MD&A.

RELATED PARTY DISCLOSURES

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

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

The Federation has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2018.

Additional information on related party transactions is provided in Note 32, "Related party disclosures", to the Annual Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by the Federation is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements on pages 109 to 130 of the 2018 Annual Report, except for the amendments resulting from the adoption, on January 1, 2019, of IFRS 16, "Leases", as described in Note 2, "Basis of presentation and significant accounting policies", to these Interim Consolidated Financial Statements.

Some of these policies are of particular importance in presenting the Federation's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 88 to 94 of the 2018 annual MD&A.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first three months of 2019.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective for the Federation are presented in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements, on pages 137 and 138 of the 2018 Annual Report. The IASB has not issued any new accounting standard or any new amendments to an existing standard during the three-month period ended March 31, 2019.

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Consolidated Balance Sheets
(unaudited)

(in millions of Canadian dollars)	Notes	As at March 31, 2019[1]	As at December 31, 2018
ASSETS			
Cash and deposits with financial institutions		**$ 2,049**	$ 2,738
Securities			
Securities at fair value through profit or loss		**39,746**	36,914
Securities at fair value through other comprehensive income		**12,003**	11,131
Securities at amortized cost		**1,661**	1,621
		53,410	49,666
Securities borrowed or purchased under reverse repurchase agreements		**13,175**	14,086
Loans	5		
Residential mortgages		**4,580**	4,626
Consumer, credit card and other personal loans		**19,475**	19,710
Business and government		**37,158**	37,992
		61,213	62,328
Allowance for credit losses	5	**(497)**	(491)
		60,716	61,837
Segregated fund net assets		**14,379**	13,234
Other assets			
Clients' liability under acceptances		**143**	160
Premiums receivable		**2,334**	2,378
Derivative financial instruments		**4,785**	4,376
Amounts receivable from clients, brokers and financial institutions		**3,191**	1,487
Reinsurance assets		**1,966**	1,958
Right-of-use assets		**309**	N/A
Investment property		**942**	943
Property, plant and equipment		**806**	811
Goodwill		**121**	121
Intangible assets		**382**	389
Deferred tax assets		**923**	896
Other		**2,818**	2,480
		18,720	15,999
TOTAL ASSETS		**$ 162,449**	$ 157,560
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	7		
Individuals		**$ 3,635**	$ 4,105
Business and government		**46,010**	45,998
Deposit-taking institutions		**7,785**	7,954
		57,430	58,057
Other liabilities			
Acceptances		**143**	160
Commitments related to securities sold short		**12,129**	10,829
Commitments related to securities lent or sold under repurchase agreements		**13,559**	16,233
Derivative financial instruments		**4,214**	3,332
Amounts payable to clients, brokers and financial institutions		**7,138**	4,105
Lease liabilities		**355**	N/A
Insurance contract liabilities		**30,185**	28,764
Segregated fund net liabilities		**14,370**	13,212
Net defined benefit plan liabilities		**1,697**	1,578
Deferred tax liabilities		**231**	254
Other		**4,778**	5,105
		88,799	83,572
Subordinated notes		**1,384**	1,378
TOTAL LIABILITIES		**147,613**	143,007
EQUITY			
Capital stock	8	**8,825**	8,779
Undistributed surplus earnings		**4,443**	4,764
Accumulated other comprehensive income	9	**258**	(9)
Reserves		**562**	271
Equity – Group's share		**14,088**	13,805
Non-controlling interests		**748**	748
TOTAL EQUITY		**14,836**	14,553
TOTAL LIABILITIES AND EQUITY		**$ 162,449**	$ 157,560

[1] The information presented as at March 31, 2019 reflects IFRS 16, “Leases”, which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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

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

Guy Cormier
Chair of the Board

Serge Rousseau
Vice-Chair of the Board

Consolidated Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended March 31 2019[1]	2018
INTEREST INCOME			
Loans		**$ 711**	$ 586
Securities		**60**	56
		771	642
INTEREST EXPENSE			
Deposits		**356**	251
Subordinated notes		**18**	18
Other		**32**	5
		406	274
NET INTEREST INCOME	11	**365**	368
NET PREMIUMS		**2,345**	2,164
OTHER INCOME			
Assessments		**98**	99
Service agreements		**186**	184
Lending fees and credit card service revenues		**210**	186
Brokerage and investment fund services		**214**	255
Management and custodial service fees		**147**	143
Net investment income	11	**1,424**	126
Overlay approach adjustment for insurance operations financial assets		**(167)**	169
Foreign exchange income		**14**	27
Other		**73**	70
		2,199	1,259
TOTAL INCOME		**4,909**	3,791
PROVISION FOR CREDIT LOSSES	5	**84**	89
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**3,120**	1,656
NON-INTEREST EXPENSE			
Remuneration and other payments		**166**	137
Salaries and fringe benefits		**586**	579
Premises, equipment and furniture, including depreciation		**131**	116
Service agreements and outsourcing		**85**	80
Communications		**55**	55
Other		**635**	661
		1,658	1,628
OPERATING SURPLUS EARNINGS		**47**	418
Income taxes on surplus earnings		**(9)**	59
NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS TO MEMBER CAISSES		**$ 56**	$ 359
of which:			
Group's share		**$ 59**	$ 350
Non-controlling interests' share		**(3)**	9

[1] The information presented for the three-month period ended March 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

Consolidated Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31 2019	2018
Net surplus earnings for the period after dividends to member caisses	**$ 56**	$ 359
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**(87)**	47
Share of associates and joint ventures accounted for using the equity method	**(1)**	-
	(88)	47
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	**128**	(26)
Reclassification of net (gains) losses to the Consolidated Statements of Income	**(2)**	4
	126	(22)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**139**	(40)
Reclassification of net gains to the Consolidated Statements of Income	**(6)**	(95)
	133	(135)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**17**	(3)
Reclassification to the Consolidated Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**-**	(1)
	17	(4)
	276	(161)
Total other comprehensive income, net of income taxes	**188**	(114)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 244**	$ 245
of which:		
Group's share	**$ 240**	$ 244
Non-controlling interests' share	**4**	1

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

Income taxes on other comprehensive income

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

(in millions of Canadian dollars)	For the three-month periods ended March 31 2019	2018
Item that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (31)**	$ 17
	(31)	17
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains (losses)	**45**	(9)
Reclassification of net (gains) losses to the Consolidated Statements of Income	**(1)**	1
	44	(8)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**35**	(19)
Reclassification of net gains to the Consolidated Statements of Income	**(1)**	(15)
	34	(34)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**7**	(4)
	7	(4)
	85	(46)
Total income tax expense (recovery)	**$ 54**	$ (29)

Consolidated Statements of Changes in Equity

For the three-month periods ended March 31
(unaudited)

(in millions of Canadian dollars)	Capital stock (Note 8)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 9)	Reserves: Stabilization reserve	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2018	$ 8,779	$ 4,764	$ (9)	$ 417	$ (146)	$ 271	$ 13,805	$ 748	$ 14,553
Net surplus earnings for the period after dividends to member caisses	-	59	-	-	-	-	59	(3)	56
Other comprehensive income for the period	-	(86)	267	-	-	-	181	7	188
Comprehensive income for the period	-	(27)	267	-	-	-	240	4	244
Issuance of F capital shares	46	-	-	-	-	-	46	-	46
Issuance of share capital	-	-	-	-	-	-	-	4	4
Dividends	-	-	-	-	-	-	-	(10)	(10)
Transfer from undistributed surplus earnings (to reserves)	-	(291)	-	-	291	291	-	-	-
Other	-	(3)	-	-	-	-	(3)	2	(1)
BALANCE AS AT MARCH 31, 2019	$ 8,825	$ 4,443	$ 258	$ 417	$ 145	$ 562	$ 14,088	$ 748	$ 14,836
BALANCE AS AT DECEMBER 31, 2017	$ 8,537	$ 5,674	$ 458	$ 467	$ 73	$ 540	$ 15,209	$ 810	$ 16,019
Impact of changes in accounting policies	-	34	(35)	-	(213)	(213)	(214)	-	(214)
OPENING BALANCE AS AT JANUARY 1, 2018	8,537	5,708	423	467	(140)	327	14,995	810	15,805
Net surplus earnings for the period after dividends to member caisses	-	350	-	-	-	-	350	9	359
Other comprehensive income for the period	-	47	(153)	-	-	-	(106)	(8)	(114)
Comprehensive income for the period	-	397	(153)	-	-	-	244	1	245
Issuance of F capital shares	68	-	-	-	-	-	68	-	68
Remuneration on capital shares	-	(247)	-	-	-	-	(247)	-	(247)
Redemption of share capital	-	-	-	-	-	-	-	(7)	(7)
Dividends	-	-	-	-	-	-	-	(11)	(11)
Transfer from undistributed surplus earnings (to reserves)	-	(174)	-	96	78	174	-	-	-
Transactions related to buy-out options	-	30	-	-	-	-	30	(19)	11
Buy-out of non-controlling interests	-	(13)	-	-	-	-	(13)	(15)	(28)
Other	-	(1)	-	-	-	-	(1)	-	(1)
BALANCE AS AT MARCH 31, 2018	$ 8,605	$ 5,700	$ 270	$ 563	$ (62)	$ 501	$ 15,076	$ 759	$ 15,835

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

Consolidated Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31 2019[1]	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 47**	$ 418
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	**45**	48
Depreciation of right-of-use assets	**7**	N/A
Net change in insurance contract liabilities	**1,421**	(27)
Provision for credit losses	**84**	89
Overlay approach adjustment for insurance operations financial assets	**167**	(169)
Other	**(11)**	(53)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(2,832)**	(1,054)
Securities borrowed or purchased under reverse repurchase agreements	**911**	(1,565)
Loans	**1,037**	874
Derivative financial instruments, net amount	**494**	(609)
Net amounts receivable from and payable to clients, brokers and financial institutions	**1,329**	(208)
Deposits	**(627)**	1,657
Commitments related to securities sold short	**1,300**	(323)
Commitments related to securities lent or sold under repurchase agreements	**(2,674)**	1,779
Other	**(636)**	(102)
Income taxes paid on surplus earnings	**(10)**	(125)
Payment of dividends to member caisses	**-**	(60)
	52	570
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of lease liabilities	**(9)**	N/A
Sale (purchase) of debt securities and subordinated notes from third parties on the market	**6**	(5)
Issuance of F capital shares	**46**	68
Remuneration on capital shares	**-**	(60)
Issuance of share capital	**4**	-
Redemption of share capital	**-**	(7)
Dividends paid	**(10)**	(11)
Buy-out of non-controlling interests	**-**	(28)
Transactions related to buy-out options	**-**	(63)
	37	(106)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(12,729)**	(14,933)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**3,115**	2,022
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**8,883**	12,518
Acquisitions of property, plant and equipment, intangible assets and investment property	**(47)**	(26)
	(778)	(419)
Net increase (decrease) in cash and cash equivalents	**(689)**	45
Cash and cash equivalents at beginning of period	**2,738**	1,757
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**2,049**	1,802
Less:		
Cash and cash equivalents of the disposal group held to be transferred	**-**	14
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF PERIOD	**$ 2,049**	$ 1,788
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 387**	$ 63
Interest and dividends received	**937**	763

[1] The information presented for the three-month period ended March 31, 2019 reflects IFRS 16, "Leases", which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

Notes to the Condensed Interim Consolidated Financial Statements
(unaudited)

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

Nature of operations

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

In addition, the Federation is the parent company of several financial services subsidiaries. The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

Pursuant to the *Act Respecting Financial Services Cooperatives*, these unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Interim Consolidated Financial Statements for the current period. These reclassifications had no impact on the Federation's profit or loss or total assets and liabilities.

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 2018, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Federation on May 14, 2019.

Presentation and functional currency

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

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

CHANGES IN ACCOUNTING POLICIES

IFRS 16, "Leases"

On January 1, 2019, the Federation adopted IFRS 16, "Leases", which replaces, IAS 17, "Leases", and related interpretations. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The accounting policies resulting from the adoption of this new standard have been applied as of January 1, 2019 on a retrospective basis without restatement of comparative periods. Consequently, the information for fiscal 2018 is in accordance with IAS 17 as described in the Annual Consolidated Financial Statements for the year ended December 31, 2018. The Federation applied the following transitional expedients as at January 1, 2019:

- Existing contracts at the date of transition were not reassessed to determine whether they are, or contain, a lease under IFRS 16.
- For leases previously classified as operating leases – lessee:
  - Contracts existing as at January 1, 2019 and ending during fiscal 2019 will be recognized as lease expense.
  - The right-of-use asset is equal to the amount of the lease liability, plus or minus certain adjustments, if any.

Under IFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For the lessor, the standard does not provide for any significant changes. For the lessee, the impact of adopting IFRS 16 is described below.

IFRS 16 introduces a single recognition model for the lessee, thereby eliminating the distinction in IAS 17 between operating and finance leases. The lessee must recognize in the Consolidated Balance Sheets a lease liability corresponding to the present value of the remaining lease payments as well as a right-of-use asset measured at the amount of the lease liability, plus or minus certain adjustments, if any. An interest expense and a depreciation charge relating to the lease liability and the right-of-use asset, respectively, must be recognized and presented separately in the Consolidated Statements of Income. As permitted by IFRS 16, the Federation elected to apply the exemptions for short-term and low-value leases. As a result, such leases will continue to be recognized as a lease expense in the Consolidated Statements of Income based on the terms of the lease. In addition, the Federation will apply the practical expedient which allows not to separate non-lease components from lease components for a contract.

The following table reconciles operating lease commitments as at December 31, 2018 and the lease liabilities recognized in the Consolidated Balance Sheet as at January 1, 2019.

Operating lease commitments reported as at December 31, 2018	$ 342
Adjustment related to the weighted average lessee's incremental borrowing rate as at January 1, 2019 (3.81%)	(117)
Finance lease obligations as at December 31, 2018	16
Short-term leases recognized in the Consolidated Statement of Income	(4)
Adjustments related to differences in the treatment of renewal and termination options	165
Adjustments related to non-refundable taxes	(40)
Other adjustments	(1)
Lease liabilities as at January 1, 2019	**$ 361**

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2018, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements. During the three-month period ended March 31, 2019, the IASB has not issued any new accounting standards or new amendments to existing standards.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at March 31, 2019	**Classified as at fair value through profit or loss[1]**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income[2]**	**Designated as at fair value through other comprehensive income**	**Amortized cost[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ -	$ 129	$ 999	$ -	$ 921	$ 2,049
Securities	22,277	17,469	11,960	43	1,661	53,410
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	13,175	13,175
Loans[3]	-	-	-	-	60,716	60,716
Other financial assets						
Clients' liability under acceptances	-	-	-	-	143	143
Premiums receivable	-	-	-	-	2,334	2,334
Derivative financial instruments[4]	4,785	-	-	-	-	4,785
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	3,191	3,191
Other	3	-	-	-	1,074	1,077
Total financial assets	$ 27,065	$ 17,598	$ 12,959	$ 43	$ 83,215	$ 140,880
Financial liabilities						
Deposits[5]	$ -	$ 7	$ -	$ -	$ 57,423	$ 57,430
Other financial liabilities						
Acceptances	-	-	-	-	143	143
Commitments related to securities sold short	12,129	-	-	-	-	12,129
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	13,559	13,559
Derivative financial instruments[4]	4,214	-	-	-	-	4,214
Amounts payable to clients, brokers and financial institutions	-	-	-	-	7,138	7,138
Other	333	-	-	-	2,446	2,779
Subordinated notes	-	-	-	-	1,384	1,384
Total financial liabilities	$ 16,676	$ 7	$ -	$ -	$ 82,093	$ 98,776

(1) An amount of $2,867 million corresponds to financial assets designated for the overlay approach.
(2) As at March 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $3 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".
(3) For more information, see Note 5, "Loans and allowance for credit losses".
(4) Include derivative financial instruments designated as hedging instruments amounting to $471 million in assets and $145 million in liabilities.
(5) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and will differ from the fair value of such deposits as at the reporting date.

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

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS *(continued)*

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2018	Classified as at fair value through profit or loss[1]	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[2]	Designated as at fair value through other comprehensive income	Amortized cost[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ 291	$ 1,068	$ -	$ 1,379	$ 2,738
Securities	20,606	16,308	11,088	43	1,621	49,666
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	14,086	14,086
Loans[3]	-	-	-	-	61,837	61,837
Other financial assets						
Clients' liability under acceptances	-	-	-	-	160	160
Premiums receivable	-	-	-	-	2,378	2,378
Derivative financial instruments[4]	4,376	-	-	-	-	4,376
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	1,487	1,487
Other	13	-	-	-	794	807
Total financial assets	$ 24,995	$ 16,599	$ 12,156	$ 43	$ 83,742	$ 137,535
Financial liabilities						
Deposits	$ -	$ -	$ -	$ -	$ 58,057	$ 58,057
Other financial liabilities						
Acceptances	-	-	-	-	160	160
Commitments related to securities sold short	10,829	-	-	-	-	10,829
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	16,233	16,233
Derivative financial instruments[4]	3,332	-	-	-	-	3,332
Amounts payable to clients, brokers and financial institutions	-	-	-	-	4,105	4,105
Other	319	-	-	-	2,363	2,682
Subordinated notes	-	-	-	-	1,378	1,378
Total financial liabilities	$ 14,480	$ -	$ -	$ -	$ 82,296	$ 96,776

(1) An amount of $2,758 million corresponds to financial assets designated for the overlay approach.
(2) As at December 31, 2018, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $2 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".
(3) For more information, see Note 5, "Loans and allowance for credit losses".
(4) Include derivative financial instruments designated as hedging instruments amounting to $783 million in assets and $202 million in liabilities.

During the three-month period ended March 31, 2019 and the year ended December 31, 2018, no financial instruments have been reclassified.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

For more information on the valuation techniques used to determine the fair value of the main financial instruments, refer to Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

Financial instruments whose fair value equals carrying amount

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. These financial instruments are presented in the following table.

	As at March 31, 2019		As at December 31, 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Securities	**$ 1,661**	**$ 1,662**	$ 1,621	$ 1,621
Loans	**60,716**	**60,742**	61,837	61,610
Financial liabilities				
Deposits	**57,423**	**57,243**	58,057	57,842
Subordinated notes	**1,384**	**1,442**	1,378	1,433

FAIR VALUE HIERARCHY

The fair value measurement of financial instruments 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.

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at March 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 23	$ 106	$ -	$ 129
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,634	973	-	11,607
Provincial governmental entities and municipal corporations in Canada	17,323	988	-	18,311
School or public corporations in Canada	14	89	-	103
Foreign public administrations	310	-	-	310
Other securities				
Financial institutions	32	952	56	1,040
Other issuers	1	2,935	773	3,709
Equity securities	3,310	622	734	4,666
	31,647	6,665	1,563	39,875
Derivative financial instruments				
Interest rate contracts	-	2,006	-	2,006
Foreign exchange contracts	-	547	-	547
Other contracts	-	2,232	-	2,232
	-	4,785	-	4,785
Other assets	-	-	3	3
Total financial assets at fair value through profit or loss	31,647	11,450	1,566	44,663
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	38	961	-	999
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,953	585	-	2,538
Provincial governmental entities and municipal corporations in Canada	4,604	800	-	5,404
Foreign public administrations	13	-	-	13
Other securities				
Financial institutions	-	3,341	-	3,341
Other issuers	-	566	98	664
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	6,608	6,296	98	13,002
Financial instruments of segregated funds	5,982	8,329	75	14,386
Total financial assets	$ 44,237	$ 26,075	$ 1,739	$ 72,051
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ 7	$ -	$ -	$ 7
Other liabilities				
Commitments related to securities sold short	11,722	407	-	12,129
Other	-	-	333	333
	11,729	407	333	12,469
Derivative financial instruments				
Interest rate contracts	-	1,884	-	1,884
Foreign exchange contracts	-	186	-	186
Other contracts	-	2,144	-	2,144
	-	4,214	-	4,214
Total financial liabilities	$ 11,729	$ 4,621	$ 333	$ 16,683

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

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

As at December 31, 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 27	$ 264	$ -	$ 291
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,632	994	-	11,626
Provincial governmental entities and municipal corporations in Canada	15,063	1,108	-	16,171
School or public corporations in Canada	14	85	-	99
Foreign public administrations	191	-	-	191
Other securities				
Financial institutions	32	800	56	888
Other issuers	3	2,763	742	3,508
Equity securities	3,106	627	698	4,431
	29,068	6,641	1,496	37,205
Derivative financial instruments				
Interest rate contracts	-	1,707	-	1,707
Foreign exchange contracts	-	1,300	-	1,300
Other contracts	-	1,369	-	1,369
	-	4,376	-	4,376
Other assets	-	-	13	13
Total financial assets at fair value through profit or loss	29,068	11,017	1,509	41,594
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	135	933	-	1,068
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,950	595	-	2,545
Provincial governmental entities and municipal corporations in Canada	4,402	641	-	5,043
Other securities				
Financial institutions	-	2,810	-	2,810
Other issuers	-	593	97	690
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	6,487	5,615	97	12,199
Financial instruments of segregated funds	5,556	7,610	72	13,238
Total financial assets	$ 41,111	$ 24,242	$ 1,678	$ 67,031
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Other liabilities				
Commitments related to securities sold short	$ 10,535	$ 294	$ -	$ 10,829
Other	-	-	319	319
	10,535	294	319	11,148
Derivative financial instruments				
Interest rate contracts	-	1,726	-	1,726
Foreign exchange contracts	-	278	-	278
Other contracts	-	1,328	-	1,328
	-	3,332	-	3,332
Total financial liabilities	$ 10,535	$ 3,626	$ 319	$ 14,480

During the three-month period ended March 31, 2019 and the year ended December 31, 2018, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect. During the three-month period ended March 31, 2019, no significant changes were made to the key controls and procedures as well as the valuation techniques for financial instruments categorized within Level 3. For more information on the valuation process for financial instruments categorized within Level 3, refer to Note 4, “Fair value of financial instruments”, to the Annual Consolidated Financial Statements.

Sensitivity of financial instruments categorized within Level 3

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

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

During the three-month period ended March 31, 2019, no changes were made to valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3.

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

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

Changes in fair value of financial instruments categorized within Level 3

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

For the three-month period ended March 31, 2019	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 56	$ -	$ -	$ -	$ -	$ -	$ -	$ 56
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	-	5
Mortgage bonds	736	-	13	-	-	-	(8)	741
Other debt securities	-	-	-	-	-	25	-	25
Equity securities	698	-	(13)	-	-	63	(14)	734
Other assets	13	-	-	-	-	-	(10)	3
Total financial assets at fair value through profit or loss	1,509	-	1	-	-	88	(32)	1,566
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	1	-	-	-	90
Corporate bonds	8	-	-	-	-	-	-	8
Total financial assets at fair value through other comprehensive income	97	-	-	1	-	-	-	98
Financial instruments of segregated funds	72	-	2	-	-	1	-	75
Total financial assets	$ 1,678	$ -	$ 3	$ 1	$ -	$ 89	$ (32)	$ 1,739
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 319	$ -	$ 14	$ -	$ -	$ -	$ -	$ 333
Total financial liabilities	$ 319	$ -	$ 14	$ -	$ -	$ -	$ -	$ 333

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income".
(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income".
(3) Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized gains (losses)" on debt securities at fair value through other comprehensive income.

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

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

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

For the three-month period ended March 31, 2018	Balance as at December 31, 2017	Impact of changes in accounting policies	Balance as at January 1, 2018	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements / Other	Balance at end of period
Financial assets										
Financial assets at fair value through profit or loss										
Securities										
Other securities										
Financial institutions										
Mortgage bonds	$ 58	$ -	$ 58	$ -	$ (1)	$ -	$ -	$ -	$ -	$ 57
Other issuers										
Hedge funds	4	-	4	-	-	-	-	-	-	4
Asset-backed term notes	6	-	6	-	1	-	-	-	(2)	5
Mortgage bonds	857	-	857	-	(22)	-	-	-	(14)	821
Equity securities	236	279	515	-	31	-	-	13	(5)	554
Total financial assets at fair value through profit or loss	1,161	279	1,440	-	9	-	-	13	(21)	1,441
Available-for-sale financial assets										
Securities – Available-for-sale securities										
Other securities										
Other issuers										
Mortgage bonds	95	(95)	-	-	-	-	-	-	-	-
Equity securities	279	(279)	-	-	-	-	-	-	-	-
Total available-for-sale financial assets	374	(374)	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income										
Securities										
Other securities										
Other issuers										
Mortgage bonds	-	95	95	-	-	(2)	-	-	(1)	92
Total financial assets at fair value through other comprehensive income	-	95	95	-	-	(2)	-	-	(1)	92
Financial instruments of segregated funds	60	-	60	-	-	-	-	64	(57)	67
Total financial assets	$ 1,595	$ -	$ 1,595	$ -	$ 9	$ (2)	$ -	$ 77	$ (79)	$ 1,600
Financial liabilities										
Financial liabilities at fair value through profit or loss										
Other liabilities – Other										
Financial liability related to put options	$ 64	$ -	$ 64	$ -	$ -	$ -	$ -	$ -	$ (64)	$ -
Financial liability related to the contingent consideration	388	-	388	-	24	-	-	-	-	412
Total financial liabilities	$ 452	$ -	$ 452	$ -	$ 24	$ -	$ -	$ -	$ (64)	$ 412

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

[2] Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income"

[3] Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains (losses)” on debt securities at fair value through other comprehensive income.

NOTE 5 – 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 Federation estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on the classification of loans and off-balance sheet items based on credit quality, see the table presenting probability of default (PD) tranches in relation with risk levels for loans and off-balance sheet items in Note 7, “Loans and allowance for credit losses”, to the Annual Consolidated Financial Statements.

Loans

	Non-credit impaired		Credit-impaired	
As at March 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 568	$ -	$ -	$ 568
Very low	2,083	-	-	2,083
Low	1,678	13	-	1,691
Moderate	88	88	-	176
High	1	46	-	47
Default	-	4	11	15
Total gross residential mortgages	$ 4,418	$ 151	$ 11	$ 4,580
Allowance for credit losses	(4)	(1)	(5)	(10)
Total net residential mortgages	$ 4,414	$ 150	$ 6	$ 4,570
Consumer, credit card and other personal loans				
Excellent	$ 1,367	$ -	$ -	$ 1,367
Very low	3,265	-	-	3,265
Low	8,106	98	-	8,204
Moderate	3,323	1,440	-	4,763
High	30	1,620	-	1,650
Default	-	-	226	226
Total gross consumer, credit card and other personal loans	$ 16,091	$ 3,158	$ 226	$ 19,475
Allowance for credit losses	(96)	(255)	(114)	(465)
Total net consumer, credit card and other personal loans	$ 15,995	$ 2,903	$ 112	$ 19,010
Business and government loans(1)				
Acceptable risk:				
Investment grade	$ 32,793	$ -	$ -	$ 32,793
Other than investment grade	3,823	369	-	4,192
Under watch	55	104	-	159
Default	-	-	157	157
Total gross business and government loans	$ 36,671	$ 473	$ 157	$ 37,301
Allowance for credit losses	(10)	(4)	(8)	(22)
Total net business and government loans	$ 36,661	$ 469	$ 149	$ 37,279

(1) Including clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 626	$ -	$ -	$ 626
Very low	2,120	-	-	2,120
Low	1,663	9	-	1,672
Moderate	82	73	-	155
High	8	32	-	40
Default	-	3	10	13
Total gross residential mortgages	$ 4,499	$ 117	$ 10	$ 4,626
Allowance for credit losses	(4)	(1)	(5)	(10)
Total net residential mortgages	$ 4,495	$ 116	$ 5	$ 4,616
Consumer, credit card and other personal loans				
Excellent	$ 1,529	$ -	$ -	$ 1,529
Very low	3,352	-	-	3,352
Low	8,139	92	-	8,231
Moderate	3,522	1,320	-	4,842
High	33	1,523	-	1,556
Default	-	-	200	200
Total gross consumer, credit card and other personal loans	$ 16,575	$ 2,935	$ 200	$ 19,710
Allowance for credit losses	(102)	(249)	(110)	(461)
Total net consumer, credit card and other personal loans	$ 16,473	$ 2,686	$ 90	$ 19,249
Business and government loans[(1)]				
Acceptable risk:				
Investment grade	$ 33,588	$ -	$ -	$ 33,588
Other than investment grade	3,753	353	-	4,106
Under watch	65	255	-	320
Default	-	-	138	138
Total gross business and government loans	$ 37,406	$ 608	$ 138	$ 38,152
Allowance for credit losses	(9)	(5)	(6)	(20)
Total net business and government loans	$ 37,397	$ 603	$ 132	$ 38,132

[(1)] Including clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

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

Off-balance sheet items[(1)]

	Non-credit impaired		Credit-impaired	
As at March 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 12,615	$ 1	$ -	$ 12,616
Very low	18,299	1	-	18,300
Low	7,196	115	-	7,311
Moderate	3,285	1,536	-	4,821
High	16	730	-	746
Default	-	-	25	25
Total gross off-balance sheet items	$ 41,411	$ 2,383	$ 25	$ 43,819
Allowance for credit losses	(25)	(10)	-	(35)
Total net off-balance sheet items	$ 41,386	$ 2,373	$ 25	$ 43,784
Business and government				
Acceptable risk:				
Investment grade	$ 60,812	$ -	$ -	$ 60,812
Other than investment grade	5,523	172	-	5,695
Under watch	15	104	-	119
Default	-	-	8	8
Total gross off-balance sheet items	$ 66,350	$ 276	$ 8	$ 66,634
Allowance for credit losses	(4)	(1)	-	(5)
Total net off-balance sheet items	$ 66,346	$ 275	$ 8	$ 66,629

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

	Non-credit impaired		Credit-impaired	
As at December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 12,121	$ 5	$ -	$ 12,126
Very low	18,338	1	-	18,339
Low	7,221	121	-	7,342
Moderate	3,318	1,362	-	4,680
High	16	662	-	678
Default	-	-	23	23
Total gross off-balance sheet items	$ 41,014	$ 2,151	$ 23	$ 43,188
Allowance for credit losses	(25)	(8)	-	(33)
Total net off-balance sheet items	$ 40,989	$ 2,143	$ 23	$ 43,155
Business and government				
Acceptable risk:				
Investment grade	$ 61,224	$ -	$ -	$ 61,224
Other than investment grade	3,387	384	-	3,771
Under watch	18	54	-	72
Default	-	-	8	8
Total gross off-balance sheet items	$ 64,629	$ 438	$ 8	$ 65,075
Allowance for credit losses	(2)	(2)	-	(4)
Total net off-balance sheet items	$ 64,627	$ 436	$ 8	$ 65,071

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

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

The following tables present the changes in the balance of the loss allowance for expected credit losses on loans.

	Non-credit impaired		Credit-impaired	Allowance for
For the three-month period ended March 31, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of period	**$ 4**	**$ 1**	**$ 5**	**$ 10**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**-**	**-**	**-**	**-**
Stage 2	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**
Changes in model inputs[3]	**-**	**-**	**-**	**-**
New originations or acquisitions[4]	**-**	**-**	**-**	**-**
Derecognition and maturities[5]	**-**	**-**	**-**	**-**
Net drawdowns (repayments)[6]	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**
	-	**-**	**-**	**-**
Write-offs and recoveries	**-**	**-**	**-**	**-**
Balance at end of period	**$ 4**	**$ 1**	**$ 5**	**$ 10**
Consumer, credit card and other personal loans				
Balance at beginning of period	**$ 129**	**$ 259**	**$ 110**	**$ 498**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**64**	**(60)**	**(4)**	**-**
Stage 2	**(15)**	**25**	**(10)**	**-**
Stage 3	**-**	**(10)**	**10**	**-**
Net remeasurement due to transfers[2]	**(21)**	**15**	**49**	**43**
Changes in model inputs[3]	**(36)**	**49**	**74**	**87**
New originations or acquisitions[4]	**14**	**15**	**-**	**29**
Derecognition and maturities[5]	**(6)**	**(13)**	**(40)**	**(59)**
Net drawdowns (repayments)[6]	**(5)**	**(14)**	**-**	**(19)**
Other	**1**	**-**	**-**	**1**
	(4)	**7**	**79**	**82**
Write-offs and recoveries	**-**	**-**	**(75)**	**(75)**
Balance at end of period	**$ 125**	**$ 266**	**$ 114**	**$ 505**
Business and government				
Balance at beginning of period	**$ 9**	**$ 5**	**$ 6**	**$ 20**
Provision for credit losses				
Transfers to[1]:				
Stage 1	**1**	**(1)**	**-**	**-**
Stage 2	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**5**	**5**
Changes in model inputs[3]	**-**	**-**	**(4)**	**(4)**
New originations or acquisitions[4]	**1**	**-**	**-**	**1**
Derecognition and maturities[5]	**(1)**	**-**	**-**	**(1)**
Net drawdowns (repayments)[6]	**-**	**-**	**-**	**-**
Other	**-**	**-**	**1**	**1**
	1	**(1)**	**2**	**2**
Write-offs and recoveries	**-**	**-**	**-**	**-**
Balance at end of period	**$ 10**	**$ 4**	**$ 8**	**$ 22**
Total balances as at March 31, 2019	**$ 139**	**$ 271**	**$ 127**	**$ 537**
Composed of:				
Loans	**$ 110**	**$ 260**	**$ 127**	**$ 497**
Off-balance sheet items[7]	**29**	**11**	**-**	**40**

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Consolidated Balance Sheets.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES (*continued*)

For the three-month period ended March 31, 2018	Non-credit impaired Stage 1	Non-credit impaired Stage 2	Credit-impaired Stage 3	Allowance for credit losses
Residential mortgages				
Balance at beginning of period	$ 4	$ 1	$ 4	$ 9
Provision for credit losses				
Transfers to[1]:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	-	-	-	-
Changes in model inputs[3]	-	-	-	-
New originations or acquisitions[4]	-	-	-	-
Derecognition and maturities[5]	-	-	-	-
Net drawdowns (repayments)[6]	-	-	-	-
	-	-	-	-
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 4	$ 1	$ 4	$ 9
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 96	$ 304	$ 94	$ 494
Provision for credit losses				
Transfers to[1]:				
Stage 1	59	(55)	(4)	-
Stage 2	(13)	19	(6)	-
Stage 3	-	(8)	8	-
Net remeasurement due to transfers[2]	(30)	19	27	16
Changes in model inputs[3]	(14)	48	67	101
New originations or acquisitions[4]	15	31	-	46
Derecognition and maturities[5]	(5)	(34)	(31)	(70)
Net drawdowns (repayments)[6]	(6)	(6)	11	(1)
	6	14	72	92
Write-offs and recoveries	-	-	(69)	(69)
Balance at end of period	$ 102	$ 318	$ 97	$ 517
Business and government				
Balance at beginning of period	$ 7	$ 9	$ 8	$ 24
Provision for credit losses				
Transfers to[1]:				
Stage 1	2	(1)	(1)	-
Stage 2	-	1	(1)	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	(1)	-	-	(1)
Changes in model inputs[3]	(1)	-	-	(1)
New originations or acquisitions[4]	-	-	-	-
Derecognition and maturities[5]	-	-	-	-
Net drawdowns (repayments)[6]	-	(1)	-	(1)
	-	(1)	(2)	(3)
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 7	$ 8	$ 6	$ 21
Total balances as at March 31, 2018	$ 113	$ 327	$ 107	$ 547
Composed of:				
Loans	$ 94	$ 310	$ 107	$ 511
Off-balance sheet items[7]	19	17	-	36

[1] Represent transfers between stages before the remeasurement of expected credit losses.
[2] Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
[3] Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
[4] Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[5] Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[6] Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
[7] The allowance for credit losses on off-balance sheet items is presented under “Other liabilities – Other” in the Consolidated Balance Sheets.

NOTE 6 – INTERESTS IN OTHER ENTITIES

COVERED BONDS

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. This entity is controlled by the Federation, and therefore included in its Consolidated Financial Statements. The Federation granted financing to the entity in order to facilitate the acquisition of these assets. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $5,237 million as at March 31, 2019 ($5,859 million as at December 31, 2018), are presented under “Deposits – Business and government” in the Consolidated Balance Sheets.

NOTE 7 – DEPOSITS

Deposits consist of demand deposits (payable on demand), notice deposits (payable upon notice) and term deposits (payable on a fixed date). Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which the Federation does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which the Federation has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from 1 day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at March 31, 2019				As at December 31, 2018			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 3,135**	**$ 43**	**$ 457**	**$ 3,635**	$ 2,961	$ 41	$ 1,103	$ 4,105
Business and government	**4,021**	**-**	**41,989**	**46,010**	3,274	-	42,724	45,998
Deposit-taking institutions	**3,929**	**-**	**3,856**	**7,785**	4,448	-	3,506	7,954
	$ 11,085	**$ 43**	**$ 46,302**	**$ 57,430**	$ 10,683	$ 41	$ 47,333	$ 58,057

NOTE 8 – CAPITAL STOCK

ISSUANCE OF SHARES

During the three-month period ended March 31, 2019, the Federation issued 4,575,720 F capital shares for a cash consideration of $46 million.

NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at March 31, 2019		As at December 31, 2018	
	Group’s share	**Non-controlling interests’ share**	Group’s share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income[1]	**$ 138**	**$ 1**	$ 14	$ (1)
Net unrealized gains (losses) related to the overlay approach for insurance operations financial assets	**109**	**5**	(17)	(2)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**10**	**-**	(7)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	-
Accumulated other comprehensive income	**$ 258**	**$ 6**	$ (9)	$ (3)

[1] Including an allowance for credit losses of $3 million as at March 31, 2019 ($2 million as at December 31, 2018) on securities classified as at fair value through other comprehensive income.

NOTE 10 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation’s capital management and the manner in which it meets its capital management objectives are derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

The Federation’s capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF.

The minimum Tier 1A capital ratio that the Federation must maintain is 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. For the leverage ratio, the minimum requirement is 3.5%.

As at March 31, 2019, the Federation was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

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

(in millions of dollars and as a percentage)	**As at March 31, 2019**	As at December 31, 2018
Capital		
Tier 1A capital	**$ 10,581**	$ 9,897
Tier 1 capital	**10,581**	9,897
Total capital	**10,581**	9,897
Risk-weighted assets for capital ratio calculation purposes[1]		
For Tier 1A capital	**64,867**	63,106
For Tier 1 capital	**64,867**	63,150
For total capital	**64,867**	63,193
Risk-weighted assets for total capital calculation purposes[1]		
Credit risk	**51,332**	49,216
Market risk	**4,945**	5,396
Operational risk	**8,590**	8,581
Total risk-weighted assets	**$ 64,867**	$ 63,193
Ratios and leverage ratio exposure		
Tier 1A capital	**16.3%**	15.7%
Tier 1 capital	**16.3**	15.7
Total capital	**16.3**	15.7
Leverage	**7.9**	7.4
Leverage ratio exposure	**$ 134,539**	$ 134,198

[1] Since January 1, 2014, the requirements of the CVA charge have been phased in to calculate the Tier 1A, Tier 1 and total capital ratios. As at December 31, 2018, the factors applied were 80%, 83% and 86%, respectively, and they are now 100% for each capital category as of the first quarter of 2019.

NOTE 11 – NET INTEREST INCOME AND NET INVESTMENT INCOME

NET INTEREST INCOME

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

For the three-month periods ended March 31	2019	2018
Interest income on financial assets		
At amortized cost	$ 719	$ 591
At fair value through other comprehensive income	45	44
At fair value through profit or loss	7	7
	771	642
Interest expense on financial liabilities at amortized cost	406	274
	$ 365	$ 368

NET INVESTMENT INCOME

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

For the three-month periods ended March 31	2019			2018		
	Interest income and expense	Fair value gains (losses) and other	Total	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income on financial assets and liabilities						
Classified as at fair value through profit or loss	$ 74	$ 257	$ 331	$ 62	$ (53)	$ 9
Designated as at fair value through profit or loss	131	877	1,008	120	(139)	(19)
Classified as at fair value through other comprehensive income	35	1	36	32	(3)	29
At amortized cost and other	33	16	49	37	70	107
	$ 273	$ 1,151	$ 1,424	$ 251	$ (125)	$ 126

NOTE 12 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of the Federation's financial results by business segment.

For the three-month periods ended March 31	Personal and Business Services 2019	Personal and Business Services 2018	Wealth Management and Life and Health Insurance 2019	Wealth Management and Life and Health Insurance 2018	Property and Casualty Insurance 2019	Property and Casualty Insurance 2018	Treasury and Other Support to Desjardins Group Entities 2019	Treasury and Other Support to Desjardins Group Entities 2018	Consolidated 2019	Consolidated 2018
Net interest income	**$ 297**	$ 276	**$ 1**	$ 1	**$ -**	$ -	**$ 67**	$ 91	**$ 365**	$ 368
Net premiums	**-**	-	**1,197**	1,143	**1,184**	1,059	**(36)**	(38)	**2,345**	2,164
Other income	**469**	470	**1,561**	577	**123**	69	**46**	143	**2,199**	1,259
Total income	**766**	746	**2,759**	1,721	**1,307**	1,128	**77**	196	**4,909**	3,791
Provision for credit losses	**83**	89	**-**	-	**-**	-	**1**	-	**84**	89
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**2,019**	841	**1,101**	815	**-**	-	**3,120**	1,656
Non-interest expense	**574**	521	**567**	623	**307**	277	**210**	207	**1,658**	1,628
Operating surplus earnings	**109**	136	**173**	257	**(101)**	36	**(134)**	(11)	**47**	418
Income taxes on surplus earnings	**30**	30	**34**	51	**(20)**	10	**(53)**	(32)	**(9)**	59
Net surplus earnings for the period after dividends to member caisses	**$ 79**	$ 106	**$ 139**	$ 206	**$ (81)**	$ 26	**$ (81)**	$ 21	**$ 56**	$ 359
of which:										
Group's share	**$ 79**	$ 106	**$ 139**	$ 206	**$ (78)**	$ 17	**$ (81)**	$ 21	**$ 59**	$ 350
Non-controlling interests' share	**-**	-	**-**	-	**(3)**	9	**-**	-	**(3)**	9

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at March 31, 2019	**$ 61,283**	**$ 45,324**	**$ 13,271**	**$ 42,571**	**$ 162,449**
As at December 31, 2018	$ 60,982	$ 41,916	$ 13,007	$ 41,655	$ 157,560

GENERAL INFORMATION

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