

Financial Report
Second quarter of 2019
FINANCIAL HIGHLIGHTS
Financial results and indicators

(in millions of dollars and as a percentage)

	For the three-month periods			For the six-month periods	
	ended			ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Net interest income	\$ 372	\$ 365	\$ 353	\$ 737	\$ 721
Net premiums	2,270	2,345	2,225	4,615	4,389
Other operating income ⁽²⁾	900	942	1,000	1,842	1,964
Operating income⁽²⁾	3,542	3,652	3,578	7,194	7,074
Investment income ⁽²⁾	1,001	1,257	319	2,258	614
Total income	4,543	4,909	3,897	9,452	7,688
(Recovery of) provision for credit losses	(6)	84	63	78	152
Claims, benefits, annuities and changes in insurance contract liabilities	2,361	3,120	1,727	5,481	3,383
Non-interest expense	1,816	1,658	1,568	3,474	3,196
Income taxes on surplus earnings	56	(9)	75	47	134
Surplus earnings after dividends to member caisses	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Adjusted surplus earnings after dividends to member caisses⁽²⁾	\$ 316	\$ 56	\$ 335	\$ 372	\$ 694
Contribution to consolidated surplus earnings by business segment⁽³⁾					
Personal and Business Services	\$ 138	\$ 79	\$ 71	\$ 217	\$ 177
Wealth Management and Life and Health Insurance	183	139	331	322	537
Property and Casualty Insurance	123	(81)	52	42	78
Treasury and Other Support to Desjardins Group Entities	(128)	(81)	10	(209)	31
	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Indicators					
Return on equity ⁽²⁾	8.4%	1.7%	11.8%	5.1%	10.5%
Adjusted return on equity ⁽²⁾	8.5	1.7	8.4	5.2	8.9
Credit loss provisioning rate ⁽²⁾	(0.04)	0.55	0.43	0.25	0.52

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 June 30, 2019 ⁽¹⁾	As at December 31, 2018
Balance sheet		
Assets	\$ 164,252	\$ 157,560
Net loans and acceptances	61,392	61,997
Deposits	59,512	58,057
Equity	15,043	14,553
Indicators		
Assets under administration ⁽²⁾	\$ 411,515	\$ 373,558
Assets under management ⁽³⁾	72,890	66,359
Tier 1A capital ratio	15.7%	15.7%
Tier 1 capital ratio	15.7	15.7
Total capital ratio	15.7	15.7
Leverage ratio	7.9	7.4
Gross credit-impaired loans/gross loans and acceptances ⁽⁴⁾	0.61	0.56

⁽¹⁾ The information presented as at June 30, 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, August 12, 2019 – For the second quarter ended June 30, 2019, the Federation posted surplus earnings after dividends to member caisses of \$316 million, a \$148 million decrease compared to the corresponding quarter of 2018. Surplus earnings adjusted⁽¹⁾ for the specific item at the creation of Aviso Wealth, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, were down \$19 million, or 5.7%. The reduction in surplus earnings was mainly due to a decrease in the fair value of derivative financial instruments associated with hedging activities, partially offset by the activities of the Property and Casualty Insurance segment, where premium income was up and the claims experience was favourable compared to the same quarter in 2018. The reduction in surplus earnings was also mitigated by the decrease in the provision for credit losses following the updating of parameters of non-credit impaired loans and economic factors. As for the privacy breach, a total of \$70 million in expenses and provisions for the implementation of protections for our members (i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members) were recognized in the second quarter of 2019.

This result reflects the contribution of \$138 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed \$183 million and \$123 million, respectively, to surplus earnings.

"Our second quarter results are fully in line with our expectations, in particular due to the growth in caisse network operations," said President and CEO Guy Cormier. "They demonstrate Desjardins Group's financial strength and its ability to deal with the unexpected. Members who are worried about the privacy breach can rest assured that their cooperative protects them by providing automatic protection against identity theft to all its members. Our employees are working very hard to address our members' concerns and needs."

The Federation complies with Basel III rules and maintains very good capitalization. As at June 30, 2019, its Tier 1A and total capital ratios were both 15.7%, unchanged compared to those as at December 31, 2018.

¹ See "Basis of presentation of financial information".

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 August 12, 2019 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended June 30, 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 June 30, 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. They 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 Quebec, Canadian, U.S. and global 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 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

Privacy breach

On June 20, 2019, Desjardins Group announced that some personal information of 2.9 million members had been shared with individuals outside the organization. This situation was caused by an ill-intentioned employee who has since been fired. Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached. In light of the situation, additional measures were put in place to protect the personal and financial information of all members and clients. Desjardins Group sent a letter to all members affected by the incident. It offers affected members, at its own cost, a credit monitoring plan and identity theft insurance with Equifax for five years.

In addition, on July 15, 2019, Desjardins Group announced to all its members that they are now automatically protected against identity theft. This protection is available not only to personal members, but also to business members, who are currently not served by any similar industry protection. This protection includes the following: the protection of assets and transactions at Desjardins Group, individual support in the identity recovery process in case of identity theft and coverage that will reimburse up to \$50,000 for expenses related to identify theft.

The expenses related to costs incurred and the establishment of a provision with respect to the implementation of these protections for our members, totalling \$70 million, have been recognized in profit or loss in the second quarter of 2019. Desjardins Group could periodically reassess this provision based on the circumstances.

Following the announcement on June 20, 2019, the credit ratings assigned by the ratings agencies Standard & Poor's, DBRS, Moody's and Fitch to Desjardins Group's senior securities were affirmed and remained unchanged.

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:

Adjusted surplus earnings of the Federation after dividends to member caisses

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

The Federation's surplus earnings after dividends to member caisses are adjusted to exclude the following specific item: the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Presentation of surplus earnings after dividends to member caisses in the Consolidated Financial Statements	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Specific item, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	-	-	(129)	-	(129)
Presentation of adjusted surplus earnings after dividends to member caisses	\$ 316	\$ 56	\$ 335	\$ 372	\$ 694

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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.

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

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

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Consolidated Financial Statements	\$ 183	\$ 139	\$ 331	\$ 322	\$ 537
Specific item, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	-	-	(129)	-	(129)
Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment	\$ 183	\$ 139	\$ 202	\$ 322	\$ 408

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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.

Gross credit-impaired loans/gross loans and acceptances

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

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			For the six-month periods ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net premiums	\$ 1,222	\$ 1,184	\$ 1,073	\$ 2,406	\$ 2,132
Net premiums considered in the ratio denominators	\$ 1,222	\$ 1,184	\$ 1,073	\$ 2,406	\$ 2,132
Claims, benefits, annuities, and changes in insurance contract liabilities	\$ 805	\$ 1,101	\$ 734	\$ 1,906	\$ 1,549
Market yield adjustment (MYA)	(33)	(77)	18	(110)	45
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	\$ 772	\$ 1,024	\$ 752	\$ 1,796	\$ 1,594
Loss ratio	63.2%	86.5%	70.1%	74.6%	74.8%
Non-interest expense	\$ 303	\$ 307	\$ 280	\$ 610	\$ 557
Other expenses excluded from the expense ratio ⁽¹⁾	6	1	(6)	7	(10)
Operating expenses	\$ 309	\$ 308	\$ 274	\$ 617	\$ 547
Expense ratio	25.3%	26.0%	25.5%	25.6%	25.7%
Combined ratio	88.5%	112.5%	95.6%	100.2%	100.5%

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

Return on equity and adjusted return on equity

Return on equity is used to measure profitability resulting in value creation for members and clients. Expressed as a percentage, it is equal to surplus earnings after 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 after dividends to member caisses as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Surplus earnings after dividends to member caisses	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Non-controlling interests' share	(18)	3	(11)	(15)	(20)
Group's share	\$ 298	\$ 59	\$ 453	\$ 357	\$ 803
Average equity before non-controlling interests	\$ 14,187	\$ 13,947	\$ 15,457	\$ 14,059	\$ 15,374
Return on equity⁽²⁾	8.4%	1.7%	11.8%	5.1%	10.5%
Adjusted return on equity⁽²⁾⁽³⁾	8.5%	1.7%	8.4%	5.2%	8.9%

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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.

⁽³⁾ Takes into account the specific items presented under "Adjusted surplus earnings of the Federation after dividends to member caisses" in this section.

Income

Operating income

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

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

Investment income

Investment income 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			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Presentation of income in the Consolidated Financial Statements					
Net interest income	\$ 372	\$ 365	\$ 353	\$ 737	\$ 721
Net premiums	2,270	2,345	2,225	4,615	4,389
Other income					
Assessments	98	98	99	196	198
Service agreements	199	186	186	385	370
Lending fees and credit card service revenues	185	210	164	395	350
Brokerage and investment fund services	223	214	223	437	478
Management and custodial service fees	148	147	144	295	287
Net investment income ⁽²⁾	991	1,424	299	2,415	425
Overlay approach adjustment for insurance operations financial assets	10	(167)	20	(157)	189
Foreign exchange income	19	14	21	33	48
Other	28	73	163	101	233
Total income	\$ 4,543	\$ 4,909	\$ 3,897	\$ 9,452	\$ 7,688
Presentation of income in the MD&A					
Net interest income	\$ 372	\$ 365	\$ 353	\$ 737	\$ 721
Net premiums	2,270	2,345	2,225	4,615	4,389
Other operating income					
Assessments	98	98	99	196	198
Service agreements	199	186	186	385	370
Lending fees and credit card service revenues	185	210	164	395	350
Brokerage and investment fund services	223	214	223	437	478
Management and custodial service fees	148	147	144	295	287
Foreign exchange income	19	14	21	33	48
Other	28	73	163	101	233
Operating income	3,542	3,652	3,578	7,194	7,074
Investment income					
Net investment income ⁽²⁾	991	1,424	299	2,415	425
Overlay approach adjustment for insurance operations financial assets	10	(167)	20	(157)	189
Investment income	1,001	1,257	319	2,258	614
Total income	\$ 4,543	\$ 4,909	\$ 3,897	\$ 9,452	\$ 7,688

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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			For the six-month periods ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
(Recovery of) provision for credit losses	\$ (6)	\$ 84	\$ 63	\$ 78	\$ 152
Average gross loans	61,414	61,771	59,055	61,718	58,997
Average gross acceptances	168	152	43	165	39
Average gross loans and acceptances	\$ 61,582	\$ 61,923	\$ 59,098	\$ 61,883	\$ 59,036
Credit loss provisioning rate⁽¹⁾	(0.04)%	0.55%	0.43%	0.25%	0.52%

⁽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 June 30, 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.

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 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 *Deposit Institutions and Deposit Protection Act* (which replaced the *Deposit Insurance Act*) provides 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, came into force on June 13, 2019, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services* and the *Deposit Institutions and Deposit Protection Act*.

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 July 2019, 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 anti-money laundering/anti-terrorist financing (AML/ATF) program. 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 the U.S. Congress and 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 Institutions and Deposit Protection Act* and its regulations, as well as certain other laws, regulations and guidelines, collectively provide for a resolution process and internal recapitalization (bail-in) regime for domestic systemically important financial institutions belonging to a cooperative group. The objective of resolution operations, including the bail-in regime, is to ensure the sustainability of the operations of deposit institutions belonging to a cooperative group despite their failure, without resorting to public funds, and to have holders of contributed capital securities and creditors absorb losses, thereby minimizing taxpayer exposure to the losses.

Among other resolution operations, the AMF may (i) amalgamate the *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 other 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 AMF's current intention with respect to the application of the bail-in regime. In this context, the AMF plans to convert negotiable and transferable unsecured debt into capital shares of the Federation in accordance with the conversion measures set out in the regulations. The AMF would then carry out an amalgamation/continuance operation, the purpose of which would be to amalgamate the entities belonging to the Cooperative Group and have them continued as one 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 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These 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. A first wave of changes is expected to roll out in spring 2020. The Financial Services Regulatory Authority of Ontario (FSRA), the regulator that has overseen the province's financial regime since 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

Global trade continued to expand at a very slow pace in early 2019. There was nevertheless evidence of a stabilizing influence from emerging Asian economies, which also drove previous declines. Although the situation shows no signs of actually improving, it is no longer really deteriorating, either. However, the economic climate remains fragile, and the global manufacturing sector continues to show signs of weakness. This can be seen in the sector's purchasing managers indices, which generally continued on the downward trend of recent months. In the euro zone, GDP growth was stronger than expected in the first quarter, but several indicators continue to suggest slow economic growth. Real GDP in the euro zone is expected to grow by 1.2% in 2019 and 2020. The Chinese economy continues to slow inexorably, aided by cyclical factors. Some monthly indicators have also been somewhat weak, especially in industrial production and automobile sales. Concerning the former, this can be seen in part as a result of the growing trade tensions between China and the United States. The Chinese government has been implementing several expansionary measures to try and stabilize growth, but the slowdown is nevertheless expected to continue. Overall, global real GDP is expected to grow 3.3% in 2019 and 2020.

The second quarter began on a positive note in the financial markets, with the main stock markets continuing to rally in April. However, the trade truce between China and the United States came to a sudden end in early May when President Donald Trump suddenly announced the introduction of new tariffs on Chinese imports; this brought renewed volatility to the markets and heightened concerns about the global economy. Bond yields fell sharply as investors turned to safe havens and once again began to count on monetary policy being eased, particularly in the U.S. This growing conviction that the central banks will intervene allowed the stock market indices to quickly turn around and perform remarkably well, for the first half of 2019 overall. The S&P 500 and S&P/TSX even reached new all-time highs in the second quarter. At the end of July, the U.S. Federal Reserve (the Fed) announced a cut in its key rates, the first in over 10 years.

By presenting the July cut in its key rates as a mid-cycle adjustment, the Fed appears to have wanted to limit investors' expectations for additional monetary easing. However, the escalating trade tensions between China and the United States in early August and the very negative response from markets may nevertheless prompt the Fed to announce a second rate cut as early as September. The President of the European Central Bank also suggested that further monetary easing is likely in the eurozone if the economy does not improve. Bond rates could therefore remain very low in the short term and rise slightly as commercial tensions ease. It would come as a surprise if the Bank of Canada were to follow the Fed's lead, especially given the fact that there has been less monetary tightening in Canada. Canadian key interest rates should therefore remain stable for several quarters; while the Canadian economy is sending encouraging signals, there seems to be more uncertainty in the international environment. Favourable changes in interest rate spreads could result in the Canadian dollar appreciating gradually against the U.S. dollar over the next few quarters.

United States

Following the 3.1% annualized increase in the first quarter of 2019, U.S. real GDP grew 2.1% in the second quarter. Domestic demand firmed up in the spring due to a sharp acceleration in consumer spending. However, non-residential investment decreased, and exports posted a decline. This suggests that the U.S. economy and, in particular, the manufacturing sector are being affected by the uncertainties around foreign trade. Manufacturers have expressed concern over trade issues, and the recent escalation in the trade tensions between the United States and China may exacerbate the situation. U.S. real GDP is expected to grow 2.3% in 2019, followed by a 1.9% gain in 2020. However, it will be important to avoid too much deterioration in the areas of weakness that have started to emerge.

Canada

The weakness in the Canadian economy persisted in early 2019. After an annualized quarterly gain of only 0.3% in the last quarter of 2018, a 0.4% increase was recorded for the first quarter of 2019. However, this seemingly disappointing result concealed some excellent news: domestic demand rallied in the first quarter, posting a 3.4% increase and effectively ending two consecutive quarters of decline. In addition, the labour market remained very strong, and in May the unemployment rate reached a new all-time low of 5.4%. This means that the problems in real GDP are founded in a sharp deterioration of the trade balance. Not only did exports decline, partly due to the decline in oil production imposed by the Government of Alberta, but imports rose sharply, driven by rising domestic demand. Economic growth is expected to accelerate in the second quarter of 2019 as the negative effects of the oil production slowdown gradually subside. However, real GDP growth may subsequently be somewhat weaker, since global economic conditions have deteriorated slightly and there are still significant uncertainties around trade tensions. Taking all this into account, Canadian real GDP is expected to increase 1.5% in 2019 and 1.6% in 2020.

Quebec

Quebec's economy continues to grow at a healthy pace, even if this growth has slowed since the second half of 2018. Annualized Quebec real GDP growth was nevertheless 2.4% in the first quarter of 2019 due to a recovery in the domestic economy. Consumer spending has been accelerating. The favourable labour market has overshadowed the key interest rate hikes implemented by the Bank of Canada from mid-2017 to the end of 2018. Full-time employment is expanding quickly, the unemployment rate has remained at around 5%, and wages have increased at an annual rate of close to 3%. Income has therefore been growing rapidly, and the savings rate even rose to 5.9% in the first quarter of 2019. The residential sector remains strong, with existing home sales on track to reach a new high this year. Average prices have increased by close to 5% since the beginning of 2019. On the other hand, the business indicators – investment, international exports and net corporate profits – paint a gloomier picture. The slowdown in the global economy and the trade tensions are therefore having an impact even in Quebec. Even if the international economic environment continues to deteriorate for businesses, household spending will help smooth out the swings. Real GDP is expected to grow by close to 2% this year. The withdrawal of U.S. tariffs on steel and aluminum in May had a positive impact, but it would appear that ratification of the Canada-United States-Mexico Agreement (CUSMA) is not assured.

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. An \$11 million share in Aviso Wealth was recognized in the Consolidated Statements of Income for the six-month period ended June 30, 2019 (\$5 million for the three-month period ended June 30, 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			For the six-month periods ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Other operating income ⁽¹⁾	\$ -	\$ -	\$ -	\$ -	\$ 49
Operating income⁽¹⁾	-	-	-	-	49
Non-interest expense	-	-	-	-	44
Income taxes on surplus earnings	-	-	-	-	1
Surplus earnings after member caisses dividends	\$ -	\$ -	\$ -	\$ -	\$ 4

⁽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			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Results					
Net interest income	\$ 372	\$ 365	\$ 353	\$ 737	\$ 721
Net premiums	2,270	2,345	2,225	4,615	4,389
Other operating income ⁽²⁾					
Assessments	98	98	99	196	198
Service agreements	199	186	186	385	370
Lending fees and credit card service revenues	185	210	164	395	350
Brokerage and investment fund services	223	214	223	437	478
Management and custodial service fees	148	147	144	295	287
Foreign exchange income	19	14	21	33	48
Other	28	73	163	101	233
Operating income⁽²⁾	3,542	3,652	3,578	7,194	7,074
Investment income ⁽²⁾					
Net investment income	991	1,424	299	2,415	425
Overlay approach adjustment for insurance operations financial assets	10	(167)	20	(157)	189
Investment income⁽²⁾	1,001	1,257	319	2,258	614
Total income	4,543	4,909	3,897	9,452	7,688
(Recovery of) provision for credit losses	(6)	84	63	78	152
Claims, benefits, annuities and changes in insurance contract liabilities	2,361	3,120	1,727	5,481	3,383
Non-interest expense	1,816	1,658	1,568	3,474	3,196
Income taxes on surplus earnings	56	(9)	75	47	134
Surplus earnings after dividends to member caisses	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Adjusted surplus earnings after dividends to member caisses⁽²⁾	\$ 316	\$ 56	\$ 335	\$ 372	\$ 694
Contribution to consolidated surplus earnings by business segment⁽³⁾					
Personal and Business Services	\$ 138	\$ 79	\$ 71	\$ 217	\$ 177
Wealth Management and Life and Health Insurance	183	139	331	322	537
Property and Casualty Insurance	123	(81)	52	42	78
Treasury and Other Support to Desjardins Group Entities	(128)	(81)	10	(209)	31
	\$ 316	\$ 56	\$ 464	\$ 372	\$ 823
Indicators					
Return on equity ⁽²⁾	8.4%	1.7%	11.8%	5.1%	10.5%
Adjusted return on equity ⁽²⁾	8.5	1.7	8.4	5.2	8.9
Credit loss provisioning rate ⁽²⁾	(0.04)	0.55	0.43	0.25	0.52

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 SECOND QUARTERS OF 2019 AND 2018

Surplus earnings

For the second quarter ended June 30, 2019, the Federation posted surplus earnings after dividends to member caisses of \$316 million, a \$148 million decrease compared to the corresponding quarter of 2018. Surplus earnings adjusted for the specific item at the creation of Aviso Wealth, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, were down \$19 million, or 5.7%. The reduction in surplus earnings was mainly due to a decrease in the fair value of derivative financial instruments associated with hedging activities, partially offset by the activities of the Property and Casualty Insurance segment, where premium income was up and the claims experience was favourable compared to the same quarter in 2018. The reduction in surplus earnings was also mitigated by the decrease in the provision for credit losses following the updating of parameters of non-credit impaired loans and economic factors. As for the privacy breach, a total of \$70 million in expenses and provisions for the implementation of protections for our members (i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members) were recognized in the second quarter of 2019.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of \$138 million**, up \$67 million compared to the same period in 2018.
 - Decrease in the provision for credit losses.
 - Growth in payment and financing activities.
- Wealth Management and Life and Health Insurance: **Contribution of \$183 million**, down \$148 million, and net surplus earnings adjusted for the specific item down \$19 million, or 9.4%, compared to the second quarter of 2018.
 - Less favourable interest margins.
- Property and Casualty Insurance: **Contribution of \$123 million**, up \$71 million compared to the second quarter of 2018.
 - Increase in net premiums.
 - Smaller impact of catastrophes and major events.
 - Lower current-year claims experience in property and business insurance.
- **Return on equity was 8.4%**, compared to 11.8% for the quarter ended June 30, 2018.
- **Adjusted return on equity was 8.5%**, up slightly compared to 8.4% for the quarter ended June 30, 2018.

Operating income

Operating income totalled \$3,542 million, down \$36 million, or 1.0%, compared to the second quarter of 2018. Excluding the gain before taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, operating income would have been up \$96 million, or 2.8%, compared to the same period in 2018.

Net interest income was up \$19 million, or 5.4%, to total \$372 million, compared to \$353 million for the same period in 2018, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding of \$1.6 billion, or 2.6%, over the year. This portfolio comprises financing activities in consumer, credit card and other personal loans, as well as loans to business and government.

Net premiums were up \$45 million, or 2.0%, compared to the second quarter of 2018, to total \$2,270 million as at June 30, 2019.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$1,084 million**, down \$106 million, or 8.9%.
 - Premiums down \$106 million, with annuities accounting for \$88 million and group insurance for \$25 million.

Property and Casualty Insurance segment

- **Net premiums of \$1,222 million**, up \$149 million, or 13.9%, 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 the growth observed across all market segments and regions.

Other operating income stood at \$900 million, which is a decrease of \$100 million, or 10.0%, compared to the second quarter of 2018. Excluding the gain before taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, other operating income would have been up \$32 million, or 3.7%, compared to the same period in 2018, mainly due to the following:

- Growth in business volumes from payment and financing activities.
- Smaller increase than in second 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 \$1,001 million, up \$682 million compared to the second 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 mainly as a result of the decrease in interest rates.
- 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 second quarter of 2019, whereas rates were higher in the second 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.

Total income

Total income amounted to \$4,543 million, an increase of \$646 million, or 16.6%, compared to the same period in 2018.

Provision for credit losses

The recovery of the provision for credit losses totalled \$6 million for the second quarter of 2019, compared to a provision for credit losses of \$63 million for the same period in 2018. The decrease in the provision for credit losses is essentially due to the following items:

- Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
- Updating of the economic factors for credit portfolios. The adoption of IFRS 9 on January 1, 2018 resulted in volatile results particularly because of the use of economic factors.

The Federation has continued to present a quality loan portfolio in 2019.

- The allowance for credit losses was in a recovery position in the second quarter of 2019, compared to a credit loss provisioning rate of 0.43% for the corresponding period of 2018.
- The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.61% compared to 0.35% as at June 30, 2018.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$2,361 million, up \$634 million compared to the corresponding quarter of 2018.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$1,559 million**, up \$566 million, basically due to the increase of \$549 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the increase in the fair value of matched investments. The decrease in annuity premiums limited the increase in actuarial liabilities.

Property and Casualty Insurance segment

- **Cost of claims of \$805 million**, up \$71 million, or 9.7%, as a result of the following:
 - Growth in business, which led to a higher cost of claims.
 - Unfavourable impact of the decrease in the discount rates used to value the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
 - However, the loss ratio was 63.2% for the quarter ended June 30, 2019, compared to 70.1% for the corresponding period in 2018:
 - Lower ratio attributable to catastrophes and major events than in the comparative quarter of 2018, 2.2% vs. 8.4%. The second quarter of 2019 was marked by four major events, while in the corresponding quarter of 2018, two catastrophes and one major event were noted.
 - Lower ratio attributable to current-year claims than in the corresponding period in 2018, namely 75.7% compared to 78.6%, essentially due to a smaller claims experience in property and business insurance.
 - Offset, but to a smaller degree, by the ratio of favourable changes in prior year claims, which was lower than in second quarter 2018, (14.7)% vs. (16.9)%.

Non-interest expense

- **Non-interest expense totalled \$1,816 million**, up \$248 million, or 15.8%, compared to the second quarter of 2018, mainly because of:
 - Expenses and provisions totalling \$70 million related to the implementation of protections for our members, i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members.
 - Increase in salaries as a result of indexing and growth in activities.
 - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.
 - Increase in expense related to the remuneration of premiums, basically due to the faster recognition of acquisition fees for policy issuance as well as business growth.
 - Increase in expense related to assets under management.
- **Remuneration and other payments included in non-interest expense were \$183 million**, for a \$37 million, or 25.3%, increase compared to the same period in 2018 due to growth in sales of various Desjardins Group products by the caisse network.

Income taxes

- **Income taxes on surplus earnings after dividends to member caisses of \$56 million**, down \$19 million compared to the second quarter of 2018.
 - Effective tax rate of 15.1% for the quarter ended June 30, 2019, up compared to 13.9% for the corresponding period in 2018.
 - Excluding the effect of the specific item, the effective tax rate would have been 15.1% for the second quarter of 2019 and 17.7% in 2018.

COMPARISON OF THE FIRST SIX MONTHS OF 2019 AND 2018

Surplus earnings

For the first six months ended June 30, 2019, the Federation posted surplus earnings after dividends to member caisses of \$372 million, a \$451 million decrease compared to the same period in 2018. Surplus earnings adjusted for the specific item at the creation of Aviso Wealth, namely the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, were down \$322 million. The reduction in surplus earnings was mainly due to a decrease in the fair value of derivative financial instruments associated with hedging activities, as well as lower gains on the sale of investments than in 2018 for the insurance segments. It should also be remembered that a profit related to the restructuring of Interac Corp. was recognized in the first quarter of 2018. The reduction in surplus earnings was mitigated by the decrease in the provision for credit losses following the updating of parameters of non-credit impaired loans and economic factors. As for the privacy breach, a total of \$70 million in expenses and provisions for the implementation of protections for our members (i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members) were recognized in the second quarter of 2019.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of \$217 million**, up \$40 million, or 22.6%, compared to the same period in 2018.
 - Decrease in the provision for credit losses.
 - Growth in payment and financing activities.
 - Offset by the profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.
- Wealth Management and Life and Health Insurance: **Contribution of \$322 million**, down \$215 million, and net surplus earnings adjusted for the specific item down \$86 million compared to the corresponding period in 2018.
 - Lower gains on the sale of real estate investments and securities and less favourable interest margins than in 2018.
 - Offset by a reduction in investment portfolio provisions.
- Property and Casualty Insurance: **Contribution of \$42 million**, down \$36 million compared to the same period in 2018.
 - Smaller net gains on the sale of funds and shares related to the rebalancing of certain portfolios than those recognized in the first quarter of 2018.
 - The lower loss ratio in second quarter 2019 offset the high claims experience in first quarter 2019, resulting in a loss ratio for the first half of 2019 similar to the one for the first half of 2018.
- **Return on equity was 5.1%**, compared to 10.5% for the six months ended June 30, 2018.
- **Adjusted return on equity was 5.2%**, down compared to 8.9% for the first six months ended June 30, 2018, mainly because of the reduction in adjusted surplus earnings, as explained earlier.

Operating income

Operating income totalled \$7,194 million, up \$120 million, or 1.7%, compared to the first six months of 2018. Excluding the gain before taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, operating income would have been up \$252 million, or 3.6%, compared to the same period in 2018.

Net interest income was up \$16 million, or 2.2%, to total \$737 million, compared to \$721 million for the same period in 2018, because of growth in the entire portfolio of loans and acceptances outstanding of \$1.6 billion, or 2.6% over the year. This portfolio comprises financing activities in consumer, credit card and other personal loans, as well as loans to business and government. The increase was mitigated by lower interest income from the securities portfolio related to treasury activities.

Net premiums were up \$226 million, or 5.1%, compared to the first half of 2018, to total \$4,615 million as at June 30, 2019.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$2,281 million**, down \$52 million, or 2.2%.
 - Premiums down by \$52 million.
 - Annuity premiums down \$37 million, and group insurance premiums down \$25 million.
 - Offset by a \$10 million increase in individual insurance premiums.

Property and Casualty Insurance segment

- **Net premiums of \$2,406 million**, up \$274 million, or 12.9%, 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 the growth observed across all market segments and regions.

Other operating income stood at \$1,842 million, which is a decrease of \$122 million, or 6.2%, compared to the first half of 2018. Excluding the gain before taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. recognized in 2018, other operating income would have been up \$10 million, or 0.5%, compared to the same period in 2018, mainly due to the following:

- Growth in business volumes from payment and financing activities.
- Smaller increase than in the first six months of 2018 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.
- Income from the interest in Aviso Wealth.
- Offset by lower income following the transaction involving Qtrade Canada Inc.

Investment income

Investment income totalled \$2,258 million, up \$1,644 million compared to the first half 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 mainly as a result of the decrease in interest rates.
- Increase in the fair value of matched bonds in the Property and Casualty Insurance segment compared to a decrease in the comparative period of 2018, mainly on account of lower market interest rates in the first half of 2019, whereas rates were higher in the first half 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 the following:

- Lower gains on the sale of real estate investments and securities than in 2018.
- Smaller net gains on the sale of funds and shares, partly related to the rebalancing of certain portfolios, than those recognized in the first quarter of 2018.
- Decrease in the fair value of derivative financial instruments associated with the Federation's hedging activities.
- Profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.

Total income

Total income amounted to \$9,452 million, an increase of \$1,764 million, or 22.9%, compared to the same period in 2018.

Provision for credit losses

The provision for credit losses totalled \$78 million, a decrease of \$74 million compared to the first six months of 2018. The decrease is essentially due to the following items:

- Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
- Updating of the economic factors for credit portfolios. The adoption of IFRS 9 on January 1, 2018 resulted in volatile results, particularly because of the use of economic factors.

The Federation has continued to present a quality loan portfolio in 2019.

- The credit loss provisioning rate was 0.25% for the first half of 2019, compared to 0.52% for the corresponding period of 2018.
- The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.61% compared to 0.35% as at June 30, 2018.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$5,481 million, up \$2,098 million compared to the corresponding period of 2018.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$3,578 million**, up \$1,744 million, basically due to the increase of \$1,732 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 \$1,906 million**, up \$357 million, or 23.0%, as a result of the following:
 - Growth in business, which led to a higher cost of claims.
 - Unfavourable impact of the decrease in the discount rates used to value the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
 - The loss ratio was 74.6% for the period ended June 30, 2019, compared to 74.8% for the corresponding period in 2018:
 - Lower ratio attributable to catastrophes and major events than in the comparative period of 2018, 2.3% vs. 4.8%. The first half of 2019 was marked by eight major events, while in the corresponding period of 2018, catastrophes and major events had a greater impact, basically because of two catastrophes.

This reduction was partially offset by the following:

- Higher ratio attributable to current-year claims than in the corresponding period in 2018, namely 82.6% vs. 80.9%.
- The ratio of favourable changes in prior year claims, which was lower than in the first half of 2018, (10.3)% vs. (10.9)%.

Non-interest expense

- Non-interest expense totalled \$3,474 million, up \$278 million, or 8.7%, compared to the first half of 2018, mainly because of:
 - Expenses and provisions totalling \$70 million related to the implementation of protections for our members, i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members.
 - Increase in salaries as a result of indexing and growth in activities.
 - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.
 - Increase in expense related to the remuneration of premiums, basically due to the faster recognition of acquisition fees for policy issuance as well as business growth.
 - Increase in expense related to assets under management.

This increase was partially offset by the following:

- Decrease in expense related to the transaction involving Qtrade Canada Inc.
- Reduction in investment portfolio provisions.

- **Remuneration and other payments included in non-interest expense were \$349 million**, for a \$66 million, or 23.3%, increase compared to the same period in 2018 due to growth in sales of various Desjardins Group products by the caisse network.

Income taxes

- **Income taxes on surplus earnings after dividends to member caisses of \$47 million**, down \$87 million compared to the first half of 2018.
 - Effective tax rate of 11.2% for the first six months of 2019, down compared to 14.0% for the corresponding period in 2018.
 - Excluding the effect of the specific item, the effective tax rate would have been 11.2% for the first half of 2019 and 15.9% for the same period in 2018, mainly because of the greater impact of non-taxable items on surplus earnings.

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			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Net interest income	\$ 281	\$ 297	\$ 273	\$ 578	\$ 549
Other operating income ⁽²⁾	446	451	406	897	823
Operating income⁽²⁾	727	748	679	1,475	1,372
Investment income ⁽²⁾	-	18	7	18	60
Total income	727	766	686	1,493	1,432
(Recovery of) provision for credit losses	(6)	83	67	77	156
Non-interest expense	550	574	518	1,124	1,039
Income taxes on surplus earnings	45	30	30	75	60
Net surplus earnings for the period	\$ 138	\$ 79	\$ 71	\$ 217	\$ 177
Of which:					
Group's share	\$ 138	\$ 79	\$ 71	\$ 217	\$ 177
Indicators					
Average gross loans and acceptances ⁽²⁾	\$ 32,062	\$ 31,611	\$ 29,181	\$ 31,979	\$ 28,857
Average deposits ⁽²⁾	18,755	17,693	18,559	18,401	17,642
Credit loss provisioning rate ⁽²⁾	(0.08)%	1.06%	0.92%	0.49%	1.09%
Gross credit-impaired loans/gross loans and acceptances ⁽²⁾	1.15	1.24	0.69	1.15	0.69

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 SECOND QUARTERS OF 2019 AND 2018 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings of \$138 million**, up \$67 million essentially due to:
 - Decrease in the provision for credit losses.
 - Growth in payment and financing activities.
- **Operating income of \$727 million**, up \$48 million, or 7.1%.
 - Increase of \$8 million in net interest income as a result of year-over-year growth of \$2.9 billion, or 9.9%, 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 \$446 million, up \$40 million, or 9.9%, 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, the online business centre and the Shared Services Centre.
- **Investment income down \$7 million**, mainly due to the winding-up of Zag Bank's operations.
- **Total income of \$727 million**, up \$41 million, or 6.0%.
- **Recovery of the provision for credit losses totalling \$6 million**, compared to a provision for credit losses of \$67 million for the corresponding period of 2018. This decrease in the provision for credit losses is essentially due to:
 - Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
 - Updating of the economic factors for credit portfolios. The adoption of IFRS 9 on January 1, 2018 resulted in volatile results particularly because of the use of economic factors.
- **Non-interest expense of \$550 million**, up \$32 million, or 6.2%, essentially due to:
 - Growth in payment activities, including expenses related to the rewards program, 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, the online business centre and the Shared Services Centre.

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

- **Surplus earnings of \$217 million**, up \$40 million, or 22.6%. This increase was essentially due to:
 - Decrease in the provision for credit losses.
 - Growth in payment and financing activities.
 - Offset by the profit from the restructuring of Interac Corp., recognized in the first quarter of 2018.
- **Operating income of \$1,475 million**, up \$103 million, or 7.5%.
 - Increase of \$29 million in net interest income mainly as a result of year-over-year growth of \$3.1 billion, or 10.8%, 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 \$897 million, up \$74 million, or 9.0%, mainly due to:
 - ♦ Growth in business volume for payment and financing activities.
 - ♦ Increase in caisse income because of growth in activities aimed at enhancing the service offer to caisse members and clients, including activities related to *AccèsD* services, the online business centre and the Shared Services Centre.
- **Investment income of \$18 million**, down \$42 million mainly due to the profit from the restructuring of Interac Corp., recognized in the first quarter of 2018.
- **Total income of \$1,493 million**, up \$61 million, or 4.3%.
- **Provision for credit losses of \$77 million**, down \$79 million mainly as a result of:
 - Refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards.
 - Updating of economic factors for credit portfolios. The adoption of IFRS 9 on January 1, 2018 resulted in volatile results, particularly because of the use of economic factors.
- **Non-interest expense of \$1,124 million**, up \$85 million, or 8.2%, essentially due to:
 - Growth in payment activities, including expenses related to the rewards program, 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, the online business centre and the Shared Services Centre.
 - Offset by lower expenses as a result of the winding-up of Zag Bank's operations.

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			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Net interest income	\$ 2	\$ 1	\$ 1	\$ 3	\$ 2
Net premiums	1,084	1,197	1,190	2,281	2,333
Other operating income ⁽²⁾	397	390	512	787	934
Operating income⁽²⁾	1,483	1,588	1,703	3,071	3,269
Investment income ⁽²⁾	894	1,171	250	2,065	405
Total income	2,377	2,759	1,953	5,136	3,674
(Recovery of) provision for credit losses	-	-	(4)	-	(4)
Claims, benefits, annuities and changes in insurance contract liabilities	1,559	2,019	993	3,578	1,834
Non-interest expense	590	567	577	1,157	1,200
Income taxes on surplus earnings	45	34	56	79	107
Net surplus earnings for the period	\$ 183	\$ 139	\$ 331	\$ 322	\$ 537
Specific item, net of income taxes					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	-	-	(129)	-	(129)
Adjusted net surplus earnings for the period⁽²⁾	\$ 183	\$ 139	\$ 202	\$ 322	\$ 408
Of which:					
Group's share	\$ 183	\$ 139	\$ 331	\$ 322	\$ 537
Indicators					
Net sales of savings products	\$ 2,880	\$ 1,527	\$ 1,299	\$ 4,407	\$ 4,789
Insurance sales	90	202	94	292	176
Group insurance premiums	796	830	821	1,626	1,651
Individual insurance premiums	220	215	213	435	425
Annuity premiums	68	152	156	220	257
Segregated fund receipts	1,872	536	474	2,408	1,142

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 SECOND QUARTERS OF 2019 AND 2018 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of \$183 million**, down \$148 million, and adjusted net surplus earnings down \$19 million, or 9.4%, primarily as a result of less favourable interest margins.
- **Operating income of \$1,483 million**, down \$220 million, or 12.9%, essentially due to:
 - Decrease of \$106 million in premiums, with annuities accounting for \$88 million, and group insurance for \$25 million.
 - Other operating income totalled \$397 million, down \$115 million, or 22.5%.
 - ♦ Gain in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
 - ♦ Offset by higher income from the growth in assets under management.
- **Investment income of \$894 million**, up \$644 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 decline in interest rates.
- **Total income of \$2,377 million**, up \$424 million, or 21.7%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$1,559 million**, up \$566 million, essentially due to an increase of \$549 million in actuarial liabilities under "Insurance contract liabilities", which includes the effect of an increase in the fair value of matched investments. The decrease in annuity premiums limited the increase in actuarial liabilities.
- **Non-interest expense of \$590 million**, up \$13 million, or 2.3%, chiefly as a result of an increase in expense related to assets under management.

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

- **Net surplus earnings of \$322 million**, down \$215 million, and adjusted net surplus earnings down \$86 million, or 21.1%, primarily as a result of:
 - Lower gains on the sale of real estate investments and securities and smaller interest margins than in 2018.
 - Offset by a reduction in investment portfolio provisions.
- **Operating income of \$3,071 million**, down \$198 million, or 6.1%, essentially due to:
 - Decrease of \$52 million in premiums.
 - ♦ Annuities accounted for a decrease of \$37 million in premiums, and group insurance, for \$25 million.
 - ♦ Offset by increase of \$10 million in premiums from individual insurance.
 - Other operating income totalled \$787 million, down \$147 million, or 15.7%.
 - ♦ Gain in 2018 related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
 - ♦ Lower income following the transaction involving Qtrade Canada Inc.
 This decrease was partly offset by the following:
 - ♦ Higher income from the growth in assets under management.
 - ♦ Income from the interest in Aviso Wealth.
- **Investment income of \$2,065 million**, up \$1,660 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 decline in interest rates.
 - Mitigated by the lower gains on the sale of real estate investments and securities than in 2018.
- **Total income of \$5,136 million**, up \$1,462 million, or 39.8%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$3,578 million**, up \$1,744 million, essentially due to an increase of \$1,732 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 \$1,157 million**, down \$43 million, or 3.6%, chiefly as a result of:
 - The transaction involving Qtrade Canada Inc. led to a decrease in expense.
 - Reduction in investment portfolio provisions.
 - Offset by an increase in expense related to assets under management.

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			For the six-month periods ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net premiums	\$ 1,222	\$ 1,184	\$ 1,073	\$ 2,406	\$ 2,132
Other operating income (loss) ⁽¹⁾	(54)	(12)	(61)	(66)	(82)
Operating income⁽¹⁾	1,168	1,172	1,012	2,340	2,050
Investment income ⁽¹⁾	91	135	58	226	148
Total income	1,259	1,307	1,070	2,566	2,198
Claims, benefits, annuities and changes in insurance contract liabilities	805	1,101	734	1,906	1,549
Non-interest expense	303	307	280	610	557
Income taxes on surplus earnings	28	(20)	4	8	14
Net surplus earnings (deficit) for the period	\$ 123	\$ (81)	\$ 52	\$ 42	\$ 78
Of which:					
Group's share	\$ 105	\$ (78)	\$ 41	\$ 27	\$ 58
Non-controlling interests' share	18	(3)	11	15	20
Indicators					
Gross written premiums	\$ 1,539	\$ 1,173	\$ 1,335	\$ 2,712	\$ 2,351
Loss ratio ⁽¹⁾	63.2%	86.5%	70.1%	74.6%	74.8%
Current year loss ratio ⁽¹⁾	75.7	89.7	78.6	82.6	80.9
Loss ratio related to catastrophes and major events ⁽¹⁾	2.2	2.5	8.4	2.3	4.8
Ratio of favourable changes in prior year claims ⁽¹⁾	(14.7)	(5.7)	(16.9)	(10.3)	(10.9)
Expense ratio ⁽¹⁾	25.3	26.0	25.5	25.6	25.7
Combined ratio ⁽¹⁾	88.5	112.5	95.6	100.2	100.5

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

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

- **Net surplus earnings of \$123 million**, up \$71 million compared to the corresponding quarter in 2018, as a result of:
 - Increase in net premiums.
 - Smaller impact of catastrophes and major events.
 - Lower claims experience for the current year in property and business insurance.
- **Operating income of \$1,168 million**, up \$156 million, or 15.4%.
- **Net premiums of \$1,222 million**, up \$149 million, or 13.9%, 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 growth across all market segments and regions.
- **Loss totalling \$54 million, presented under "Other operating income (loss)"**, down \$7 million, or 11.5%, as a result of the smaller increase than in second 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 \$91 million**, up \$33 million, mainly as a result of the following item:
 - 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 second quarter of 2019, whereas rates were higher in the second 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.

- **Total income of \$1,259 million**, up \$189 million, or 17.7%.
- **Cost of claims totalling \$805 million**, up \$71 million, or 9.7%, as a result of:
 - Growth in business, which led to a higher cost of claims.
 - Unfavourable impact of the decrease in the discount rates used to value the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
 - However, the loss ratio was 63.2% for the quarter ended June 30, 2019, compared to 70.1% for the corresponding period in 2018:
 - ♦ Lower loss ratio attributable to catastrophes and major events than in the comparative quarter of 2018, i.e., 2.2% vs. 8.4%. The second quarter of 2019 was marked by four major events, while in the corresponding quarter of 2018, two catastrophes and one major event were noted.
 - ♦ Lower ratio for current-year claims than in the corresponding period in 2018, namely 75.7% compared to 78.6%, essentially due to a smaller claims experience in property and business insurance.
 - ♦ Offset, but to a smaller degree, by the ratio of favourable changes in prior year claims, which was lower than in second quarter 2018, (14.7)% vs. (16.9)%.
- **Non-interest expense of \$303 million**, up \$23 million, or 8.2%.
 - This growth is due to the increase in expense related to the remuneration of premiums, basically due to the faster recognition of acquisition fees for policy issuance as well as business growth.

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

- **Net surplus earnings of \$42 million**, down \$36 million compared to the first half of 2018, essentially as a result of:
 - Net gains on the sale of funds and shares partially related to the rebalancing of certain portfolios, which were smaller than the gains recognized in the first quarter of 2018.
 - The lower loss ratio in second quarter 2019 offset the high claims experience in first quarter 2019, resulting in a loss ratio for the first half of 2019 that was similar to the one for the first half of 2018.
- **Operating income of \$2,340 million**, up \$290 million, or 14.1%.
- **Net premiums of \$2,406 million**, up \$274 million, or 12.9%, 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 growth across all market segments and regions.
- **Loss totalling \$66 million, presented under “Other operating income (loss)”**, down \$16 million, as a result of the smaller increase than in the first half of 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 \$226 million**, up \$78 million, mainly due to:
 - Increase in the fair value of matched bonds compared to a decrease in the comparative six months of 2018, mainly on account of lower market interest rates in the first half of 2019, whereas rates were higher in the first half 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 funds and shares partially related to the rebalancing of certain portfolios, which were smaller than the gains recognized in the first quarter of 2018.
- **Total income of \$2,566 million**, up \$368 million, or 16.7%.
- **Cost of claims totalling \$1,906 million**, up \$357 million, or 23.0%, as a result of:
 - Growth in business, which led to a higher cost of claims.
 - Unfavourable impact of the decrease in the discount rates used to value the provision for claims, offset by a similar increase in matched bonds, whereas an increase in the discount rates had had a favourable impact in the comparative period of 2018.
 - Loss ratio was 74.6% for the six months ended June 30, 2019, compared to 74.8% for the corresponding period in 2018.
 - ♦ Lower loss ratio attributable to catastrophes and major events than in the comparative six months of 2018, i.e., 2.3% vs. 4.8%. The first half of 2019 was marked by eight major events, while in the corresponding half of 2018, catastrophes and major events had a greater impact, basically because of two catastrophes.
 This reduction was partially offset by the following:
 - ♦ Higher loss ratio for current-year claims than in the corresponding period in 2018, namely 82.6% compared to 80.9%.
 - ♦ Ratio of favourable changes in prior year claims, which was lower than in the first half of 2018, (10.3)% vs. (10.9)%.
- **Non-interest expense of \$610 million**, up \$53 million, or 9.5%, mainly due to:
 - Increase in expense related to the remuneration of premiums, basically due to the faster recognition of acquisition fees for policy issuance as well as 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			For the six-month periods ended	
	June 30, 2019 ⁽¹⁾	March 31, 2019 ⁽¹⁾	June 30, 2018	June 30, 2019 ⁽¹⁾	June 30, 2018
Treasury activities	\$ 29	\$ 12	\$ 20	\$ 41	\$ 43
Activities related to derivatives associated with hedging activities	(53)	(72)	(1)	(125)	4
Other ⁽²⁾	(104)	(21)	(9)	(125)	(16)
Net surplus earnings (deficit) for the period	\$ (128)	\$ (81)	\$ 10	\$ (209)	\$ 31
Of which:					
Group's share	\$ (128)	\$ (81)	\$ 10	\$ (209)	\$ 31

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 SECOND QUARTERS OF 2019 AND 2018 – CONTRIBUTION TO SURPLUS EARNINGS OF TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

- **Net deficit of \$128 million**, compared to net surplus earnings of \$10 million for the second quarter of 2018.
- **Treasury activities of \$29 million**, compared to a contribution of \$20 million to surplus earnings in 2018.
 - Increase in trading income because of lower interest rates and higher income related to foreign currency trading portfolios.
- **Activities related to derivatives associated with hedging activities recorded a deficit of \$53 million**, compared to a deficit of \$1 million for the corresponding period in 2018.
 - Unfavourable fluctuation in the fair value of swaps in 2019 because of a decrease in interest rates compared to an increase in the same period in 2018.
- **Other activities recorded a \$104 million deficit**, compared to a \$9 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.
 - Expenses and provisions totalling \$70 million related to the implementation of protections for our members, i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members.

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

- **Net deficit of \$209 million**, compared to net surplus earnings of \$31 million for the first half of 2018.
- **Treasury activities of \$41 million**, compared to a contribution of \$43 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 an increase in trading income because of lower interest rates and higher income related to foreign currency trading portfolios.
- **Activities related to derivatives associated with hedging activities recorded a deficit of \$125 million**, compared to surplus earnings of \$4 million for the corresponding period in 2018.
 - Unfavourable change in the fair value of swaps in 2019, as a result of lower interest rates compared to higher interest rates during the same period in 2018.

- **Other activities recorded a \$125 million deficit**, compared to a \$16 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.
 - Expenses and provisions totalling \$70 million related to the implementation of protections for our members, i.e. the credit monitoring plan and the identity theft solution for Desjardins caisse members.
 - Reduction in investment portfolio provisions 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	
	Q2 ⁽¹⁾⁽²⁾	Q1 ⁽¹⁾⁽²⁾	Q4 ⁽²⁾	Q3 ⁽²⁾	Q2 ⁽²⁾	Q1 ⁽²⁾	Q4	Q3
Net interest income	\$ 372	\$ 365	\$ 398	\$ 382	\$ 353	\$ 368	\$ 357	\$ 364
Net premiums	2,270	2,345	2,246	2,288	2,225	2,164	2,034	2,007
Other operating income ⁽³⁾								
Assessments	98	98	97	97	99	99	94	93
Service agreements	199	186	193	179	186	184	179	187
Lending fees and credit card service revenues	185	210	177	172	164	186	182	154
Brokerage and investment fund services	223	214	211	216	223	255	245	227
Management and custodial service fees	148	147	138	154	144	143	147	123
Foreign exchange income	19	14	29	15	21	27	22	16
Other	28	73	11	52	163	70	(78)	330
Operating income⁽³⁾	3,542	3,652	3,500	3,555	3,578	3,496	3,182	3,501
Investment income (loss) ⁽³⁾								
Net investment income (loss)	991	1,424	(42)	(213)	299	126	924	(316)
Overlay approach adjustment for insurance operations financial assets	10	(167)	258	76	20	169	N/A	N/A
	1,001	1,257	216	(137)	319	295	924	(316)
Total income	4,543	4,909	3,716	3,418	3,897	3,791	4,106	3,185
(Recovery of) provision for credit losses	(6)	84	63	73	63	89	74	72
Claims, benefits, annuities and changes in insurance contract liabilities	2,361	3,120	1,821	1,380	1,727	1,656	2,120	1,000
Non-interest expense	1,816	1,658	1,598	1,598	1,568	1,628	1,651	1,433
Income taxes on surplus earnings	56	(9)	6	68	75	59	80	89
Surplus earnings before dividends to member caisses	316	56	228	299	464	359	181	591
Dividends to member caisses, net of income tax recovery	-	-	51	-	-	-	44	-
Net surplus earnings for the period after dividends to member caisses	\$ 316	\$ 56	\$ 177	\$ 299	\$ 464	\$ 359	\$ 137	\$ 591
Of which:								
Group's share	\$ 298	\$ 59	\$ 169	\$ 286	\$ 453	\$ 350	\$ 128	\$ 576
Non-controlling interests' share	18	(3)	8	13	11	9	9	15

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 2019 and 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 June 30, 2019 ⁽¹⁾		As at December 31, 2018	
Assets				
Cash and deposits with financial institutions	\$ 2,520	1.5%	\$ 2,738	1.7%
Securities	52,236	31.8	49,666	31.5
Securities borrowed or purchased under reverse repurchase agreements	13,062	8.0	14,086	8.9
Net loans and acceptances	61,392	37.4	61,997	39.3
Segregated fund net assets	16,040	9.8	13,234	8.4
Derivative financial instruments	4,923	3.0	4,376	2.8
Other assets	14,079	8.5	11,463	7.4
Total assets	\$ 164,252	100.0%	\$ 157,560	100.0%
Liabilities and equity				
Deposits	\$ 59,512	36.2%	\$ 58,057	36.8%
Commitments related to securities sold short	11,801	7.2	10,829	6.9
Commitments related to securities lent or sold under repurchase agreements	11,250	6.8	16,233	10.3
Derivative financial instruments	4,586	2.8	3,332	2.1
Insurance contract liabilities	31,074	18.9	28,764	18.3
Segregated fund net liabilities	16,025	9.8	13,212	8.4
Other liabilities	13,562	8.2	11,202	7.1
Subordinated notes	1,399	0.9	1,378	0.9
Equity	15,043	9.2	14,553	9.2
Total liabilities and equity	\$ 164,252	100.0%	\$ 157,560	100.0%

⁽¹⁾ The information presented as at June 30, 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 June 30, 2019, the Federation's total assets stood at \$164.3 billion, up by \$6.7 billion, or 4.2%, since December 31, 2018. This growth was due in part to a \$2.8 billion increase in segregated fund net assets and a \$1.7 billion increase in amounts receivable from clients, brokers and financial institutions included in other assets. In addition, securities, including those borrowed or purchased under reverse repurchase agreements, were up by \$1.5 billion.

Cash and deposits with financial institutions, and securities

As at June 30, 2019, the Federation's cash and deposits with financial institutions amounted to \$2.5 billion, a decrease of \$218 million since December 31, 2018. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled \$65.3 billion at the end of the second quarter of 2019, for an increase of \$1.5 billion, or 2.4%, since the end of 2018. The increase was due to growth in market activities and deposits.

Loans and clients' liability under acceptances

As at June 30, 2019, the Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was \$61.4 billion, a decrease of \$605 million, or 1.0%, since December 31, 2018. A reduction in business and government loans, which accounted for 60.0% of the Federation's total portfolio, was responsible for the decrease.

Business and government loans outstanding, which reached a volume of \$37.0 billion as at June 30, 2019, decreased by \$1.1 billion, or 2.9%, 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 \$20.1 billion as at June 30, 2019, were up by \$405 million, or 2.1%, since December 31, 2018. The Federation's outstanding residential mortgages, which totalled \$4.7 billion as at June 30, 2019, were up \$26 million, or 0.6%, since the end of the prior year.

Loans and acceptances

(in millions of dollars and as a percentage)	As at June 30, 2019		As at December 31, 2018	
Residential mortgages	\$ 4,652	7.5%	\$ 4,626	7.4%
Consumer, credit card and other personal loans	20,115	32.5	19,710	31.5
Business and government	37,039	60.0	38,152	61.1
	61,806	100.0%	62,488	100.0%
Allowance for credit losses	(414)		(491)	
Total loans and acceptances by borrower category	\$ 61,392		\$ 61,997	

Deposits

The Federation's outstanding deposits rose to \$59.5 billion as at June 30, 2019, up by \$1.5 billion, or 2.5%, since December 31, 2018, largely as a result of growth in business and government deposits, which accounted for 80.3% of the total deposit portfolio. In fact, these deposits were up \$1.8 billion, or 4.0%, since the end of 2018, to total \$47.8 billion as at the end of this quarter. Deposits outstanding from deposit-taking institutions grew by \$302 million, or 3.8%, since the end of 2018, to reach \$8.3 billion as at June 30, 2019. Lastly, personal deposits decreased by \$666 million, or 16.2%, since the end of the previous year, to total \$3.4 billion at the end of this quarter.

Deposits

(in millions of dollars and as a percentage)	As at June 30, 2019		As at December 31, 2018	
Individuals	\$ 3,439	5.8%	\$ 4,105	7.1%
Business and government	47,817	80.3	45,998	79.2
Deposit-taking institutions	8,256	13.9	7,954	13.7
Total deposits	\$ 59,512	100.0%	\$ 58,057	100.0%

Insurance contract liabilities

The Federation's insurance contract liabilities stood at \$31.1 billion as at June 30, 2019, up \$2.3 billion, or 8.0%, 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 \$15.0 billion as at June 30, 2019, up \$490 million, or 3.4%, since the prior year-end. Net surplus earnings after dividends to member caisses, totalling \$372 million for the first six months of 2019, and the issue of F capital shares for a cash consideration of \$104 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 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) 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. In this regard, the AMF published in July an implementation timeline for these 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 June 30, 2019, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, all stood at 15.7%. 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 June 30, 2019.

Regulatory capital

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

Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A ⁽¹⁾	Tier 1B ⁽¹⁾	
Eligible items	<ul style="list-style-type: none"> Reserves and undistributed surplus earnings Eligible accumulated other comprehensive income Capital shares 	<ul style="list-style-type: none"> Non-controlling interests⁽²⁾ 	<ul style="list-style-type: none"> General allowance Subordinated notes subject to phase-out Eligible qualifying shares
Regulatory adjustments	<ul style="list-style-type: none"> Goodwill Software Other intangible assets Deferred tax assets essentially resulting from loss carryforwards Shortfall in allowance Cross-investments 		
Deductions	<ul style="list-style-type: none"> 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 June 30, 2019	As at December 31, 2018
Tier 1A capital		
Federation's capital shares	\$ 4,870	\$ 4,767
Other capital shares	4,012	4,012
Reserves	513	271
Undistributed surplus earnings	4,588	4,754
Eligible accumulated other comprehensive income	294	(1)
Deductions ⁽¹⁾⁽²⁾	(3,566)	(3,906)
Total Tier 1A capital	10,711	9,897
Total Tier 1 capital	10,711	9,897
Tier 2 capital		
Subordinated notes subject to phase-out	688	844
General allowance	211	271
Deductions ⁽¹⁾	(899)	(1,115)
Total Tier 2 capital	-	-
Total regulatory capital (Tiers 1 and 2)	\$ 10,711	\$ 9,897
Ratios and leverage ratio exposure		
Tier 1A capital ratio ⁽³⁾	15.7%	15.7%
Tier 1 capital ratio ⁽³⁾	15.7	15.7
Total capital ratio ⁽³⁾	15.7	15.7
Leverage ratio ⁽⁴⁾	7.9	7.4
Leverage ratio exposure	\$ 135,078	\$ 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 (\$549 million, \$2,269 million in 2018), for which cross-investments (\$13 million, \$1,813 million in 2018), significant investments (\$2,408 million, \$3,546 million in 2018), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these (\$609 million, \$533 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 and ended on June 30, 2019. During the first half of 2019, the Federation issued F capital shares for a cash consideration of \$104 million.

As at June 30, 2019, the Tier 1A capital ratio was up 3 basis points compared to December 31, 2018 due to growth in reserves and undistributed surplus earnings, that was offset by an increase in RWA. The higher ratio was also 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 six-month period ended

(in millions of dollars)	June 30, 2019
Tier 1A capital	
Balance at beginning of period	\$ 9,897
Increase in reserves and undistributed surplus earnings ⁽¹⁾	76
Eligible accumulated other comprehensive income	295
Federation's capital shares	103
Deductions	340
Balance at end of period	10,711
Total Tier 1 capital	10,711
Tier 2 capital	
Balance at beginning of period	-
Senior notes subject to phase-out	(156)
General allowance	(60)
Deductions	216
Balance at end of period	-
Total capital	\$ 10,711

⁽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 \$68.2 billion as at June 30, 2019. Of this amount, \$53.4 billion was for credit risk, \$6.1 billion for market risk and \$8.7 billion for operational risk. As at December 31, 2018, risk-weighted assets stood at \$63.1 billion.

Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at June 30, 2019				Total as at December 31, 2018
(in millions of dollars and as a percentage)	Exposure ⁽¹⁾	Risk-weighted assets	Exposure ⁽¹⁾	Risk-weighted assets	Exposure ⁽¹⁾	Risk-weighted assets	Capital requirement ⁽²⁾	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	\$ -	\$ -	\$ 6,075	\$ -	\$ 6,075	\$ -	\$ -	-%	\$ -
Financial institutions	-	-	40,723	8,207	40,723	8,207	656	20.2	8,210
Businesses	-	-	17,785	17,461	17,785	17,461	1,397	98.2	15,846
Securitized assets	-	-	5	60	5	60	5	1,250.0	63
Shares	-	-	213	315	213	315	25	147.9	334
SMEs similar to other retail client exposures	-	-	1,727	1,308	1,727	1,308	105	75.7	1,686
Mortgages	2,111	256	408	143	2,519	399	32	15.8	433
Other retail client exposures (excluding SMEs)	7,214	3,965	1,176	882	8,390	4,847	388	57.8	4,595
Qualifying revolving retail client exposures	32,249	9,135	-	-	32,249	9,135	731	28.3	9,156
Subtotal - Credit risk other than counterparty risk	41,574	13,356	68,112	28,376	109,686	41,732	3,339	38.0	40,323
Counterparty risk									
Sovereign borrowers	-	-	15	-	15	-	-	-	-
Financial institutions	-	-	2,849	570	2,849	570	45	20.0	554
Businesses	-	-	28	26	28	26	2	92.9	12
Trading portfolio	-	-	1,529	712	1,529	712	57	46.6	543
Credit valuation adjustment (CVA) charge	-	-	-	-	-	1,713	137	-	1,459
Additional requirements for banking and trading portfolio	-	-	-	-	202	13	1	6.4	14
Subtotal - Counterparty risk	-	-	4,421	1,308	4,623	3,034	242	65.6	2,582
Other assets ⁽³⁾	-	-	-	-	16,718	7,787	623	46.6	5,722
Scaling factor ⁽⁴⁾	-	802	-	-	-	802	64	-	794
Total credit risk	41,574	14,158	72,533	29,684	131,027	53,355	4,268	40.7	49,421
Market risk									
Value at Risk (VaR)	-	673	-	-	-	673	54	-	575
Stressed VaR (SVaR)	-	2,868	-	-	-	2,869	230	-	2,335
Incremental risk charge (IRC) ⁽⁵⁾	-	1,865	-	-	-	1,865	149	-	1,732
Other ⁽⁶⁾	-	-	-	732	-	731	58	-	754
Total market risk⁽⁷⁾	-	5,406	-	732	-	6,138	491	-	5,396
Operational risk⁽⁸⁾	-	-	-	8,681	-	8,681	695	-	8,581
Total risk-weighted assets before capital floor	41,574	19,564	72,533	39,097	131,027	68,174	5,454	-	63,398
Risk-weighted assets after the transitional provisions for the CVA charge⁽⁹⁾									
RWA for Tier 1A capital	-	-	-	-	-	68,174	5,454	-	63,106
RWA for Tier 1 capital	-	-	-	-	-	68,174	5,454	-	63,150
RWA for total capital	-	-	-	-	-	68,174	5,454	-	63,193
Total risk-weighted assets	\$ 41,574	\$ 19,564	\$ 72,533	\$ 39,097	\$ 131,027	\$ 68,174	\$ 5,454	-%	\$ 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 third quarter 2018, the Internal Models Approach has been applied to all trading portfolios after receiving the AMF's visa (approval). Before that time, the Standardized Approach had been used for all market risk requirements.

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

⁽⁸⁾ Since second 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 June 30, 2019, the Federation administered, for the account of caisse members and its clients, assets worth \$411.5 billion, for an increase of \$38.0 billion, or 10.2%. The financial assets entrusted to the Federation as wealth manager totalled \$72.9 billion as at June 30, 2019, up \$6.5 billion, or 9.8%, 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 six 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 June 30, 2019, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements, the allowance for credit losses totalled \$414 million, down \$77 million compared to December 31, 2018. This decrease was mainly due to the refinement of the evaluation methodology for risk parameters of non-credit impaired loans related to the lifespan of revolving exposures, such as credit cards, as well as to the updating of economic factors for credit portfolios. The adoption of IFRS 9 on January 1, 2018 resulted in volatile results particularly because of the use of economic factors. 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 0.61% for the second quarter of 2019, compared to 0.56% as at December 31, 2018. The allowance for credit losses on credit-impaired loans totalled \$132 million as at June 30, 2019, resulting in a provisioning rate of 34.7% 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 June 30, 2019

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 32	\$ 2	\$ -	\$ 10	\$ 44
Consumer, credit card and other personal loans	645	119	53	-	817
Business and government	7	1	-	-	8
	\$ 684	\$ 122	\$ 53	\$ 10	\$ 869

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 June 30, 2019					As at December 31, 2018	
	Gross carrying amount		Allowance for credit losses on credit-impaired loans			Gross credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	Gross credit-impaired loans					
Residential mortgages	\$ 4,652	\$ 10	0.21%	\$ 5	\$ 5	\$ 10	\$ 5
Consumer, credit card and other personal loans	20,115	211	1.05	114	97	200	90
Business and government	37,039	159	0.43	13	146	138	132
Total loans	\$ 61,806	\$ 380	0.61%	\$ 132	\$ 248	\$ 348	\$ 227

Change in gross credit-impaired loans

(in millions of dollars)

	For the three-month periods ended			For the six-month periods ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Gross impaired loans at the beginning of the period under IAS 39	N/A	N/A	N/A	N/A	\$ 84
Impact of adopting IFRS 9 as at January 1, 2018	N/A	N/A	N/A	N/A	125
Gross credit-impaired loans at the beginning of the last period under IFRS 9	\$ 394	\$ 348	\$ 209	\$ 348	209
Gross loans that became credit-impaired since the last period	478	484	218	962	333
Loans returned to unimpaired status	(392)	(359)	(60)	(751)	(93)
Write-offs and recoveries	(88)	(75)	(79)	(163)	(147)
Other changes	(12)	(4)	(80)	(16)	(94)
Gross credit-impaired loans at the end of the period	\$ 380	\$ 394	\$ 208	\$ 380	\$ 208

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 June 30, 2019				For the quarters ended			
					March 31, 2019		June 30, 2018	
	As at June 30, 2019	Average	High	Low	As at March 31, 2019	Average	As at June 30, 2018	Average
Equities	\$ 2.1	\$ 2.0	\$ 3.3	\$ 1.5	\$ 1.1	\$ 1.1	\$ 0.4	\$ 0.4
Foreign exchange	0.5	0.8	1.8	0.2	2.0	1.3	0.9	0.4
Interest rate	3.9	4.0	6.0	3.0	3.7	3.5	4.6	4.6
Specific interest rate risk ⁽¹⁾	4.4	5.4	7.9	3.3	4.8	5.6	7.1	7.0
Diversification effect ⁽²⁾	(6.7)	(7.7)	N/A ⁽³⁾	N/A ⁽³⁾	(7.7)	(7.7)	(8.3)	(7.9)
Aggregate VaR	\$ 4.2	\$ 4.5	\$ 6.5	\$ 3.5	\$ 3.9	\$ 3.8	\$ 4.7	\$ 4.7
Aggregate SVaR	\$ 17.5	\$ 20.0	\$ 30.0	\$ 13.3	\$ 17.4	\$ 15.8	\$ 17.4	\$ 18.4
Incremental risk charge (IRC)	\$ 82.9	\$ 80.4	\$ 102.4	\$ 51.4	\$ 36.8	\$ 65.2	\$ 74.4	\$ 78.3

⁽¹⁾ Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish 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 \$4.5 million for the quarter ended June 30, 2019, up \$0.7 million compared to the quarter ended March 31, 2019. The average of the aggregate SVaR was \$20.0 million for the quarter ended June 30, 2019, for an increase of \$4.2 million compared to the prior quarter. The average of the incremental risk charge totalled \$80.4 million, also for an increase of \$15.2 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

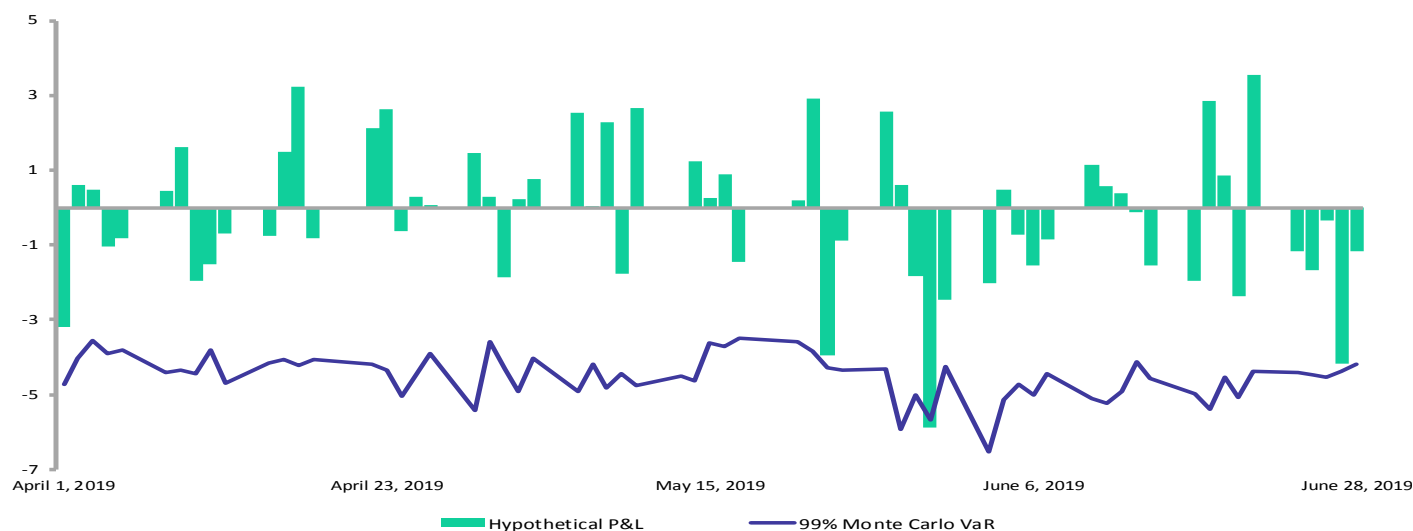
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the model every 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 second quarter of 2019, there were no overages of actual P&L compared to VaR for Desjardins Group. However, a \$0.2 million overage was observed in hypothetical P&L on May 30, 2019, due to the portfolio's exposure to lower interest rates resulting from global trade tensions. 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 June 30, 2019		As at March 31, 2019		As at June 30, 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	\$ (50)	\$ 16	\$ (23)	\$ 46	\$ (21)	\$ 113
Impact of a 100-basis-point decrease in interest rates ⁽⁴⁾	51	(16)	24	(46)	19	(116)

⁽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 \$230 million decrease in the economic value of equity before taxes as at June 30, 2019, and in a \$247 million and \$254 million decrease as at March 31, 2019 and June 30, 2018, respectively. A 100-basis-point decrease in interest rates would result in a \$237 million increase in the economic value of equity before taxes as at June 30, 2019, and in a \$248 million and \$229 million increase as at March 31, 2019 and June 30, 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 will be 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 122.4% for the quarter ended June 30, 2019, compared to 122.5% 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 \$59.5 billion as at June 30, 2019, up \$1.5 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 six 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 June 30, 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 June 30, 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	\$ 2,664	\$ 458	\$ 9	\$ 14	\$ 3,145	\$ -	\$ -	\$ 3,145	\$ 2,798
Commercial paper	6,118	3,565	1,080	2,032	12,795	-	-	12,795	13,174
Medium-term notes	699	288	750	2,619	4,356	1,962	4,132	10,450	10,657
Mortgage loan securitization	-	277	525	595	1,397	1,164	7,688	10,249	9,820
Covered bonds	-	-	1,489	-	1,489	1,488	2,227	5,204	5,859
Subordinated notes	-	-	-	900	900	-	499	1,399	1,378
Total	\$ 9,481	\$ 4,588	\$ 3,853	\$ 6,160	\$ 24,082	\$ 4,614	\$ 14,546	\$ 43,242	\$ 43,686
Including:									
Secured	\$ -	\$ 277	\$ 2,014	\$ 1,495	\$ 3,786	\$ 2,652	\$ 10,414	\$ 16,852	\$ 17,057
Unsecured	9,481	4,311	1,839	4,665	20,296	1,962	4,132	26,390	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 \$444 million compared to December 31, 2018, mainly because of a decrease in covered bonds.

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 June 30, 2019		As at December 31, 2018	
Canadian dollars	\$ 20,290	46.9%	\$ 19,637	45.0%
U.S. dollars	13,313	30.8	13,824	31.6
Other	9,639	22.3	10,225	23.4
	\$ 43,242	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 \$1.3 billion in the first six 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 June 30, 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 June 30, 2019, unchanged from December 31, 2018. Furthermore, to round out its financing and increase its capital base, in the first six months of 2019, the Federation issued F capital shares for a cash consideration of \$104 million. This issuance was ended on June 30, 2019.

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

Credit ratings of securities issued and outstanding

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

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria, including factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in 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.

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.

Following the announcement on June 20, 2019 concerning the privacy breach affecting its members, the credit ratings assigned to Desjardins Group's senior securities by the rating agencies Standard & Poor's (S&P), DBRS, Moody's and Fitch were affirmed and remained unchanged.

Outlooks for Desjardins Group's ratings assigned by S&P, DBRS and Fitch were stable, while Moody's was negative.

Credit ratings of securities issued and outstanding

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
<i>Fédération des caisses Desjardins du Québec</i>				
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-
<i>Desjardins Capital Inc.</i>				
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 commitmentsAs at June 30, 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	\$ 2,085	\$ 422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 2,520
Securities										
Securities at fair value through profit or loss ⁽²⁾	89	802	996	1,506	916	2,245	7,553	20,184	4,713	39,004
Securities at fair value through other comprehensive income ⁽²⁾	1,495	786	377	186	436	1,254	4,228	2,697	48	11,507
Securities at amortized cost	853	397	126	158	157	2	5	27	-	1,725
Securities borrowed or purchased under reverse repurchase agreements	12,734	52	210	66	-	-	-	-	-	13,062
Loans										
Residential mortgages ⁽³⁾	56	71	261	91	145	594	2,141	1,282	11	4,652
Consumer, credit card and other personal loans ⁽³⁾	37	54	121	180	256	1,095	5,373	5,250	7,749	20,115
Business and government ⁽³⁾	7,309	2,059	1,428	1,347	2,265	5,056	10,536	1,806	5,041	36,847
Allowance for credit losses	-	-	-	-	-	-	-	-	(414)	(414)
Segregated fund net assets	-	-	-	-	-	-	-	-	16,040	16,040
Clients' liability under acceptances	183	9	-	-	-	-	-	-	-	192
Premiums receivable	181	64	13	3	-	-	-	-	2,298	2,559
Derivative financial instruments	78	180	219	165	221	1,093	2,503	464	-	4,923
Amounts receivable from clients, brokers and financial institutions	3,116	4	-	-	-	-	-	-	73	3,193
Reinsurance assets	37	71	85	69	67	186	391	915	112	1,933
Right-of-use assets	-	-	-	-	-	-	-	-	306	306
Investment property	-	-	-	-	-	-	-	-	942	942
Property, plant and equipment	-	-	-	-	-	-	-	-	807	807
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	384	384
Deferred tax assets	-	-	-	-	-	-	-	-	962	962
Other assets	392	86	74	6	11	16	42	7	2,238	2,872
Total assets	\$ 28,645	\$ 5,057	\$ 3,910	\$ 3,777	\$ 4,474	\$ 11,541	\$ 32,772	\$ 32,632	\$ 41,444	\$ 164,252

See page 45 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)As at June 30, 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⁾	\$ 37	\$ 22	\$ 41	\$ 41	\$ 35	\$ 89	\$ 195	\$ 29	\$ 2,950	\$ 3,439
Business and government ⁽⁴⁾	10,027	4,596	3,895	3,324	1,949	4,654	11,738	2,501	5,133	47,817
Deposit-taking institutions ⁽⁴⁾	266	168	259	158	211	796	2,082	24	4,292	8,256
Acceptances	183	9	-	-	-	-	-	-	-	192
Commitments related to securities sold short ⁽⁵⁾	92	224	192	1	112	1,911	3,492	5,775	2	11,801
Commitments related to securities lent or sold under repurchase agreements	11,250	-	-	-	-	-	-	-	-	11,250
Derivative financial instruments	165	186	225	135	246	961	2,438	230	-	4,586
Amounts payable to clients, brokers and financial institutions	3,797	1	-	-	-	-	-	-	2,524	6,322
Lease liabilities	3	4	6	6	5	21	63	202	42	352
Insurance contract liabilities	420	761	956	851	804	1,937	4,452	18,173	2,720	31,074
Segregated fund net liabilities	-	-	-	-	-	-	-	-	16,025	16,025
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,975	1,975
Deferred tax liabilities	-	-	-	-	-	-	-	-	206	206
Other liabilities	1,847	174	53	193	115	79	86	38	1,930	4,515
Subordinated notes	-	-	-	-	900	-	-	499	-	1,399
Total equity	-	-	-	-	-	-	-	-	15,043	15,043
Total liabilities and equity	\$ 28,087	\$ 6,145	\$ 5,627	\$ 4,709	\$ 4,377	\$ 10,448	\$ 24,546	\$ 27,471	\$ 52,842	\$ 164,252
Off-balance sheet commitments										
Credit commitments ⁽⁶⁾	\$ 4,505	\$ 221	\$ 1,022	\$ 95	\$ 746	\$ 3,102	\$ 7,453	\$ 627	\$ 95,101	\$ 112,872
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,831	2,831
Documentary letters of credit	-	-	-	-	-	1	-	-	-	1
Guarantees and standby letters of credit	124	83	49	197	59	98	7	69	5	691
Credit default swaps	-	-	-	-	-	-	283	-	-	283

See page 45 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 45 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 June 30, 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 June 30, 2019		As at December 31, 2018	
	Notional amounts	Fair value	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities ⁽¹⁾	\$ 139	\$ 141	\$ 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 June 30, 2019		As at December 31, 2018	
Leveraged finance loans ⁽¹⁾	\$ 90		\$ 81	
Alt-A mortgage loans ⁽²⁾	17		18	
Subprime residential mortgage loans ⁽³⁾	4		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 June 30, 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 six 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 did not issue any new accounting standard or any new amendments to an existing standard during the six-month period ended June 30, 2019.

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Consolidated Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at June 30, 2019 ⁽¹⁾	As at December 31, 2018
ASSETS			
Cash and deposits with financial institutions		\$ 2,520	\$ 2,738
Securities			
Securities at fair value through profit or loss		39,004	36,914
Securities at fair value through other comprehensive income		11,507	11,131
Securities at amortized cost		1,725	1,621
		52,236	49,666
Securities borrowed or purchased under reverse repurchase agreements		13,062	14,086
Loans			
Residential mortgages	5	4,652	4,626
Consumer, credit card and other personal loans		20,115	19,710
Business and government		36,847	37,992
		61,614	62,328
Allowance for credit losses	5	(414)	(491)
		61,200	61,837
Segregated fund net assets		16,040	13,234
Other assets			
Clients' liability under acceptances		192	160
Premiums receivable		2,559	2,378
Derivative financial instruments		4,923	4,376
Amounts receivable from clients, brokers and financial institutions		3,193	1,487
Reinsurance assets		1,933	1,958
Right-of-use assets		306	N/A
Investment property		942	943
Property, plant and equipment		807	811
Goodwill		121	121
Intangible assets		384	389
Deferred tax assets		962	896
Other		2,872	2,480
		19,194	15,999
TOTAL ASSETS		\$ 164,252	\$ 157,560
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
Individuals	7	\$ 3,439	\$ 4,105
Business and government		47,817	45,998
Deposit-taking institutions		8,256	7,954
		59,512	58,057
Other liabilities			
Acceptances		192	160
Commitments related to securities sold short		11,801	10,829
Commitments related to securities lent or sold under repurchase agreements		11,250	16,233
Derivative financial instruments		4,586	3,332
Amounts payable to clients, brokers and financial institutions		6,322	4,105
Lease liabilities		352	N/A
Insurance contract liabilities		31,074	28,764
Segregated fund net liabilities		16,025	13,212
Net defined benefit plan liabilities		1,975	1,578
Deferred tax liabilities		206	254
Other		4,515	5,105
		88,298	83,572
Subordinated notes		1,399	1,378
TOTAL LIABILITIES		149,209	143,007
EQUITY			
Capital stock	8	8,883	8,779
Undistributed surplus earnings		4,589	4,764
Accumulated other comprehensive income	9	300	(9)
Reserves		513	271
Equity – Group's share		14,285	13,805
Non-controlling interests		758	748
TOTAL EQUITY		15,043	14,553
TOTAL LIABILITIES AND EQUITY		\$ 164,252	\$ 157,560

⁽¹⁾ The information presented as at June 30, 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 Income

(unaudited)

		For the three-month periods ended June 30		For the six-month periods ended June 30	
(in millions of Canadian dollars)	Notes	2019 ⁽¹⁾	2018	2019 ⁽¹⁾	2018
INTEREST INCOME					
Loans		\$ 713	\$ 607	\$ 1,424	\$ 1,193
Securities		54	52	114	108
		767	659	1,538	1,301
INTEREST EXPENSE					
Deposits		349	282	705	533
Subordinated notes		18	17	36	35
Other		28	7	60	12
		395	306	801	580
NET INTEREST INCOME	11	372	353	737	721
NET PREMIUMS		2,270	2,225	4,615	4,389
OTHER INCOME					
Assessments		98	99	196	198
Service agreements		199	186	385	370
Lending fees and credit card service revenues		185	164	395	350
Brokerage and investment fund services		223	223	437	478
Management and custodial service fees		148	144	295	287
Net investment income	11	991	299	2,415	425
Overlay approach adjustment for insurance operations financial assets		10	20	(157)	189
Foreign exchange income		19	21	33	48
Other		28	163	101	233
		1,901	1,319	4,100	2,578
TOTAL INCOME		4,543	3,897	9,452	7,688
PROVISION FOR CREDIT LOSSES	5	(6)	63	78	152
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE					
CONTRACT LIABILITIES		2,361	1,727	5,481	3,383
NON-INTEREST EXPENSE					
Remuneration and other payments		183	146	349	283
Salaries and fringe benefits		644	580	1,230	1,159
Premises, equipment and furniture, including depreciation		134	119	265	235
Service agreements and outsourcing		96	89	181	169
Communications		57	59	112	114
Other		702	575	1,337	1,236
		1,816	1,568	3,474	3,196
OPERATING SURPLUS EARNINGS					
Income taxes on surplus earnings		56	75	47	134
NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS		\$ 316	\$ 464	\$ 372	\$ 823
of which:					
Group's share		\$ 298	\$ 453	\$ 357	\$ 803
Non-controlling interests' share		18	11	15	20

⁽¹⁾ The information presented for the three-month and six-month periods ended June 30, 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 June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Net surplus earnings for the period after dividends to member caisses	\$ 316	\$ 464	\$ 372	\$ 823
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	(205)	145	(292)	192
Share of associates and joint ventures accounted for using the equity method	1	1	-	1
	(204)	146	(292)	193
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)	63	(6)	191	(32)
Reclassification of net (gains) losses to the Consolidated Statements of Income	(13)	1	(15)	5
	50	(5)	176	(27)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	9	17	148	(23)
Reclassification of net gains to the Consolidated Statements of Income	(14)	(37)	(20)	(132)
	(5)	(20)	128	(155)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(2)	(5)	15	(8)
Reclassification to the Consolidated Statements of Income of net gains (losses) on derivative financial instruments designated as cash flow hedges	1	(1)	1	(2)
	(1)	(6)	16	(10)
Net unrealized exchange gains (losses) on the translation of a net investment in a foreign operation, net of hedging transactions	(2)	-	(2)	-
	42	(31)	318	(192)
Total other comprehensive income, net of income taxes	(162)	115	26	1
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 154	\$ 579	\$ 398	\$ 824
of which:				
Group's share	\$ 139	\$ 565	\$ 379	\$ 809
Non-controlling interests' share	15	14	19	15

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 June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Item that will not be reclassified subsequently to the Consolidated Statements of Income				
Remeasurement of net defined benefit plan liabilities	\$ (73)	\$ 52	\$ (104)	\$ 69
	(73)	52	(104)	69
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)	23	(2)	68	(11)
Reclassification of net (gains) losses to the Consolidated Statements of Income	(5)	-	(6)	1
	18	(2)	62	(10)
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	1	8	36	(11)
Reclassification of net gains to the Consolidated Statements of Income	(6)	(8)	(7)	(23)
	(5)	-	29	(34)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	4	(2)	11	(6)
	4	(2)	11	(6)
	17	(4)	102	(50)
Total income tax expense (recovery)	\$ (56)	\$ 48	\$ (2)	\$ 19

Consolidated Statements of Changes in Equity

For the six-month periods ended June 30
(unaudited)

	Capital stock (Note 8)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 9)	Reserves			Equity - Group's share	Non-controlling interests	Total equity
				Stabilization reserve	General and other reserves	Total reserves			
(in millions of Canadian dollars)									
BALANCE AS AT DECEMBER 31, 2018	\$ 8,779	\$ 4,764	\$ (9)	\$ 417	\$ (146)	\$ 271	\$ 13,805	\$ 748	\$ 14,553
Net surplus earnings for the period after dividends to member caisses	-	357	-	-	-	-	357	15	372
Other comprehensive income for the period	-	(287)	309	-	-	-	22	4	26
Comprehensive income for the period	-	70	309	-	-	-	379	19	398
Issuance of F capital shares	104	-	-	-	-	-	104	-	104
Issuance of share capital	-	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	-	(18)	(18)
Transfer from undistributed surplus earnings (to reserves)	-	(242)	-	-	242	242	-	-	-
Other	-	(3)	-	-	-	-	(3)	2	(1)
BALANCE AS AT JUNE 30, 2019	\$ 8,883	\$ 4,589	\$ 300	\$ 417	\$ 96	\$ 513	\$ 14,285	\$ 758	\$ 15,043
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	-	803	-	-	-	-	803	20	823
Other comprehensive income for the period	-	190	(184)	-	-	-	6	(5)	1
Comprehensive income for the period	-	993	(184)	-	-	-	809	15	824
Issuance of F capital shares	264	-	-	-	-	-	264	-	264
F capital share issuance costs	(1)	-	-	-	-	-	(1)	-	(1)
Other net change in capital stock	(5)	3	-	-	-	-	(2)	-	(2)
Remuneration on capital shares	-	(247)	-	-	-	-	(247)	-	(247)
Redemption of share capital	-	-	-	-	-	-	-	(9)	(9)
Dividends	-	-	-	-	-	-	-	(20)	(20)
Transfer from undistributed surplus earnings (to reserves)	-	(210)	-	96	114	210	-	-	-
Transactions related to buy-out options	-	30	-	-	-	-	30	(19)	11
Buy-out of non-controlling interests	-	(13)	-	-	-	-	(13)	(15)	(28)
Other	-	3	(1)	-	-	-	2	-	2
BALANCE AS AT JUNE 30, 2018	\$ 8,795	\$ 6,267	\$ 238	\$ 563	\$ (26)	\$ 537	\$ 15,837	\$ 762	\$ 16,599

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 six-month periods ended June 30	
	2019 ⁽¹⁾	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 419	\$ 957
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	110	95
Depreciation of right-of-use assets	15	N/A
Net change in insurance contract liabilities	2,310	342
Provision for credit losses	78	152
Overlay approach adjustment for insurance operations financial assets	157	(189)
Other	-	(53)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	(2,090)	(2,903)
Securities borrowed or purchased under reverse repurchase agreements	1,024	(1,331)
Loans	559	(1,434)
Derivative financial instruments, net amount	720	(488)
Net amounts receivable from and payable to clients, brokers and financial institutions	511	173
Deposits	1,455	4,830
Commitments related to securities sold short	972	1,928
Commitments related to securities lent or sold under repurchase agreements	(4,983)	667
Other	(881)	(478)
Payment of the contingent consideration	(209)	(250)
Income taxes paid on surplus earnings	(59)	(155)
Payment of dividends to member caisses	(70)	(60)
	38	1,803
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of lease liabilities	(10)	N/A
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	21	(37)
Issuance of F capital shares	104	122
F capital share issuance costs	-	(1)
Other net change in capital stock	-	(2)
Remuneration on capital shares	-	(105)
Issuance of share capital	7	-
Redemption of share capital	-	(9)
Dividends paid	(18)	(20)
Buy-out of non-controlling interests	-	(28)
Transactions related to buy-out options	-	(63)
	104	(143)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	(25,852)	(32,246)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	6,803	4,316
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	18,836	26,842
Acquisitions of property, plant and equipment, intangible assets and investment property	(114)	(84)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	2	-
Payment of the contingent consideration recognized at acquisition date	(35)	(27)
	(360)	(1,199)
Net increase (decrease) in cash and cash equivalents	(218)	461
Cash and cash equivalents at beginning of period	2,738	1,757
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,520	\$ 2,218
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 991	\$ 588
Interest and dividends received	2,210	1,826

⁽¹⁾ The information presented for the six-month period ended June 30, 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 August 12, 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 six-month period ended June 30, 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		Amortized cost ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
As at June 30, 2019						
Financial assets						
Cash and deposits with financial institutions	\$ -	\$ 80	\$ 911	\$ -	\$ 1,529	\$ 2,520
Securities	20,988	18,016	11,459	48	1,725	52,236
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	13,062	13,062
Loans ⁽³⁾	-	-	-	-	61,200	61,200
Other financial assets						
Clients' liability under acceptances	-	-	-	-	192	192
Premiums receivable	-	-	-	-	2,559	2,559
Derivative financial instruments ⁽⁴⁾	4,923	-	-	-	-	4,923
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	3,193	3,193
Other	-	-	-	-	1,016	1,016
Total financial assets	\$ 25,911	\$ 18,096	\$ 12,370	\$ 48	\$ 84,476	\$ 140,901
Financial liabilities						
Deposits ⁽⁵⁾	\$ -	\$ 34	\$ -	\$ -	\$ 59,478	\$ 59,512
Other financial liabilities						
Acceptances	-	-	-	-	192	192
Commitments related to securities sold short	11,801	-	-	-	-	11,801
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	11,250	11,250
Derivative financial instruments ⁽⁴⁾	4,586	-	-	-	-	4,586
Amounts payable to clients, brokers and financial institutions	-	-	-	-	6,322	6,322
Other	144	-	-	-	2,226	2,370
Subordinated notes	-	-	-	-	1,399	1,399
Total financial liabilities	\$ 16,531	\$ 34	\$ -	\$ -	\$ 80,867	\$ 97,432

⁽¹⁾ An amount of \$2,872 million corresponds to financial assets designated for the overlay approach.

⁽²⁾ As at June 30, 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 \$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 \$465 million in assets and \$122 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		Amortized cost ⁽²⁾	Total
	Classified as at fair value through profit or loss ⁽¹⁾	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income ⁽²⁾	Designated as at fair value through other comprehensive income		
As at December 31, 2018						
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 six-month period ended June 30, 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 June 30, 2019		As at December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Securities	\$ 1,725	\$ 1,702	\$ 1,621	\$ 1,621
Loans	61,200	61,156	61,837	61,610
Financial liabilities				
Deposits	59,478	59,245	58,057	57,842
Subordinated notes	1,399	1,455	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 June 30, 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	\$ 2	\$ 78	\$ -	\$ 80
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,668	941	-	9,609
Provincial governmental entities and municipal corporations in Canada	18,117	1,060	-	19,177
School or public corporations in Canada	15	90	-	105
Foreign public administrations	310	-	-	310
Other securities				
Financial institutions	16	1,032	56	1,104
Other issuers	-	3,199	790	3,989
Equity securities	3,287	625	798	4,710
	30,415	7,025	1,644	39,084
Derivative financial instruments				
Interest rate contracts	-	2,170	-	2,170
Foreign exchange contracts	-	389	-	389
Other contracts	-	2,364	-	2,364
	-	4,923	-	4,923
Total financial assets at fair value through profit or loss	30,415	11,948	1,644	44,007
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	-	911	-	911
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	1,917	595	-	2,512
Provincial governmental entities and municipal corporations in Canada	4,992	513	-	5,505
Foreign public administrations	13	-	-	13
Other securities				
Financial institutions	-	2,790	-	2,790
Other issuers	-	550	89	639
Equity securities	-	48	-	48
Total financial assets at fair value through other comprehensive income	6,922	5,407	89	12,418
Financial instruments of segregated funds	6,056	9,916	78	16,050
Total financial assets	\$ 43,393	\$ 27,271	\$ 1,811	\$ 72,475
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	\$ -	\$ 34	\$ -	\$ 34
Other liabilities				
Commitments related to securities sold short	11,293	508	-	11,801
Other	-	-	144	144
	11,293	542	144	11,979
Derivative financial instruments				
Interest rate contracts	-	1,918	-	1,918
Foreign exchange contracts	-	373	-	373
Other contracts	-	2,295	-	2,295
	-	4,586	-	4,586
Total financial liabilities	\$ 11,293	\$ 5,128	\$ 144	\$ 16,565

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 six-month period ended June 30, 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 six-month period ended June 30, 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 six-month period ended June 30, 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.

	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
For the six-month period ended June 30, 2019								
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	-	16	-	-	-	(21)	731
Other debt securities	-	-	(1)	-	-	53	-	52
Equity securities	698	(5)	(15)	-	-	136	(16)	798
Other assets	13	-	-	-	-	-	(13)	-
Total financial assets at fair value through profit or loss	1,509	(5)	1	-	-	189	(50)	1,644
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	1	-	-	(1)	89
Corporate bonds	8	-	-	-	-	-	(8)	-
Total financial assets at fair value through other comprehensive income	97	-	-	1	-	-	(9)	89
Financial instruments of segregated funds	72	-	2	-	-	4	-	78
Total financial assets	\$ 1,678	\$ (5)	\$ 3	\$ 1	\$ -	\$ 193	\$ (59)	\$ 1,811
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	\$ 319	\$ -	\$ 69	\$ -	\$ -	\$ -	\$ (244)	\$ 144
Total financial liabilities	\$ 319	\$ -	\$ 69	\$ -	\$ -	\$ -	\$ (244)	\$ 144

⁽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)

	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
For the six-month period ended June 30, 2018										
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	3	-	-	-	-	-	7
Asset-backed term notes	6	-	6	-	1	-	-	-	(2)	5
Mortgage bonds	857	-	857	-	(23)	-	-	-	(58)	776
Equity securities	236	279	515	-	20	-	-	50	(8)	577
Total financial assets at fair value through profit or loss	1,161	279	1,440	3	(3)	-	-	50	(68)	1,422
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	-	-	(3)	-	-	(1)	91
Total financial assets at fair value through other comprehensive income	-	95	95	-	-	(3)	-	-	(1)	91
Financial instruments of segregated funds	60	-	60	-	-	-	-	69	(58)	71
Total financial assets	\$ 1,595	\$ -	\$ 1,595	\$ 3	\$ (3)	\$ (3)	\$ -	\$ 119	\$ (127)	\$ 1,584
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	-	84	-	-	-	(277)	195
Total financial liabilities	\$ 452	\$ -	\$ 452	\$ -	\$ 84	\$ -	\$ -	\$ -	\$ (341)	\$ 195

⁽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

As at June 30, 2019	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Excellent	\$ 632	\$ -	\$ -	\$ 632
Very low	2,233	-	-	2,233
Low	1,575	18	-	1,593
Moderate	59	93	-	152
High	1	27	-	28
Default	-	4	10	14
Total gross residential mortgages	\$ 4,500	\$ 142	\$ 10	\$ 4,652
Allowance for credit losses	(4)	(1)	(5)	(10)
Total net residential mortgages	\$ 4,496	\$ 141	\$ 5	\$ 4,642
Consumer, credit card and other personal loans				
Excellent	\$ 1,583	\$ -	\$ -	\$ 1,583
Very low	3,456	-	-	3,456
Low	8,364	100	-	8,464
Moderate	3,443	1,386	-	4,829
High	43	1,529	-	1,572
Default	-	-	211	211
Total gross consumer, credit card and other personal loans	\$ 16,889	\$ 3,015	\$ 211	\$ 20,115
Allowance for credit losses	(97)	(167)	(114)	(378)
Total net consumer, credit card and other personal loans	\$ 16,792	\$ 2,848	\$ 97	\$ 19,737
Business and government loans⁽¹⁾				
Acceptable risk:				
Investment grade	\$ 32,027	\$ -	\$ -	\$ 32,027
Other than investment grade	4,300	393	-	4,693
Under watch	130	30	-	160
Default	-	-	159	159
Total gross business and government loans	\$ 36,457	\$ 423	\$ 159	\$ 37,039
Allowance for credit losses	(11)	(2)	(13)	(26)
Total net business and government loans	\$ 36,446	\$ 421	\$ 146	\$ 37,013

⁽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)

As at December 31, 2018	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
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⁾

As at June 30, 2019	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
Residential mortgages, consumer, credit card and other personal loans				
Excellent	\$ 13,177	\$ -	\$ -	\$ 13,177
Very low	18,782	1	-	18,783
Low	7,360	115	-	7,475
Moderate	3,531	1,381	-	4,912
High	15	687	-	702
Default	-	-	24	24
Total gross off-balance sheet items	\$ 42,865	\$ 2,184	\$ 24	\$ 45,073
Allowance for credit losses	(22)	(2)	-	(24)
Total net off-balance sheet items	\$ 42,843	\$ 2,182	\$ 24	\$ 45,049
Business and government				
Acceptable risk:				
Investment grade	\$ 62,274	\$ -	\$ -	\$ 62,274
Other than investment grade	5,634	435	-	6,069
Under watch	96	44	-	140
Default	-	-	8	8
Total gross off-balance sheet items	\$ 68,004	\$ 479	\$ 8	\$ 68,491
Allowance for credit losses	(5)	-	-	(5)
Total net off-balance sheet items	\$ 67,999	\$ 479	\$ 8	\$ 68,486

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

As at December 31, 2018	Non-credit impaired		Credit-impaired	Total
	Stage 1	Stage 2	Stage 3	
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.

For the six-month period ended June 30, 2019	Non-credit impaired		Credit-impaired	Allowance for
	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⁾	-	-	-	-
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	142	(134)	(8)	-
Stage 2	(27)	48	(21)	-
Stage 3	-	(19)	19	-
Net remeasurement due to transfers ⁽²⁾	(47)	26	97	76
Changes in model inputs ⁽³⁾	(82)	13	163	94
New originations or acquisitions ⁽⁴⁾	31	27	-	58
Derecognition and maturities ⁽⁵⁾	(12)	(29)	(83)	(124)
Net drawdowns (repayments) ⁽⁶⁾	(10)	(22)	-	(32)
Write-offs and recoveries	(5)	(90)	167	72
Balance at end of period	\$ 124	\$ 169	\$ 114	\$ 407
Business and government				
Balance at beginning of period	\$ 9	\$ 5	\$ 6	\$ 20
Provision for credit losses				
Transfers to ⁽¹⁾ :				
Stage 1	2	(2)	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	(1)	-	5	4
Changes in model inputs ⁽³⁾	(1)	(1)	(4)	(6)
New originations or acquisitions ⁽⁴⁾	2	-	-	2
Derecognition and maturities ⁽⁵⁾	(1)	-	-	(1)
Net drawdowns (repayments) ⁽⁶⁾	1	-	1	2
Other	-	-	5	5
Write-offs and recoveries	2	(3)	7	6
Balance at end of period	\$ 11	\$ 2	\$ 13	\$ 26
Total balances as at June 30, 2019	\$ 139	\$ 172	\$ 132	\$ 443
Composed of:				
Loans	\$ 112	\$ 170	\$ 132	\$ 414
Off-balance sheet items ⁽⁷⁾	27	2	-	29

⁽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 six-month period ended June 30, 2018	Non-credit impaired		Credit-impaired	Allowance for credit losses
	Stage 1	Stage 2	Stage 3	
Residential mortgages				
Balance at beginning of period	\$ 4	\$ 1	\$ 4	\$ 9
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	4	-	(4)	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	(4)	-	-	(4)
Changes in model inputs ⁽³⁾	-	-	-	-
New originations or acquisitions ⁽⁴⁾	-	-	-	-
Derecognition and maturities ⁽⁵⁾	-	-	-	-
Net drawdowns (repayments) ⁽⁶⁾	-	-	-	-
	-	-	(4)	(4)
Write-offs and recoveries	-	-	-	-
Balance at end of period	\$ 4	\$ 1	\$ -	\$ 5
Consumer, credit card and other personal loans				
Balance at beginning of period	\$ 96	\$ 304	\$ 94	\$ 494
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	138	(132)	(6)	-
Stage 2	(22)	36	(14)	-
Stage 3	-	(17)	17	-
Net remeasurement due to transfers ⁽²⁾	(68)	34	59	25
Changes in model inputs ⁽³⁾	(38)	93	138	193
New originations or acquisitions ⁽⁴⁾	37	78	-	115
Derecognition and maturities ⁽⁵⁾	(14)	(88)	(76)	(178)
Net drawdowns (repayments) ⁽⁶⁾	(17)	(9)	27	1
	16	(5)	145	156
Write-offs and recoveries	-	-	(140)	(140)
Balance at end of period	\$ 112	\$ 299	\$ 99	\$ 510
Business and government				
Balance at beginning of period	\$ 7	\$ 9	\$ 8	\$ 24
<i>Provision for credit losses</i>				
Transfers to ⁽¹⁾ :				
Stage 1	2	(2)	-	-
Stage 2	-	2	(2)	-
Stage 3	-	-	-	-
Net remeasurement due to transfers ⁽²⁾	(1)	-	2	1
Changes in model inputs ⁽³⁾	(1)	1	1	1
New originations or acquisitions ⁽⁴⁾	2	-	-	2
Derecognition and maturities ⁽⁵⁾	(1)	-	(2)	(3)
Net drawdowns (repayments) ⁽⁶⁾	-	(1)	-	(1)
	1	-	(1)	-
Write-offs and recoveries	-	-	(1)	(1)
Balance at end of period	\$ 8	\$ 9	\$ 6	\$ 23
Total balances as at June 30, 2018	\$ 124	\$ 309	\$ 105	\$ 538
Composed of:				
Loans	\$ 104	\$ 292	\$ 105	\$ 501
Off-balance sheet items ⁽⁷⁾	20	17	-	37

⁽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 \$5,204 million as at June 30, 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 June 30, 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	\$ 2,906	\$ 39	\$ 494	\$ 3,439	\$ 2,961	\$ 41	\$ 1,103	\$ 4,105
Business and government	5,133	-	42,684	47,817	3,274	-	42,724	45,998
Deposit-taking institutions	4,292	-	3,964	8,256	4,448	-	3,506	7,954
	\$ 12,331	\$ 39	\$ 47,142	\$ 59,512	\$ 10,683	\$ 41	\$ 47,333	\$ 58,057

NOTE 8 – CAPITAL STOCK

ISSUANCE OF SHARES

During the six-month period ended June 30, 2019, the Federation issued 10,407,313 F capital shares for a cash consideration of \$104 million.

NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 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⁾	\$ 187	\$ 2	\$ 14	\$ (1)
Net unrealized gains (losses) related to the overlay approach for insurance operations financial assets	105	4	(17)	(2)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	9	-	(7)	-
Net unrealized exchange gains (losses) on the translation of a net investment in a foreign operation, net of hedging transactions	(1)	-	1	-
Accumulated other comprehensive income	\$ 300	\$ 6	\$ (9)	\$ (3)

⁽¹⁾ Including an allowance for credit losses of \$2 million as at June 30, 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 June 30, 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 June 30, 2019	As at December 31, 2018
Capital		
Tier 1A capital	\$ 10,711	\$ 9,897
Tier 1 capital	10,711	9,897
Total capital	10,711	9,897
Risk-weighted assets for capital ratio calculation purposes⁽¹⁾		
For Tier 1A capital	68,174	63,106
For Tier 1 capital	68,174	63,150
For total capital	68,174	63,193
Risk-weighted assets for total capital calculation purposes⁽¹⁾		
Credit risk	53,355	49,216
Market risk	6,138	5,396
Operational risk	8,681	8,581
Total risk-weighted assets	\$ 68,174	\$ 63,193
Ratios and leverage ratio exposure		
Tier 1A capital	15.7%	15.7%
Tier 1 capital	15.7	15.7
Total capital	15.7	15.7
Leverage	7.9	7.4
Leverage ratio exposure	\$ 135,078	\$ 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 June 30		For the six-month periods ended June 30	
	2019	2018	2019	2018
Interest income on financial assets				
At amortized cost	\$ 722	\$ 613	\$ 1,441	\$ 1,204
At fair value through other comprehensive income	40	35	85	79
At fair value through profit or loss	5	11	12	18
	767	659	1,538	1,301
Interest expense on financial liabilities at amortized cost	395	306	801	580
	\$ 372	\$ 353	\$ 737	\$ 721

NET INVESTMENT INCOME

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

For the three-month periods ended June 30	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	\$ 66	\$ 81	\$ 147	\$ 72	\$ (4)	\$ 68
Designated as at fair value through profit or loss	133	618	751	125	27	152
Classified as at fair value through other comprehensive income	35	19	54	34	-	34
At amortized cost and other	33	6	39	36	9	45
	\$ 267	\$ 724	\$ 991	\$ 267	\$ 32	\$ 299

For the six-month periods ended June 30	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	\$ 140	\$ 338	\$ 478	\$ 134	\$ (57)	\$ 77
Designated as at fair value through profit or loss	264	1,495	1,759	245	(112)	133
Classified as at fair value through other comprehensive income	70	20	90	66	(3)	63
At amortized cost and other	66	22	88	73	79	152
	\$ 540	\$ 1,875	\$ 2,415	\$ 518	\$ (93)	\$ 425

NOTE 12 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
For the three-month periods ended June 30	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	\$ 281	\$ 273	\$ 2	\$ 1	\$ -	\$ -	\$ 89	\$ 79	\$ 372	\$ 353
Net premiums	-	-	1,084	1,190	1,222	1,073	(36)	(38)	2,270	2,225
Other income	446	413	1,291	762	37	(3)	127	147	1,901	1,319
Total income	727	686	2,377	1,953	1,259	1,070	180	188	4,543	3,897
Provision for credit losses	(6)	67	-	(4)	-	-	-	-	(6)	63
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,559	993	805	734	(3)	-	2,361	1,727
Non-interest expense	550	518	590	577	303	280	373	193	1,816	1,568
Operating surplus earnings	183	101	228	387	151	56	(190)	(5)	372	539
Income taxes on surplus earnings	45	30	45	56	28	4	(62)	(15)	56	75
Net surplus earnings for the period after dividends to member caisses	\$ 138	\$ 71	\$ 183	\$ 331	\$ 123	\$ 52	\$ (128)	\$ 10	\$ 316	\$ 464
of which:										
Group's share	\$ 138	\$ 71	\$ 183	\$ 331	\$ 105	\$ 41	\$ (128)	\$ 10	\$ 298	\$ 453
Non-controlling interests' share	-	-	-	-	18	11	-	-	18	11

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
For the six-month periods ended June 30	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	\$ 578	\$ 549	\$ 3	\$ 2	\$ -	\$ -	\$ 156	\$ 170	\$ 737	\$ 721
Net premiums	-	-	2,281	2,333	2,406	2,132	(72)	(76)	4,615	4,389
Other income	915	883	2,852	1,339	160	66	173	290	4,100	2,578
Total income	1,493	1,432	5,136	3,674	2,566	2,198	257	384	9,452	7,688
Provision for credit losses	77	156	-	(4)	-	-	1	-	78	152
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	3,578	1,834	1,906	1,549	(3)	-	5,481	3,383
Non-interest expense	1,124	1,039	1,157	1,200	610	557	583	400	3,474	3,196
Operating surplus earnings	292	237	401	644	50	92	(324)	(16)	419	957
Income taxes on surplus earnings	75	60	79	107	8	14	(115)	(47)	47	134
Net surplus earnings for the period after dividends to member caisses	\$ 217	\$ 177	\$ 322	\$ 537	\$ 42	\$ 78	\$ (209)	\$ 31	\$ 372	\$ 823
of which:										
Group's share	\$ 217	\$ 177	\$ 322	\$ 537	\$ 27	\$ 58	\$ (209)	\$ 31	\$ 357	\$ 803
Non-controlling interests' share	-	-	-	-	15	20	-	-	15	20

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 June 30, 2019	\$ 62,406	\$ 47,228	\$ 13,352	\$ 41,266	\$ 164,252
As at December 31, 2018	\$ 60,982	\$ 41,916	\$ 13,007	\$ 41,655	\$ 157,560

NOTE 13 – SIGNIFICANT EVENT

Privacy breach

On June 20, 2019, Desjardins Group announced that some personal information of 2.9 million members had been shared with individuals outside the organization. This situation was caused by an ill-intentioned employee who has since been fired. Desjardins Group was not the victim of a cyberattack and its computer systems were in no way breached. In light of the situation, additional measures were put in place to protect the personal and financial information of all members and clients. Desjardins Group sent a letter to all members affected by the incident. It offers affected members, at its own cost, a credit monitoring plan and identity theft insurance with Equifax for five years.

In addition, on July 15, 2019, Desjardins Group announced to all its members that they are now automatically protected against identity theft. This protection is available not only to personal members, but also to business members, who are currently not served by any similar industry protection. This protection includes the following: the protection of assets and transactions at Desjardins Group, individual support in the identity recovery process in case of identity theft and coverage that will reimburse up to \$50,000 for expenses related to identify theft.

The expenses related to costs incurred and the establishment of a provision with respect to the implementation of these protections for our members, totalling \$70 million, have been recognized in profit or loss in the second quarter of 2019. Desjardins Group could periodically reassess this provision based on the circumstances.

GENERAL INFORMATION

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