Financial Report

Second quarter of 2019

Desjardins Group records surplus earnings of $692 million for the second quarter

FINANCIAL HIGHLIGHTS

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
Net interest income	**$ 1,299**	$ 1,264	$ 1,175	**$ 2,563**	$ 2,324
Net premiums	**2,242**	2,317	2,200	**4,559**	4,339
Other operating income[2]	**686**	731	781	**1,417**	1,525
Operating income[2]	**4,227**	4,312	4,156	**8,539**	8,188
Investment income[2]	**1,055**	1,352	328	**2,407**	608
Total income	**5,282**	5,664	4,484	**10,946**	8,796
(Recovery of) provision for credit losses	**(11)**	109	80	**98**	195
Claims, benefits, annuities and changes in insurance contract liabilities	**2,361**	3,118	1,727	**5,479**	3,383
Non-interest expense	**2,053**	1,919	1,853	**3,972**	3,780
Income taxes on surplus earnings	**187**	117	147	**304**	260
Surplus earnings before member dividends	**$ 692**	$ 401	$ 677	**$ 1,093**	$ 1,178
Adjusted surplus earnings before member dividends[2]	**$ 692**	$ 401	$ 548	**$ 1,093**	$ 1,049
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 461**	$ 335	$ 299	**$ 796**	$ 574
Wealth Management and Life and Health Insurance	**183**	139	331	**322**	537
Property and Casualty Insurance	**123**	(81)	52	**42**	78
Other	**(75)**	8	(5)	**(67)**	(11)
	$ 692	$ 401	$ 677	**$ 1,093**	$ 1,178
Return to members and the community					
Member dividends	**$ 80**	$ 77	$ 71	**$ 157**	$ 121
Sponsorships, donations and bursaries	**20**	18	25	**38**	45
Desjardins Member Advantages program	**12**	10	10	**22**	22
	$ 112	$ 105	$ 106	**$ 217**	$ 188
Indicators					
Net interest margin[2]	**2.45%**	2.46%	2.39%	**2.43%**	2.37%
Return on equity[2]	**10.6**	6.5	11.0	**8.6**	9.7
Adjusted return on equity[2]	**10.6**	6.6	8.9	**8.6**	8.6
Productivity index[2]	**70.3**	75.4	67.2	**72.7**	69.8
Adjusted productivity index[2]	**70.3**	75.4	70.6	**72.7**	71.6
Credit loss provisioning rate[2]	**(0.02)**	0.23	0.18	**0.10**	0.22

[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 Combined 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 Combined 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	**$ 310,906**	$ 295,465
Net loans and acceptances	**196,904**	190,670
Deposits	**193,291**	183,158
Equity	**26,530**	25,649
Indicators		
Assets under administration	**$ 411,515**	$ 373,558
Assets under management(2)	**63,740**	57,448
Tier 1A capital ratio	**17.7%**	17.3%
Tier 1 capital ratio	**17.7**	17.3
Total capital ratio	**17.8**	17.6
Leverage ratio	**8.4**	8.3
Short term liquidity ratio(3)	**122.4**	122.1
Gross credit-impaired loans/gross loans and acceptances(4)	**0.56**	0.54

(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 Combined Financial Statements.
(2) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.
(3) The ratio is presented based on the average of the daily data during the quarter.
(4) See "Basis of presentation of financial information".

MESSAGE FROM SENIOR MANAGEMENT

Lévis, August 12, 2019 – For the second quarter ended June 30, 2019, Desjardins Group, the leading financial cooperative group in Canada, posted surplus earnings before member dividends of $692 million, a $15 million increase 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 up $144 million, or 26.3%. These results were due to the solid performance of caisse network operations and of activities in the Property and Casualty Insurance segment, where premium income was up and the claims experience was favourable compared to the same quarter in 2018. Surplus earnings were also higher because of 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 $461 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.

The total amount returned to members and the community reached $112 million in the second quarter of 2019, including an $80 million provision for member dividends, $20 million in the form of sponsorships, donations and bursaries, and $12 million paid out through the Desjardins Member Advantages program, compared to a total amount returned to the community of $106 million for the corresponding quarter of 2018. In addition to this, commitments of $8 million were made in second quarter 2019 relating to the *$100 Million Fund* for regional development, compared to $6 million for the same period in 2018.

"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."

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at June 30, 2019, Desjardins Group's Tier 1A and total capital ratios were 17.7% and 17.8%, respectively, compared to 17.3% and 17.6%, respectively, as at December 31, 2018.

[1] See "Basis of presentation of financial information".

ENHANCED DISCLOSURE TASK FORCE RECOMMENDATIONS INDEX

On October 29, 2012, the Enhanced Disclosure Task Force (EDTF), established by the Financial Stability Board, released its report, “Enhancing the Risk Disclosures of Banks”, in which it issued 32 recommendations aimed at improving risk disclosure and transparency.

Information regarding the EDTF recommendations is presented in the 2018 Annual Report, the interim financial report for the second quarter of 2019 and the documents “Supplemental Financial Information” and “Pillar 3 Report”, which are available on Desjardins Group’s website at www.desjardins.com/ca/about-us/investor-relations. The documents “Supplemental Financial Information” and “Pillar 3 Report” are not incorporated by reference in this Management’s Discussion and Analysis (MD&A).

Below are a summary of disclosures under the EDTF recommendations and the location of the disclosures (page number):

Type of risk	Recommen-dation	Disclosure	2018 Annual Report	Interim Financial Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	11	Current page		
	2	Risk terminology, risk measures and key parameters	70, 248-254			30-32
	3	Principal and emerging risks	60, 61, 67, 68, 75, 76	30, 31, 41, 42		
	4	New regulatory ratios	60, 61-63, 94, 96, 213, 214	30-33, 41, 42, 44		
Risk governance, risk management and business models	5	Organizational risk management structure	72-75			
	6	Risk management culture	72-75			
	7	Risks from business model and risk appetite	22, 41-52, 59, 60 71, 72, 75, 76			
	8	Stress testing	71			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	60	30, 31		6-8, 15
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	61-63, 213, 214	32, 33	6-8	6-10
	11	Movements in regulatory capital	61-63	32, 33	7	
	12	Capital management and planning	60-63	30-33	6	
	13	Risk-weighted assets by business segments	75, 76		11, 12, 16	5
	14	Breakdown of capital requirements by type of risk and by calculation method	63, 64, 81, 82, 90, 91	38, 39	11, 12	5
	15	Credit risk			27-36	5, 19, 20
	16	Movements in risk-weighted assets by type of risk	65	33, 34	13-15	5, 21
	17	Back testing and validation of credit models	81		37	
Liquidity	18	Management of liquidity needs and reserve	94-96	41-43		
Funding	19	Encumbered and unencumbered assets	96-99, 220	43, 45, 46		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	97-103	47-50		
	21	Funding sources and strategies	59, 94, 97, 98	42, 45, 46		
Market risk	22	Reconciliation of market risk measures to balance sheet	89, 90	37, 38		
	23	Market risk factors	89-93, 196-200, 222-224	38-41		
	24	Assumptions, limitations and validation procedures for market risk models	90, 92	38-40		
	25	Extreme loss measures	60, 71, 90-92	38-40		
Credit risk	26	Credit risk profile	58, 69, 71, 81, 82, 84, 88	29, 30, 36	10-12, 27-36, 42, 43, 45, 47, 49	16-21
	27	Policy for identifying gross credit-impaired loans	83, 84, 132-161			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	58, 84, 132-161, 174-180	29, 30, 35, 36, 69-73	46	
	29	Counterparty risk related to derivatives	88, 201-209			22-24
	30	Credit risk mitigation techniques	83, 88, 201-209		24-26	
Other risks	31	Management of other risks	63, 64, 73-76, 104-108	33, 34		
	32	Publicly known risk events	104, 220			

MANAGEMENT'S DISCUSSION AND ANALYSIS

Desjardins Group (hereinafter also referred to as Desjardins) comprises the Desjardins caisse network in Quebec and Ontario (the caisses), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc*. and the *Fonds de sécurité Desjardins*.

The Management's Discussion and Analysis (MD&A) dated August 12, 2019 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended June 30, 2019, in comparison to previous periods. Desjardins Group 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). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the practices provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on Desjardins Group'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 Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at June 30, 2019, and Desjardins Group's 2018 Annual Report (the 2018 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the Desjardins Capital Inc. profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR 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

Desjardins Group'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 Desjardins Group'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 Desjardins Group'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 Desjardins Group'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 Desjardins Group'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 Desjardins Group operates; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by Desjardins Group; new products and services to maintain or increase Desjardins Group'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 Desjardins Group'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 Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts, and Desjardins Group'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 Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of Desjardins Group's 2018 annual MD&A.

Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group 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 Desjardins Group'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 Desjardins Group'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. Desjardins Group 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 Desjardins Group, 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 Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. These Interim Combined Financial Statements of Desjardins Group 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 Combined Financial Statements, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined 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 Combined 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 Desjardins Group's Annual and Interim Combined Financial Statements.

To assess its performance, Desjardins Group 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:

Average assets – 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 Combined Financial Statements at the end of the quarters calculated starting from the quarter prior to the period concerned.

Adjusted surplus earnings of Desjardins Group before member dividends

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.

Desjardins Group's surplus earnings before member dividends 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 before member dividends as presented in the Combined 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 before member dividends in the Combined Financial Statements	**$ 692**	$ 401	$ 677	**$ 1,093**	$ 1,178
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 before member dividends	**$ 692**	$ 401	$ 548	**$ 1,093**	$ 1,049

(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 Combined 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 Combined 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 Combined 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 Combined Financial Statements.

Productivity index and adjusted productivity index

The productivity index is used to measure efficiency and is equal to the ratio of non-interest expense to total income, net of expenses related to claims, benefits, annuities and changes in insurance contract liabilities, expressed as a percentage. A lower ratio indicates greater productivity.

The following table presents the calculation of the productivity index 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
Non-interest expense	**$ 2,053**	$ 1,919	$ 1,853	**$ 3,972**	$ 3,780
Total income	**5,282**	5,664	4,484	**10,946**	8,796
Claims, benefits, annuities and changes in insurance contract liabilities	**(2,361)**	(3,118)	(1,727)	**(5,479)**	(3,383)
Total income excluding claims	**$ 2,921**	$ 2,546	$ 2,757	**$ 5,467**	$ 5,413
Productivity index	**70.3%**	75.4%	67.2%	**72.7%**	69.8%
Adjusted productivity index[2]	**70.3%**	75.4%	70.6%	**72.7%**	71.6%

(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 Combined Financial Statements.

(2) Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" in this section.

Net interest margin

Net interest margin is used to measure profitability. It is equal to net interest income expressed as a percentage of average interest-bearing assets.

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.

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 before member dividends, excluding the non-controlling interests' share, divided by average equity before non-controlling interests.

The following table presents the reconciliation of return on equity with surplus earnings before member dividends 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 before member dividends	**$ 692**	$ 401	$ 677	**$ 1,093**	$ 1,178
Non-controlling interests' share	**(18)**	3	(11)	**(15)**	(20)
Group's share	**$ 674**	$ 404	$ 666	**$ 1,078**	$ 1,158
Average equity before non-controlling interests' share	**$ 25,575**	$ 25,140	$ 24,302	**$ 25,350**	$ 24,189
Return on equity(2)	**10.6%**	6.5%	11.0%	**8.6%**	9.7%
Adjusted return on equity(2)(3)	**10.6%**	6.6%	8.9%	**8.6%**	8.6%

(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 Combined 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 Desjardins Group before member dividends” 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 Desjardins Group’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 Other category, net premiums and other operating income such as deposit and payment service charges, 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 Combined 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 Combined 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 Combined 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 Combined Financial Statements.

The following table shows the correspondence of total income between the MD&A and the Combined 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 Combined Financial Statements					
Net interest income	**$ 1,299**	$ 1,264	$ 1,175	**$ 2,563**	$ 2,324
Net premiums	**2,242**	2,317	2,200	**4,559**	4,339
Other income					
Deposit and payment service charges	**103**	103	106	**206**	209
Lending fees and credit card service revenues	**186**	210	163	**396**	349
Brokerage and investment fund services	**223**	214	223	**437**	478
Management and custodial service fees	**141**	140	138	**281**	274
Net investment income[(2)]	**1,045**	1,519	308	**2,564**	419
Overlay approach adjustment for insurance operations financial assets	**10**	(167)	20	**(157)**	189
Foreign exchange income	**27**	14	21	**41**	48
Other	**6**	50	130	**56**	167
Total income	**$ 5,282**	$ 5,664	$ 4,484	**$ 10,946**	$ 8,796
Presentation of income in the MD&A					
Net interest income	**$ 1,299**	$ 1,264	$ 1,175	**$ 2,563**	$ 2,324
Net premiums	**2,242**	2,317	2,200	**4,559**	4,339
Other operating income					
Deposit and payment service charges	**103**	103	106	**206**	209
Lending fees and credit card service revenues	**186**	210	163	**396**	349
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Management and custodial service fees	**141**	140	138	**281**	274
Foreign exchange income	**27**	14	21	**41**	48
Other	**6**	50	130	**56**	167
Operating income	**4,227**	4,312	4,156	**8,539**	8,188
Investment income					
Net investment income[(2)]	**1,045**	1,519	308	**2,564**	419
Overlay approach adjustment for insurance operations financial assets	**10**	(167)	20	**(157)**	189
Investment income	**1,055**	1,352	328	**2,407**	608
Total income	**$ 5,282**	$ 5,664	$ 4,484	**$ 10,946**	$ 8,796

(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 Combined Financial Statements.

(2) The breakdown of this line item is presented in Note 11, "Net interest income and net investment income", to the Interim Combined 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	**$ (11)**	$ 109	$ 80	**$ 98**	$ 195
Average gross loans	**195,032**	191,976	182,433	**193,764**	180,931
Average gross acceptances	**168**	152	43	**165**	39
Average gross loans and acceptances	**$ 195,200**	$ 192,128	$ 182,476	**$ 193,929**	$ 180,970
Credit loss provisioning rate[(1)]	**(0.02)%**	0.23%	0.18%	**0.10%**	0.22%

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

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in Canada, with assets of $310.9 billion. The organization brought together 238 caisses in Quebec and Ontario as at June 30, 2019*,* the *Fédération des caisses Desjardins du Québec* and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 46,000 employees and the commitment of over 2,900 directors.

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

CHANGES IN THE REGULATORY ENVIRONMENT

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 Combined 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 Desjardins Group'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 before member 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	**$ 1,299**	$ 1,264	$ 1,175	**$ 2,563**	$ 2,324
Net premiums	**2,242**	2,317	2,200	**4,559**	4,339
Other operating income[2]					
Deposit and payment service charges	**103**	103	106	**206**	209
Lending fees and credit card service revenues	**186**	210	163	**396**	349
Brokerage and investment fund services	**223**	214	223	**437**	478
Management and custodial service fees	**141**	140	138	**281**	274
Foreign exchange income	**27**	14	21	**41**	48
Other	**6**	50	130	**56**	167
Operating income[2]	**4,227**	4,312	4,156	**8,539**	8,188
Investment income[2]					
Net investment income	**1,045**	1,519	308	**2,564**	419
Overlay approach adjustment for insurance operations financial assets	**10**	(167)	20	**(157)**	189
Investment income[2]	**1,055**	1,352	328	**2,407**	608
Total income	**5,282**	5,664	4,484	**10,946**	8,796
(Recovery of) provision for credit losses	**(11)**	109	80	**98**	195
Claims, benefits, annuities and changes in insurance contract liabilities	**2,361**	3,118	1,727	**5,479**	3,383
Non-interest expense	**2,053**	1,919	1,853	**3,972**	3,780
Income taxes on surplus earnings	**187**	117	147	**304**	260
Surplus earnings before member dividends	**$ 692**	$ 401	$ 677	**$ 1,093**	$ 1,178
Adjusted surplus earnings before member dividends[2]	**$ 692**	$ 401	$ 548	**$ 1,093**	$ 1,049
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 461**	$ 335	$ 299	**$ 796**	$ 574
Wealth Management and Life and Health Insurance	**183**	139	331	**322**	537
Property and Casualty Insurance	**123**	(81)	52	**42**	78
Other	**(75)**	8	(5)	**(67)**	(11)
	$ 692	$ 401	$ 677	**$ 1,093**	$ 1,178
Return to members and the community					
Member dividends	**$ 80**	$ 77	$ 71	**$ 157**	$ 121
Sponsorships, donations and bursaries	**20**	18	25	**38**	45
Desjardins Member Advantages program	**12**	10	10	**22**	22
	$ 112	$ 105	$ 106	**$ 217**	$ 188
Indicators					
Net interest margin[2]	**2.45%**	2.46%	2.39%	**2.43%**	2.37%
Return on equity[2]	**10.6**	6.5	11.0	**8.6**	9.7
Adjusted return on equity[2]	**10.6**	6.6	8.9	**8.6**	8.6
Productivity index[2]	**70.3**	75.4	67.2	**72.7**	69.8
Adjusted productivity index[2]	**70.3**	75.4	70.6	**72.7**	71.6
Credit loss provisioning rate[2]	**(0.02)**	0.23	0.18	**0.10**	0.22

(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 Combined 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 Combined Financial Statements.

COMPARISON OF THE SECOND QUARTERS OF 2019 AND 2018

Surplus earnings

For the second quarter ended June 30, 2019, Desjardins Group posted surplus earnings before member dividends of $692 million, a $15 million, or 2.2%, increase 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 up $144 million, or 26.3%. These results were due to the solid performance of caisse network operations and of activities in the property and casualty insurance segment, where premium income was up and the claims experience was favourable compared to the same quarter in 2018. Surplus earnings were also higher because of 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.

By its very nature as a cooperative financial group, Desjardins Group’s mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the second quarter of 2019.

- A total of $112 million was returned to members and the community, compared to $106 million for the corresponding period in 2018.
  - Member dividends totalled $80 million for the quarter ended June 30, 2019, up $9 million compared to the second quarter of 2018.
  - An amount of $20 million was returned in the form of sponsorships, donations and bursaries, compared to $25 million for the corresponding period in 2018.
  - Through the Desjardins Member Advantages program, $12 million was paid out, an increase of $2 million compared to the corresponding period in 2018.
- Commitments of $8 million made in relation to the *$100 Million Fund* for regional development, compared to $6 million for the corresponding period in 2018.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $461 million,** up $162 million, or 54.2% compared to the same period in 2018.
  - Solid performance from the caisse network, related especially to growth in net interest income.
  - 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 10.6%,** compared to 11.0% for the quarter ended June 30, 2018.
- **Adjusted return on equity was 10.6%,** compared to 8.9% for the quarter ended June 30, 2018, mainly because of the increase in surplus earnings, as explained earlier.

Operating income

Operating income totalled $4,227 million, up $71 million, or 1.7%, 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 $203 million, or 5.0%, compared to the same period in 2018.

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

- **Net interest income of $1,299 million,** up $124 million, or 10.6%, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and higher interest rates.

- **Net interest margin of 2.45%** for the quarter ended June 30, 2019, as a percentage of average interest-bearing assets, which is up six basis points compared to the corresponding period in 2018, chiefly due to growth in average loan volume and higher interest rates.

Net premiums were up $42 million, or 1.9%, compared to the second quarter of 2018, to total $2,242 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 $686 million, which is a decrease of $95 million, or 12.2%, 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 $37 million, or 5.7%, 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 $1,055 million, up $727 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 $5,282 million, an increase of $798 million, or 17.8%, compared to the same period in 2018.

Provision for credit losses

The recovery of the provision for credit losses totalled $11 million for the second quarter of 2019, compared to a provision for credit losses of $80 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 and credit lines.
- 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.

Desjardins Group 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 0.18% for the corresponding period of 2018.
- The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56% compared to 0.51% 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 and productivity index

- **Non-interest expense totalled $2,053 million,** up $200 million, or 10.8%, 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.

- **Productivity index at 70.3% for the second quarter of 2019,** compared to 67.2% for the corresponding period in 2018.
- **Adjusted productivity index at 70.3%,** compared to 70.6% for the corresponding period in 2018.

Income taxes

- **Income taxes on surplus earnings before member dividends of $187 million,** up $40 million compared to the second quarter of 2018.
  - Effective tax rate of 21.3% for the quarter ended June 30, 2019, up compared to 17.8% for the corresponding period in 2018.
  - Excluding the effect of the specific item, the effective tax rate would have been 21.3% for the second quarter of 2019 and 20.8% in 2018.

COMPARISON OF THE FIRST SIX MONTHS OF 2019 AND 2018

Surplus earnings

For the first six months ended June 30, 2019, Desjardins Group posted surplus earnings before member dividends of $1,093 million, an $85 million, or 7.2%, 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 up $44 million, or 4.2%. This increase was due to the continued solid performance of caisse network operations and the decrease in the provision for credit losses following the updating of parameters of non-credit impaired loans and economic factors, partially offset by 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. 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.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the first six months of 2019.

- A total of $217 million was returned to members and the community, compared to $188 million for the corresponding period in 2018.
  - Member dividends totalled $157 million for the first six months of 2019, up $36 million compared to the same period in 2018.
  - An amount of $38 million was returned in the form of sponsorships, donations and bursaries, compared to $45 million for the first half of 2018.
  - Through the Desjardins Member Advantages program, $22 million was paid out, the same amount as for the corresponding period in 2018.
- Commitments of $18 million made in relation to the *$100 Million Fund* for regional development, compared to $8 million for the corresponding period in 2018.

Business segment contributions to surplus earnings

- Personal and Business Services: **Contribution of $796 million,** up $222 million, or 38.7% compared to the same period in 2018.
  - Solid performance from the caisse network, related especially to growth in net interest income.
  - 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 8.6%,** compared to 9.7% for the six months ended June 30, 2018.
- **Adjusted return on equity was 8.6%,** the same as for the six months ended June 30, 2018.

Operating income

Operating income totalled $8,539 million, up $351 million, or 4.3%, 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 $483 million, or 6.0%, compared to the same period in 2018.

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

- **Net interest income of $2,563 million,** up $239 million, or 10.3%, mainly on account of growth in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and higher interest rates.

- **Net interest margin of 2.43%** for the first six months ended June 30, 2019, as a percentage of average interest-bearing assets, which is up six basis points compared to the corresponding period in 2018.

Net premiums were up $220 million, or 5.1%, compared to the first half of 2018, to total $4,559 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 $1,417 million, which is a decrease of $108 million, or 7.1%, 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 $24 million, or 1.7%, 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 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 $2,407 million, up $1,799 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.
- Profit related to the restructuring of Interac Corp. recognized in the first quarter of 2018.

Total income

Total income amounted to $10,946 million, an increase of $2,150 million, or 24.4%, compared to the same period in 2018.

Provision for credit losses

The provision for credit losses totalled $98 million, a decrease of $97 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 and credit lines.
- 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.

Desjardins Group has continued to present a quality loan portfolio in 2019.
- The credit loss provisioning rate was 0.10% for the first half of 2019, compared to 0.22% for the corresponding period of 2018.
- The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.56% compared to 0.51% 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 $5,479 million, up $2,096 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 and productivity index

- Non-interest expense totalled $3,972 million, up $192 million, or 5.1%, 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.

- **Productivity index at 72.7% for the first half of 2019,** compared to 69.8% for the corresponding period in 2018.
- **Adjusted productivity index at 72.7%,** compared to 71.6% for the first six months of 2018. The deterioration in the productivity index for the first half of 2019 was due to higher non-interest expense, as mentioned previously.

Income taxes

- **Income taxes on surplus earnings before member dividends of $304 million,** up $44 million compared to the first half of 2018.
  - Effective tax rate of 21.8% for the first six months of 2019, up compared to 18.1% for the corresponding period in 2018.
  - Excluding the effect of the specific item, the effective tax rate would have been 21.8% for the first half of 2019 and 19.7% for the same period in 2018, mainly because of the following:
    - Smaller tax recovery related to the remuneration of F capital shares.
    - Gains on the sale of real estate investments and securities, and the profit related to the restructuring of Interac Corp. in the first quarter of 2018 were taxable at 50%.

RESULTS BY BUSINESS SEGMENT

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of its members and clients, the markets in which Desjardins operates, and on its internal management structure. Desjardins Group'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 Other 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 41 to 52 of the 2018 annual MD&A.

Personal and Business Services

The Personal and Business Services segment is central to Desjardins Group's operations. Through a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, Desjardins Group is 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, 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 its members and clients, Desjardins Group offers its services through the caisse network and the Desjardins Business centres as well as through complementary distribution networks and specialized teams, 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	**$ 1,170**	$ 1,148	$ 1,056	**$ 2,318**	$ 2,069
Other operating income[(2)]	**536**	536	498	**1,072**	1,001
Operating income[(2)]	**1,706**	1,684	1,554	**3,390**	3,070
Investment income [(2)]	**28**	31	33	**59**	105
Total income	**1,734**	1,715	1,587	**3,449**	3,175
(Recovery of) provision for credit losses	**(11)**	108	84	**97**	199
Non-interest expense	**1,130**	1,154	1,100	**2,284**	2,213
Income taxes on surplus earnings	**154**	118	104	**272**	189
Surplus earnings before member dividends	**461**	335	299	**796**	574
Member dividends, net of income tax recovery	**58**	57	53	**115**	89
Net surplus earnings for the period after member dividends	**$ 403**	$ 278	$ 246	**$ 681**	$ 485
Of which:					
Group's share	**$ 403**	$ 278	$ 246	**$ 681**	$ 485
Indicators					
Average gross loans and acceptances[(2)]	**$ 189,733**	$ 186,965	$ 177,849	**$ 188,659**	$ 176,388
Average deposits[(2)]	**157,261**	150,404	146,926	**154,305**	144,739
Credit loss provisioning rate[(2)]	**(0.02)%**	0.23%	0.19%	**0.10%**	0.23%
Gross credit-impaired loans/gross loans and acceptances[(2)]	**0.58**	0.59	0.52	**0.58**	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 Combined 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 before member dividends of $461 million,** up $162 million, essentially due to:
  - The solid performance of the caisse network, related especially to growth in net interest income.
  - Decrease in the provision for credit losses.
  - Growth in payment and financing activities.

- **Operating income of $1,706 million,** up $152 million, or 9.8%.
  - Increase of $114 million in net interest income mainly as a result of year-over-year growth of $11.9 billion in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and higher interest rates.
  - Other operating income of $536 million, up $38 million, or 7.6%, mainly due to the following:
    - Growth in business volume as a result of payment and financing activities.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.

- **Investment income of $28 million,** down $5 million, or 15.2%, mainly due to the winding-up of Zag Bank's operations.

- **Total income of $1,734 million,** up $147 million, or 9.3%.

- **Recovery of provision for credit losses of $11 million,** compared to a provision for credit losses of $84 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 and credit lines.
  - 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 $1,130 million,** up $30 million, or 2.7%, 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 s*ervices, the online business centre and the Shared Services Centre.

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

- **Surplus earnings before member dividends of $796 million,** up $222 million, or 38.7%. This increase was essentially due to:
  - The solid performance of the caisse network, related especially to growth in net interest income.
  - 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 $3,390 million,** up $320 million, or 10.4%.
  - Increase of $249 million in net interest income mainly as a result of year-over-year growth of $12.3 billion in the entire average portfolio of loans and acceptances outstanding, particularly residential mortgages, consumer loans, credit card products and loans to medium-sized businesses and large corporations, and higher interest rates.
  - Other operating income of $1,072 million, up $71 million, or 7.1%, mainly due to:
    - Growth in business volume for payment and financing activities.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.

- **Investment income of $59 million,** down $46 million mainly due to the profit from the restructuring of Interac Corp., recognized in the first quarter of 2018.

- **Total income of $3,449 million,** up $274 million, or 8.6%.

- **Provision for credit losses of $97 million,** down $102 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 and credit lines.
  - 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 $2,284 million,** up $71 million, or 3.2%, 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 Combined 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.

Other Category

The Other 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 and needs. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, and 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 Combined Financial Statements, intersegment balance eliminations are classified in this category.

Desjardins Group 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, Desjardins Group presents an analysis of these operations based on their contribution to surplus earnings.

Other category

(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	**(24)**	2	(2)	**(22)**	(7)
Other[2]	**(80)**	(6)	(23)	**(86)**	(47)
Net surplus earnings (deficit) for the period	**$ (75)**	$ 8	$ (5)	**$ (67)**	$ (11)
Of which:					
Group's share	**$ (75)**	$ 8	$ (5)	**$ (67)**	$ (11)

[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 Combined Financial Statements.
[2] Includes support function activities, various adjustments required to prepare the Interim Combined Financial Statements, and intersegment balance eliminations.

COMPARISON OF THE SECOND QUARTERS OF 2019 AND 2018 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $75 million,** compared to a net deficit of $5 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 $24 million,** compared to a deficit of $2 million for the corresponding period in 2018.
  - Decrease in amortization related to terminations of hedges, resulting in an unfavourable effect compared to the same period in 2018.
  - Decline 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 an $80 million deficit,** compared to a $23 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 OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of $67 million,** compared to a net deficit of $11 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 $22 million,** compared to a deficit of $7 million for the corresponding period in 2018.
  - Decrease in amortization related to terminations of hedges, resulting in an unfavourable effect compared to the same period in 2018.
  - Offset by a less 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 an $86 million deficit,** compared to a $47 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 Desjardins Group'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	**$ 1,299**	$ 1,264	$ 1,284	$ 1,286	$ 1,175	$ 1,149	$ 1,138	$ 1,149
Net premiums	**2,242**	2,317	2,221	2,263	2,200	2,139	2,009	1,982
Other operating income(3)								
Deposit and payment service charges	**103**	103	114	110	106	103	107	109
Lending fees and credit card service revenues	**186**	210	177	171	163	186	180	154
Brokerage and investment fund services	**223**	214	211	216	223	255	245	227
Management and custodial service fees	**141**	140	130	147	138	136	133	118
Foreign exchange income	**27**	14	29	14	21	27	22	16
Other	**6**	50	(21)	36	130	37	(100)	295
Operating income(3)	**4,227**	4,312	4,145	4,243	4,156	4,032	3,734	4,050
Investment income (loss)(3)								
Net investment income (loss)	**1,045**	1,519	45	(253)	308	111	904	(362)
Overlay approach adjustment for insurance operations financial assets	**10**	(167)	258	76	20	169	N/A	N/A
	1,055	1,352	303	(177)	328	280	904	(362)
Total income	**5,282**	5,664	4,448	4,066	4,484	4,312	4,638	3,688
(Recovery of) provision for credit losses	**(11)**	109	89	100	80	115	89	92
Claims, benefits, annuities and changes in insurance contract liabilities	**2,361**	3,118	1,821	1,375	1,727	1,656	2,042	1,000
Non-interest expense	**2,053**	1,919	1,846	1,859	1,853	1,927	1,951	1,698
Income taxes on surplus earnings	**187**	117	114	162	147	113	127	140
Surplus earnings before member dividends	**692**	401	578	570	677	501	429	758
Member dividends, net of income tax recovery	**58**	57	43	53	53	36	49	44
Net surplus earnings for the period after member dividends	**$ 634**	$ 344	$ 535	$ 517	$ 624	$ 465	$ 380	$ 714
Of which:								
Group's share	**$ 616**	$ 347	$ 527	$ 504	$ 613	$ 456	$ 371	$ 699
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 Combined 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 Combined Financial Statements.

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

Quarterly income, expenses and surplus earnings before member dividends 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 55 to 57 of the 2018 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined 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	**$ 3,430**	**1.1%**	$ 3,384	1.1%
Securities	**62,395**	**20.1**	59,932	20.3
Securities borrowed or purchased under reverse repurchase agreements	**12,324**	**4.0**	11,934	4.0
Net loans and acceptances	**196,904**	**63.2**	190,670	64.5
Segregated fund net assets	**16,040**	**5.2**	13,234	4.5
Derivative financial instruments	**4,293**	**1.4**	3,743	1.3
Other assets	**15,520**	**5.0**	12,568	4.3
Total assets	**$ 310,906**	**100.0%**	$ 295,465	100.0%
Liabilities and equity				
Deposits	**$ 193,291**	**62.2%**	$ 183,158	61.9%
Commitments related to securities sold short	**11,801**	**3.8**	10,829	3.7
Commitments related to securities lent or sold under repurchase agreements	**11,261**	**3.6**	16,845	5.7
Derivative financial instruments	**3,799**	**1.2**	2,816	1.0
Insurance contract liabilities	**31,035**	**10.0**	28,740	9.7
Segregated fund net liabilities	**16,025**	**5.2**	13,212	4.5
Other liabilities	**15,765**	**5.1**	12,838	4.3
Subordinated notes	**1,399**	**0.4**	1,378	0.5
Equity	**26,530**	**8.5**	25,649	8.7
Total liabilities and equity	**$ 310,906**	**100.0%**	$ 295,465	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 Combined Financial Statements.

Total assets

As at June 30, 2019, Desjardins Group's total assets stood at $310.9 billion, up by $15.4 billion, or 5.2%, since December 31, 2018. This growth was due in part to a $6.2 billion increase in loans and acceptances. In addition, securities, including those borrowed or purchased under reverse repurchase agreements, segregated fund net assets and amounts receivable from clients, brokers and financial institutions included in other assets, were up by $2.9 billion, $2.8 billion and $1.9 billion, respectively.

Cash and deposits with financial institutions, and securities

As at June 30, 2019, Desjardins Group's cash and deposits with financial institutions amounted to $3.4 billion, an increase of $46 million since December 31, 2018. As for securities, including securities borrowed or purchased under reverse repurchase agreements, they increased $2.9 billion, or 4.0%, from last year and totalled $74.7 billion at the same date. The increase was due to growth in market activities and deposits.

Loans and clients' liability under acceptances

As at June 30, 2019, Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $196.9 billion, an increase of $6.2 billion, or 3.3%, since December 31, 2018. This increase was chiefly due to residential mortgages, which accounted for 62.5% of its portfolio at the end of the quarter.

Loans and acceptances

(in millions of dollars and as a percentage)	As at June 30, 2019		As at December 31, 2018	
Residential mortgages	**$ 123,457**	**62.5%**	$ 120,113	62.8%
Consumer, credit card and other personal loans	**26,577**	**13.5**	26,210	13.7
Business and government	**47,499**	**24.0**	45,066	23.5
	197,533	**100.0%**	191,389	100.0%
Allowance for credit losses	**(629)**		(719)	
Total loans and acceptances by borrower category	**$ 196,904**		$ 190,670	

Outstanding residential mortgages totalled $123.5 billion as at June 30, 2019, up $3.3 billion, or 2.8%, since December 31, 2018. Desjardins Group was able to capitalize on growth in housing activity, particularly in Quebec. Outstanding business and government loans, including acceptances, amounted to $47.5 billion as at June 30, 2019, for an increase of $2.4 billion, or 5.4%, since December 31, 2018. Consumer, credit card and other personal loans outstanding totalled $26.6 billion as at the same date, up $0.4 billion, or 1.4%, since the end of 2018.

Deposits

Desjardins Group's outstanding deposits totalled $193.3 billion as at June 30, 2019, up $10.1 billion, or 5.5%, since December 31, 2018, largely as a result of the growth in business and government deposits, which accounted for 42.0% of the total deposit portfolio. In fact, these deposits were up $5.1 billion, or 6.6%, since the end of 2018, to total $81.2 billion as at the end of this quarter. Personal deposits outstanding increased by $4.3 billion, or 4.1%, since the end of the previous year, to total $109.6 billion at the end of the second quarter. Deposits from deposit-taking institutions grew by $730 million, or 43.3%, since the end of 2018, to reach $2.4 billion as at June 30, 2019.

Deposits

(in millions of dollars and as a percentage)	As at June 30, 2019		As at December 31, 2018	
Individuals	**$ 109,640**	**56.8 %**	$ 105,298	57.5 %
Business and government	**81,235**	**42.0**	76,174	41.6
Deposit-taking institutions	**2,416**	**1.2**	1,686	0.9
Total deposits	**$ 193,291**	**100.0 %**	$ 183,158	100.0 %

Insurance contract liabilities

Desjardins Group's insurance contract liabilities stood at $31.0 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 Combined Financial Statements provides additional information about Desjardins Group's insurance contract liabilities.

Equity

Equity totalled $26.5 billion as at June 30, 2019, up $0.9 billion, or 3.4%, since the prior year-end. Net surplus earnings after member dividends, totalling $978 million for the first six months of 2019, were a source of this growth.

Note 21, "Capital stock", to the Annual Combined Financial Statements provides additional information about Desjardins Group's capital stock.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. 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 Desjardins Group'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 has a sufficient capital base in light of its 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 has a solid capital base that maintains it among the best-capitalized financial institutions.

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

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. Desjardins Group 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.

The table below presents a summary of the target regulatory ratios set by the AMF under Basel III.

Summary of ratios regulated by the AMF under Basel III[1][2]

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[3][4]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at June 30, 2019
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**17.7%**
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	**17.7**
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	**17.8**
Leverage ratio	> 3.5	N/A	> 3.5	N/A	> 3.5	**8.4**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets, as required in the guideline.
(2) 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.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.
(4) At its discretion, the AMF may also set higher target ratios when warranted by circumstances. In this regard, since March 31, 2019, the AMF could activate the countercyclical buffer when it considers that excess credit growth is associated with a build-up of system-wide risk. Based on this assessment, a countercyclical buffer requirement representing between 0% and 2.5% of total risk-weighted assets (RWA) will be put in place when circumstances warrant. This requirement will be lifted when the risk either crystallizes or dissipates.

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 2018 annual MD&A on page 61. 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 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 of Desjardins Group, calculated in accordance with Basel III requirements, were 17.7%, 17.7% and 17.8%, respectively. The leverage ratio was 8.4%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components 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 Desjardins Group's main capital components, regulatory capital balances, risk-weighted assets, capital ratios, and movements in capital during the period.

Main capital components

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

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

Regulatory capital, 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	**$ 23,537**	$ 22,412
Tier 1 capital	**23,537**	22,412
Total capital	**23,737**	22,838
Risk-weighted assets		
Credit risk	**$ 114,642**	$ 107,082
Market risk	**6,138**	5,396
Operational risk	**12,492**	12,232
Total risk-weighted assets before the adjustment charge and the capital floor	**133,272**	124,710
Credit valuation adjustment (CVA) charge and transitional capital floor adjustment[(1)(2)]	**-**	4,764
Total risk-weighted assets	**$ 133,272**	$ 129,474
Ratios and leverage ratio exposure		
Tier 1A capital	**17.7%**	17.3%
Tier 1 capital	**17.7**	17.3
Total capital	**17.8**	17.6
Leverage	**8.4**	8.3
Leverage ratio exposure	**$ 280,644**	$ 271,359

(1) In accordance with the guideline updated during first quarter 2019, the transitional capital floor adjustment is now defined under the Basel III standardized approaches.
(2) To account for the CVA charge, scaling factors have been applied since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. These scaling factors were 80%, 83% and 86%, respectively, in 2018. For 2019, pursuant to the directives of the AMF, the CVA charge is fully included in credit risk.

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

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. 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 35 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	**$ 22,412**
Increase in reserves and undistributed surplus earnings[1]	**469**
Eligible accumulated other comprehensive income	**446**
Federation's capital shares[2]	**104**
Permanent shares and surplus shares subject to phase-out	**(228)**
Deductions	**334**
Balance at end of period	**23,537**
Total Tier 1 capital	**23,537**
Tier 2 capital	
Balance at beginning of period	**426**
Senior notes subject to phase-out	**(156)**
General allowance	**(70)**
Balance at end of period	**200**
Total capital	**$ 23,737**

[1] Amount including the change in defined benefit pension plan liabilities.
[2] Amount net of issuance expenses.

Risk-weighted assets (RWA)

Desjardins Group calculates the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using 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, Desjardins Group obtained the AMF’s authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. On June 29, 2018, Desjardins Group 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. Desjardins is also subject to a capital floor, which is calculated using standardized approaches in accordance with the rules of the AMF guideline in force, multiplied by a factor set by the AMF.

RWA totalled $133.3 billion as at June 30, 2019, up $5.0 billion from the previous quarter.

Credit risk is comprised of both credit risk and counterparty risk. As for changes in RWA for second quarter 2019 in terms of credit risk, changes in the portfolio’s size resulted in an increase of $3.9 billion, with an improvement in portfolio quality causing a decrease of $9 million, while methodology changes led to a decrease of $343 million. In counterparty risk, an increase of $198 million in RWA was mainly due to the deterioration in portfolio quality and changes in the portfolio’s size.

In market risk, a $1.2 billion increase in RWA was observed because of the change in risk levels.

An increase of $128 million in RWA was also noted in operational risk as a result of fluctuations in the income generated.

No capital floor adjustment was recognized in the second quarter and in the prior period.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its 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 Desjardins Group's 2018 annual MD&A.

Note 13, "Interests in other entities", and Note 28, "Commitments, guarantees and contingent liabilities", to Desjardins Group's Annual Combined 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 Combined Financial Statements provides information about the securitization of Desjardins Group's loans.

Assets under management and under administration

As at June 30, 2019, Desjardins Group administered, for the account of its members and clients, assets worth $411.5 billion, for an increase of $38.0 billion, or 10.2%. The financial assets entrusted to Desjardins Group as wealth manager totalled $63.7 billion as at June 30, 2019, up $6.3 billion, or 11.0%, since December 31, 2018.

Assets under management and under administration by Desjardins Group 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 Desjardins Group, but to its members and clients and, as a result, they are not recognized on the Combined 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.

Desjardins Group 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.

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 it 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 70 to 108 of the 2018 annual MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group'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 67 to 70 of the 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 Combined Balance Sheets.

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments as well as 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 Combined Financial Statements, the allowance for credit losses totalled $629 million, down $90 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 and credit lines, 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 Combined 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 0.56% for the second quarter of 2019, compared to 0.54% as at December 31, 2018. The allowance for credit losses on credit-impaired loans totalled $234 million as at June 30, 2019, resulting in a provisioning rate of 21.0% 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	**$ 1,914**	**$ 102**	**$ 27**	**$ 12**	**$ 2,055**
Consumer, credit card and other personal loans	**911**	**141**	**63**	**11**	**1,126**
Business and government	**247**	**29**	**19**	**2**	**297**
	$ 3,072	**$ 272**	**$ 109**	**$ 25**	**$ 3,478**

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	$ 1,894	$ 171	$ 46	$ 11	$ 2,122
Consumer, credit card and other personal loans	824	155	69	1	1,049
Business and government	359	39	22	2	422
	$ 3,077	$ 365	$ 137	$ 14	$ 3,593

The following tables present gross credit-impaired loans by Desjardins Group 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						
	Gross loans and acceptances	**Gross credit-impaired loans**		**Allowance for credit losses on credit-impaired loans**	**Net credit-impaired loans**	Gross credit-impaired loans	Net credit-impaired loans
Residential mortgages	**$ 123,457**	**$ 340**	**0.28 %**	**$ 26**	**$ 314**	$ 320	$ 295
Consumer, credit card and other personal loans	**26,577**	**232**	**0.87**	**125**	**107**	221	99
Business and government	**47,499**	**541**	**1.14**	**83**	**458**	501	424
Total loans	**$ 197,533**	**$ 1,113**	**0.56 %**	**$ 234**	**$ 879**	$ 1,042	$ 818

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**	$ 442
Impact of adopting IFRS 9 as at January 1, 2018	**N/A**	N/A	N/A	**N/A**	492
Gross credit-impaired loans at the beginning of the last period under IFRS 9	**$ 1,114**	$ 1,042	$ 936	**$ 1,042**	934
Gross loans that became credit-impaired since the last period	**708**	732	576	**1,440**	728
Loans returned to unimpaired status	**(592)**	(568)	(453)	**(1,160)**	(535)
Write-offs and recoveries	**(105)**	(89)	(89)	**(194)**	(179)
Other changes	**(12)**	(3)	(33)	**(15)**	(11)
Gross credit-impaired loans at the end of the period	**$ 1,113**	$ 1,114	$ 937	**$ 1,113**	$ 937

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.

Link between market risk and the Combined Balance Sheets

The following table presents the link between the main Combined Balance Sheet data and the positions included in trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

Link between market risk and the Combined Balance Sheets
As at June 30, 2019[(1)]

		Exposed to market risk			
(in millions of dollars)	Combined Balance Sheets	Trading activities[(2)]	Non-trading activities[(3)]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 3,430	$ -	$ 3,430	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	39,005	15,862	23,143	-	Interest rate
Securities at fair value through other comprehensive income	21,662	-	21,662	-	Interest rate, FX, price
Securities at amortized cost	1,728	-	1,728	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	12,324	10,843	1,481	-	Interest rate
Net loans and acceptances	196,904	-	196,904	-	Interest rate
Segregated fund net assets	16,040	-	16,040	-	Interest rate, price
Derivative financial instruments	4,293	372	3,921	-	Interest rate, FX, price
Other assets	15,520	-	-	15,520	
Total assets	$ 310,906	$ 27,077	$ 268,309	$ 15,520	
Liabilities and equity					
Deposits	$ 193,291	$ -	$ 193,291	$ -	Interest rate
Commitments related to securities sold short	11,801	11,748	53	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	11,261	10,168	1,093	-	Interest rate
Derivative financial instruments	3,799	503	3,296	-	Interest rate, FX, price
Insurance contract liabilities	31,035	-	31,035	-	Interest rate
Segregated fund net liabilities	16,025	-	16,025	-	Interest rate, price
Other liabilities	15,765	-	3,124	12,641	Interest rate
Subordinated notes	1,399	-	1,399	-	Interest rate
Equity	26,530	-	-	26,530	
Total liabilities and equity	$ 310,906	$ 22,419	$ 249,316	$ 39,171	

See page 38 for footnotes.

Link between market risk and the Combined Balance Sheets (continued)
As at December 31, 2018

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities(2)	Exposed to market risk: Non-trading activities(3)	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 3,384	$ -	$ 3,384	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	36,916	15,965	20,951	-	Interest rate
Securities at fair value through other comprehensive income	21,395	-	21,395	-	Interest rate, FX, price
Securities at amortized cost	1,621	-	1,621	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	11,934	11,081	853	-	Interest rate
Net loans and acceptances	190,670	-	190,670	-	Interest rate
Segregated fund net assets	13,234	-	13,234	-	Interest rate, price
Derivative financial instruments	3,743	670	3,073	-	Interest rate, FX, price
Other assets	12,568	-	-	12,568	
Total assets	$ 295,465	$ 27,716	$ 255,181	$ 12,568	
Liabilities and equity					
Deposits	$ 183,158	$ -	$ 183,158	$ -	Interest rate
Commitments related to securities sold short	10,829	10,829	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	16,845	15,329	1,516	-	Interest rate
Derivative financial instruments	2,816	449	2,367	-	Interest rate, FX, price
Insurance contract liabilities	28,740	-	28,740	-	Interest rate
Segregated fund net liabilities	13,212	-	13,212	-	Interest rate, price
Other liabilities	12,838	-	2,537	10,301	Interest rate
Subordinated notes	1,378	-	1,378	-	Interest rate
Equity	25,649	-	-	25,649	
Total liabilities and equity	$ 295,465	$ 26,607	$ 232,908	$ 35,950	

(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 Combined Financial Statements.
(2) Trading activity positions for which the risk measure is VaR and SVaR.
(3) Positions mainly related to non-trading banking activities and insurance activities.

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 Desjardins Group 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		For the quarters ended 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.

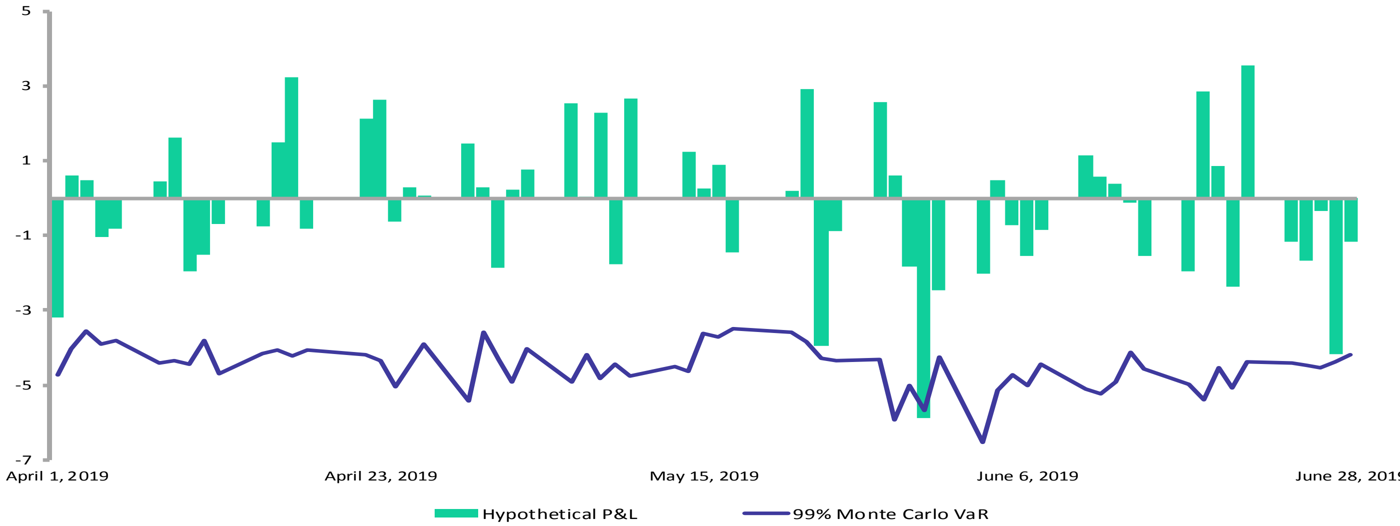
Back testing

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 Combined 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 Desjardins Group. 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	**$ 14**	**$ (12)**	$ (37)	$ 19	$ 17	$ 262
Impact of a 100-basis-point decrease in interest rates(4)	**(40)**	**(55)**	(11)	(125)	(66)	(314)

(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 Combined 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**.**

Liquid assets

The table below presents a summary of Desjardins Group’s liquid assets, which do not include assets held by the insurance subsidiaries because those assets are committed to cover insurance liabilities and not the liquidity needs of Desjardins Group’s other components. Liquid assets constitute Desjardins Group’s primary liquidity reserve for all its operations. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory requirements or internal policies.

Liquid assets(1)
As at June 30, 2019

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	**$ 2,430**	**$ -**	**$ 2,430**	**$ -**	**$ 2,430**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**30,440**	**12,773**	**43,213**	**25,322**	**17,891**
Other securities in Canada	**3,934**	**350**	**4,284**	**200**	**4,084**
Issued or guaranteed by foreign issuers	**11**	**-**	**11**	**-**	**11**
Loans					
Insured residential mortgage-backed securities	**7,219**	**-**	**7,219**	**498**	**6,721**
Total	**$ 44,034**	**$ 13,123**	**$ 57,157**	**$ 26,020**	**$ 31,137**

As at December 31, 2018

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	$ 1,870	$ -	$ 1,870	$ -	$ 1,870
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	29,675	11,646	41,321	28,281	13,040
Other securities in Canada	4,750	250	5,000	55	4,945
Issued or guaranteed by foreign issuers	15	-	15	-	15
Loans					
Insured residential mortgage-backed securities	6,663	-	6,663	862	5,801
Total	$ 42,973	$ 11,896	$ 54,869	$ 29,198	$ 25,671

(1) Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity[1]

(in millions of dollars)	As at June 30, 2019	As at December 31, 2018
Federation	**$ 9,879**	$ 7,459
Caisse network	**15,482**	14,762
Other entities	**5,776**	3,450
Total	**$ 31,137**	$ 25,671

(1) Excluding assets held by insurance subsidiaries. Substantially all unencumbered liquid assets presented in this table are issued in Canadian dollars.

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. The following table presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

Encumbered assets

As at June 30, 2019[1]

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[2]	Available as collateral	Other[3]
Cash and deposits with financial institutions	**$ 3,430**	**$ -**	**$ 3,430**	**$ -**	**$ 405**	**$ 2,025**	**$ 1,000**
Securities	**62,395**	**5,108**	**67,503**	**26,830**	**1,824**	**14,357**	**24,492**
Securities borrowed or purchased under reverse repurchase agreements	**12,324**	**-**	**12,324**	**-**	**-**	**12,164**	**160**
Net loans and acceptances	**196,904**	**-**	**196,904**	**21,864**	**-**	**70,904**	**104,136**
Segregated fund net assets	**16,040**	**-**	**16,040**	**-**	**-**	**-**	**16,040**
Other assets	**19,813**	**-**	**19,813**	**-**	**-**	**-**	**19,813**
Total	**$ 310,906**	**$ 5,108**	**$ 316,014**	**$ 48,694**	**$ 2,229**	**$ 99,450**	**$ 165,641**

As at December 31, 2018

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[2]	Available as collateral	Other[3]
Cash and deposits with financial institutions	$ 3,384	$ -	$ 3,384	$ -	$ 258	$ 1,823	$ 1,303
Securities	59,932	896	60,828	27,650	2,098	7,687	23,393
Securities borrowed or purchased under reverse repurchase agreements	11,934	-	11,934	-	-	11,808	126
Net loans and acceptances	190,670	-	190,670	22,564	-	66,131	101,975
Segregated fund net assets	13,234	-	13,234	-	-	-	13,234
Other assets	16,311	-	16,311	-	-	-	16,311
Total	$ 295,465	$ 896	$ 296,361	$ 50,214	$ 2,356	$ 87,449	$ 156,342

(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 Combined Financial Statements.
(2) Assets that cannot be used for legal or other reasons.
(3) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

Liquidity coverage ratio

The Basel Committee on Banking Supervision has developed a liquidity coverage ratio (LCR) to promote the short-term resilience of the liquidity risk profile of financial institutions. The LCR is the ratio of a stock of unencumbered high-quality liquid assets (HQLA) to net cash outflows over the next 30 days in the event of an acute liquidity stress scenario.

Under the AMF's Liquidity Adequacy Guideline, HQLA eligible for the purpose of calculating the LCR consist of assets that can be converted quickly into cash at little or no loss of value on capital markets. For Desjardins Group, such high-quality liquid assets are comprised essentially of cash and highly rated securities issued or guaranteed by various levels of government. The AMF Guideline also prescribes weightings for cash inflows and outflows.

The table below presents quantitative information regarding the LCR, based on the model recommended for disclosure requirements by the Basel Committee on Banking Supervision.

Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended June 30, 2019 – Total non-weighted value[2] (average[4])	For the quarter ended June 30, 2019 – Total weighted value[3] (average[4])	For the quarter ended March 31, 2019 – Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 25,708**	$ 23,234
Cash outflows			
Retail deposits and small business deposits, including:	**$ 73,315**	**$ 4,872**	$ 4,762
Stable deposits	**35,138**	**1,054**	1,036
Less stable deposits	**38,177**	**3,818**	3,726
Unsecured wholesale funding, including:	**26,705**	**13,882**	12,277
Operational deposits (all counterparties) and deposits in cooperative bank networks	**6,146**	**1,450**	1,207
Non-operational deposits (all counterparties)	**12,278**	**4,151**	3,671
Unsecured debt	**8,281**	**8,281**	7,399
Secured wholesale funding	**N/A**	**7**	-
Additional requirements, including:	**13,019**	**2,964**	3,261
Outflows related to exposures on derivatives and other collateral required	**1,242**	**1,125**	1,087
Outflows related to funding loss on debt products	**170**	**170**	597
Credit and liquidity facilities	**11,607**	**1,669**	1,577
Other contractual funding liabilities	**2,380**	**676**	186
Other contingent funding liabilities	**71,151**	**2,027**	2,205
Total cash outflows	**N/A**	**$ 24,428**	$ 22,691
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 9,205**	**$ 94**	$ 58
Inflows related to completely effective exposures	**3,486**	**1,782**	1,836
Other cash inflows	**1,548**	**1,548**	1,828
Total cash inflows	**$ 14,239**	**$ 3,424**	$ 3,722

	June 30, 2019 – Total adjusted value[5]	March 31, 2019 – Total adjusted value[5]
Total high-quality liquid assets	**$ 25,708**	$ 23,234
Total net cash outflows	**21,004**	18,969
Liquidity coverage ratio	**122.4%**	122.5%

(1) Excluding the insurance subsidiaries.
(2) The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.
(3) Weighted values are calculated after the "haircuts" prescribed for high-quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.
(4) The ratio is presented based on the average of daily data for the quarter.
(5) The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $193.3 billion as at June 30, 2019, up $10.1 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**	**521**	**595**	**1,393**	**1,157**	**7,658**	**10,208**	9,778
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**	**$ 3,849**	**$ 6,160**	**$ 24,078**	**$ 4,607**	**$ 14,516**	**$ 43,201**	$ 43,644
Including:									
Secured	**$ -**	**$ 277**	**$ 2,010**	**$ 1,495**	**$ 3,782**	**$ 2,645**	**$ 10,384**	**$ 16,811**	$ 17,015
Unsecured	**9,481**	**4,311**	**1,839**	**4,665**	**20,296**	**1,962**	**4,132**	**26,390**	26,629

Desjardins Group's 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 $443 million compared to December 31, 2018, mainly because of a decrease in covered bonds.

In addition, Desjardins Group 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	**$ 20,249**	**46.9%**	$ 19,595	44.9%
U.S. dollars	**13,313**	**30.8**	13,824	31.7
Other	**9,639**	**22.3**	10,225	23.4
	$ 43,201	**100.0%**	$ 43,644	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 Combined 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, Desjardins Group, through 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
Fédération des caisses Desjardins du Québec				
Short-term	**R-1 (high)**	**A-1**	**P-1**	**F1+**
Medium- and long-term, existing senior(1)	**AA**	**A+**	**Aa2**	**AA-**
Medium- and long-term, senior(2)	**AA (low)**	**A-**	**A2**	**AA-**
Desjardins Capital Inc.				
Medium- and long-term, senior	**A (high)**	**A**	**A2**	**A+**

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

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

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

The following table presents assets and liabilities recorded on the Combined Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source for liquidity and financing risk, but it differs from the analysis performed by Desjardins Group 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 Desjardins Group 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 Desjardins Group 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 Combined Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

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

As at 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	**$ 2,998**	**$ 422**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10**	**$ 3,430**
Securities										
Securities at fair value through profit or loss[2]	**89**	**802**	**996**	**1,506**	**916**	**2,245**	**7,553**	**20,184**	**4,714**	**39,005**
Securities at fair value through other comprehensive income[2]	**1,499**	**792**	**390**	**429**	**868**	**2,992**	**11,617**	**3,027**	**48**	**21,662**
Securities at amortized cost	**853**	**398**	**126**	**158**	**158**	**2**	**6**	**27**	**-**	**1,728**
Securities borrowed or purchased under reverse repurchase agreements	**11,996**	**52**	**210**	**66**	**-**	**-**	**-**	**-**	**-**	**12,324**
Loans										
Residential mortgages[3]	**3,169**	**3,814**	**7,530**	**6,278**	**7,743**	**23,195**	**63,075**	**1,841**	**6,812**	**123,457**
Consumer, credit card and other personal loans[3]	**93**	**81**	**149**	**205**	**295**	**1,219**	**5,927**	**7,964**	**10,644**	**26,577**
Business and government[3]	**11,563**	**3,975**	**4,242**	**3,706**	**4,208**	**4,282**	**6,938**	**2,437**	**5,956**	**47,307**
Allowance for credit losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(629)**	**(629)**
Segregated fund net assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,040**	**16,040**
Clients' liability under acceptances	**183**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**192**
Premiums receivable	**177**	**64**	**13**	**3**	**-**	**-**	**-**	**-**	**2,298**	**2,555**
Derivative financial instruments	**75**	**179**	**212**	**141**	**202**	**919**	**2,139**	**426**	**-**	**4,293**
Amounts receivable from clients, brokers and financial institutions	**3,116**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**63**	**3,183**
Reinsurance assets	**37**	**71**	**85**	**69**	**67**	**186**	**391**	**915**	**112**	**1,933**
Right-of-use assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**577**	**577**
Investment property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**956**	**956**
Property, plant and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,433**	**1,433**
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**121**	**121**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**385**	**385**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,254**	**1,254**
Other assets	**747**	**55**	**66**	**8**	**11**	**16**	**43**	**4**	**2,173**	**3,123**
Total assets	**$ 36,595**	**$ 10,718**	**$ 14,019**	**$ 12,569**	**$ 14,468**	**$ 35,056**	**$ 97,689**	**$ 36,825**	**$ 52,967**	**$ 310,906**

See page 50 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)]	**$ 3,603**	**$ 3,947**	**$ 5,165**	**$ 4,414**	**$ 7,691**	**$ 11,488**	**$ 12,100**	**$ 6,127**	**$ 55,105**	**$ 109,640**
Business and government[(4)]	**11,658**	**5,016**	**4,633**	**3,868**	**2,639**	**6,093**	**12,568**	**3,424**	**31,336**	**81,235**
Deposit-taking institutions[(4)]	**241**	**-**	**4**	**5**	**3**	**18**	**8**	**5**	**2,132**	**2,416**
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	**11,261**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,261**
Derivative financial instruments	**164**	**178**	**210**	**123**	**218**	**868**	**1,815**	**223**	**-**	**3,799**
Amounts payable to clients, brokers and financial institutions	**3,797**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**2,530**	**6,328**
Lease liabilities	**6**	**9**	**14**	**13**	**13**	**52**	**147**	**333**	**41**	**628**
Insurance contract liabilities	**419**	**759**	**954**	**848**	**801**	**1,932**	**4,446**	**18,172**	**2,704**	**31,035**
Segregated fund net liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,025**	**16,025**
Net defined benefit plan liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,124**	**3,124**
Deferred tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**235**	**235**
Other liabilities	**2,086**	**251**	**162**	**323**	**341**	**161**	**184**	**40**	**1,710**	**5,258**
Subordinated notes	**-**	**-**	**-**	**-**	**900**	**-**	**-**	**499**	**-**	**1,399**
Total equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26,530**	**26,530**
Total liabilities and equity	**$ 33,510**	**$ 10,394**	**$ 11,334**	**$ 9,595**	**$ 12,718**	**$ 22,523**	**$ 34,760**	**$ 34,598**	**$ 141,474**	**$ 310,906**
Off-balance sheet commitments										
Credit commitments[(6)]	**$ 4,505**	**$ 221**	**$ 1,022**	**$ 95**	**$ 496**	**$ 3,074**	**$ 7,453**	**$ 627**	**$ 93,822**	**$ 111,315**
Indemnification commitments related to securities lending	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,831**	**2,831**
Documentary letters of credit	**6**	**2**	**1**	**6**	**3**	**1**	**-**	**-**	**1**	**20**
Guarantees and standby letters of credit	**167**	**176**	**110**	**272**	**130**	**122**	**16**	**71**	**4**	**1,068**
Credit default swaps	**-**	**-**	**-**	**-**	**-**	**-**	**283**	**-**	**-**	**283**

See page 50 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	$ 2,969	$ 307	$ -	$ -	$ -	$ -	$ 1	$ -	$ 107	$ 3,384
Securities										
Securities at fair value through profit or loss(2)	168	718	1,409	977	1,470	2,947	8,471	16,331	4,425	36,916
Securities at fair value through other comprehensive income(2)	1,599	784	1,056	667	417	2,895	11,226	2,708	43	21,395
Securities at amortized cost	1,124	172	196	89	2	1	5	32	-	1,621
Securities borrowed or purchased under reverse repurchase agreements	11,576	311	47	-	-	-	-	-	-	11,934
Loans										
Residential mortgages(3)	2,051	2,641	6,147	6,834	8,068	23,195	62,476	1,747	6,954	120,113
Consumer, credit card and other personal loans(3)	83	79	197	220	314	1,183	5,762	7,945	10,427	26,210
Business and government(3)	9,958	3,461	4,346	4,013	4,092	4,402	6,958	2,166	5,510	44,906
Allowance for credit losses	-	-	-	-	-	-	-	-	(719)	(719)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,234	13,234
Clients' liability under acceptances	123	36	1	-	-	-	-	-	-	160
Premiums receivable	175	64	13	3	-	-	-	-	2,121	2,376
Derivative financial instruments	231	377	173	349	175	759	1,467	196	16	3,743
Amounts receivable from clients, brokers and financial institutions	1,293	1	-	-	-	-	-	-	21	1,315
Reinsurance assets	38	76	77	70	68	198	390	1,041	-	1,958
Investment property	-	-	-	-	-	-	-	-	958	958
Property, plant and equipment	-	-	-	-	-	-	-	-	1,424	1,424
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	389	389
Deferred tax assets	-	-	-	-	-	-	-	-	1,174	1,174
Other assets	282	68	70	3	11	9	26	333	2,051	2,853
Total assets	$ 31,670	$ 9,095	$ 13,732	$ 13,225	$ 14,617	$ 35,589	$ 96,782	$ 32,499	$ 48,256	$ 295,465

See page 50 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]	$ 4,687	$ 3,258	$ 6,568	$ 4,616	$ 5,185	$ 12,193	$ 15,808	$ 416	$ 52,567	$ 105,298
Business and government[4]	9,637	5,878	2,770	4,068	4,597	8,752	11,780	2,336	26,356	76,174
Deposit-taking institutions[4]	22	-	13	7	1	15	9	-	1,619	1,686
Acceptances	125	35	-	-	-	-	-	-	-	160
Commitments related to securities sold short[5]	19	491	136	38	1	780	4,315	5,049	-	10,829
Commitments related to securities lent or sold under repurchase agreements	16,845	-	-	-	-	-	-	-	-	16,845
Derivative financial instruments	119	83	48	35	65	294	596	246	1,330	2,816
Amounts payable to clients, brokers and financial institutions	2,078	4	-	-	-	-	-	-	2,023	4,105
Insurance contract liabilities	429	781	926	845	797	1,848	4,279	16,288	2,547	28,740
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,212	13,212
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,537	2,537
Deferred tax liabilities	-	-	-	-	-	-	-	-	214	214
Other liabilities	2,574	496	494	363	62	177	201	48	1,407	5,822
Subordinated notes	-	-	-	-	-	879	-	499	-	1,378
Total equity	-	-	-	-	-	-	-	-	25,649	25,649
Total liabilities and equity	$ 36,535	$ 11,026	$ 10,955	$ 9,972	$ 10,708	$ 24,938	$ 36,988	$ 24,882	$ 129,461	$ 295,465
Off-balance sheet commitments										
Credit commitments[6]	$ 3,792	$ 138	$ 687	$ 570	$ 802	$ 2,222	$ 7,777	$ 496	$ 90,707	$ 107,191
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,474	2,474
Commitments under lease contracts	8	16	22	23	21	77	174	226	-	567
Documentary letters of credit	3	9	7	1	3	-	-	-	1	24
Guarantees and standby letters of credit	54	151	176	259	427	29	23	76	1	1,196
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 Combined 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 Desjardins Group'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 Combined 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 Combined 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 Combined 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, Desjardins Group 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 109 of the 2018 annual MD&A.

RELATED PARTY DISCLOSURES

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

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

Desjardins Group 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 33, “Related party disclosures”, to the Annual Combined Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, “Basis of presentation and significant accounting policies”, to Desjardins Group’s Annual Combined Financial Statements on pages 132 to 153 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 Combined Financial Statements.

Some of these policies are of particular importance in presenting Desjardins Group’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 110 to 116 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 Desjardins Group are presented in Note 2, “Basis of presentation and significant accounting policies”, to Desjardins Group's Annual Combined Financial Statements, on pages 160 and 161 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.

Combined Financial Statements

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Combined 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		**$ 3,430**	$ 3,384
Securities			
Securities at fair value through profit or loss		**39,005**	36,916
Securities at fair value through other comprehensive income		**21,662**	21,395
Securities at amortized cost		**1,728**	1,621
		62,395	59,932
Securities borrowed or purchased under reverse repurchase agreements		**12,324**	11,934
Loans	5		
Residential mortgages		**123,457**	120,113
Consumer, credit card and other personal loans		**26,577**	26,210
Business and government		**47,307**	44,906
		197,341	191,229
Allowance for credit losses	5	**(629)**	(719)
		196,712	190,510
Segregated fund net assets		**16,040**	13,234
Other assets			
Clients' liability under acceptances		**192**	160
Premiums receivable		**2,555**	2,376
Derivative financial instruments		**4,293**	3,743
Amounts receivable from clients, brokers and financial institutions		**3,183**	1,315
Reinsurance assets		**1,933**	1,958
Right-of-use assets		**577**	N/A
Investment property		**956**	958
Property, plant and equipment		**1,433**	1,424
Goodwill		**121**	121
Intangible assets		**385**	389
Deferred tax assets		**1,254**	1,174
Other		**3,123**	2,853
		20,005	16,471
TOTAL ASSETS		**$ 310,906**	$ 295,465
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	7		
Individuals		**$ 109,640**	$ 105,298
Business and government		**81,235**	76,174
Deposit-taking institutions		**2,416**	1,686
		193,291	183,158
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		**11,261**	16,845
Derivative financial instruments		**3,799**	2,816
Amounts payable to clients, brokers and financial institutions		**6,328**	4,105
Lease liabilities		**628**	N/A
Insurance contract liabilities		**31,035**	28,740
Segregated fund net liabilities		**16,025**	13,212
Net defined benefit plan liabilities		**3,124**	2,537
Deferred tax liabilities		**235**	214
Other		**5,258**	5,822
		89,686	85,280
Subordinated notes		**1,399**	1,378
TOTAL LIABILITIES		**284,376**	269,816
EQUITY			
Capital stock	8	**5,220**	5,350
Share capital		**4**	5
Undistributed surplus earnings		**1,575**	3,649
Accumulated other comprehensive income	9	**433**	(23)
Reserves		**18,540**	15,920
Equity – Group's share		**25,772**	24,901
Non-controlling interests		**758**	748
TOTAL EQUITY		**26,530**	25,649
TOTAL LIABILITIES AND EQUITY		**$ 310,906**	$ 295,465

[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 Combined Financial Statements.

Combined Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended June 30 2019[(1)]	2018	For the six-month periods ended June 30 2019[(1)]	2018
INTEREST INCOME					
Loans		**$ 1,906**	$ 1,648	**$ 3,781**	$ 3,232
Securities		**107**	89	**215**	182
		2,013	1,737	**3,996**	3,414
INTEREST EXPENSE					
Deposits		**662**	538	**1,318**	1,043
Subordinated notes		**18**	17	**36**	35
Other		**34**	7	**79**	12
		714	562	**1,433**	1,090
NET INTEREST INCOME	11	**1,299**	1,175	**2,563**	2,324
NET PREMIUMS		**2,242**	2,200	**4,559**	4,339
OTHER INCOME					
Deposit and payment service charges		**103**	106	**206**	209
Lending fees and credit card service revenues		**186**	163	**396**	349
Brokerage and investment fund services		**223**	223	**437**	478
Management and custodial service fees		**141**	138	**281**	274
Net investment income	11	**1,045**	308	**2,564**	419
Overlay approach adjustment for insurance operations financial assets		**10**	20	**(157)**	189
Foreign exchange income		**27**	21	**41**	48
Other		**6**	130	**56**	167
		1,741	1,109	**3,824**	2,133
TOTAL INCOME		**5,282**	4,484	**10,946**	8,796
PROVISION FOR CREDIT LOSSES	5	**(11)**	80	**98**	195
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**2,361**	1,727	**5,479**	3,383
NON-INTEREST EXPENSE					
Salaries and fringe benefits		**957**	887	**1,845**	1,777
Premises, equipment and furniture, including depreciation		**201**	171	**386**	344
Service agreements and outsourcing		**95**	88	**179**	167
Communications		**74**	69	**139**	133
Other		**726**	638	**1,423**	1,359
		2,053	1,853	**3,972**	3,780
OPERATING SURPLUS EARNINGS		**879**	824	**1,397**	1,438
Income taxes on surplus earnings		**187**	147	**304**	260
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(2)]		**692**	677	**1,093**	1,178
Member dividends		**80**	71	**157**	121
Tax recovery on member dividends		**(22)**	(18)	**(42)**	(32)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 634**	$ 624	**$ 978**	$ 1,089
of which:					
Group's share		**$ 616**	$ 613	**$ 963**	$ 1,069
Non-controlling interests' share		**18**	11	**15**	20

(1) The information presented for the three-month and the 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".

(2) The Group's share of "Surplus earnings before member dividends" is presented in Note 12, "Segmented information".

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

Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended June 30 2019	2018	For the six-month periods ended June 30 2019	2018
Net surplus earnings for the period after member dividends	**$ 634**	$ 624	**$ 978**	$ 1,089
Other comprehensive income, net of income taxes				
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**(292)**	227	**(428)**	303
Share of associates and joint ventures accounted for using the equity method	**1**	1	**-**	1
	(291)	228	**(428)**	304
Items that will be reclassified subsequently to the Combined 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)	**85**	(10)	**275**	(47)
Reclassification of net (gains) losses to the Combined Statements of Income	**(35)**	(3)	**(38)**	5
	50	(13)	**237**	(42)
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 Combined 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	**32**	(6)	**118**	(13)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**(5)**	(15)	**(16)**	(31)
	27	(21)	**102**	(44)
Net unrealized exchange losses on the translation of a net investment in a foreign operation, net of hedging transactions	**(2)**	-	**(2)**	-
	70	(54)	**465**	(241)
Total other comprehensive income, net of income taxes	**(221)**	174	**37**	63
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 413**	$ 798	**$ 1,015**	$ 1,152
of which:				
Group's share	**$ 398**	$ 784	**$ 996**	$ 1,137
Non-controlling interests' share	**15**	14	**19**	15

The accompanying notes are an integral part of the Condensed Interim Combined 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 2019	2018	For the six-month periods ended June 30 2019	2018
Item that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ (104)**	$ 82	**$ (153)**	$ 109
	(104)	82	**(153)**	109
Items that will be reclassified subsequently to the Combined 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)	**29**	(3)	**95**	(16)
Reclassification of net (gains) losses to the Combined Statements of Income	**(12)**	(1)	**(13)**	2
	17	(4)	**82**	(14)
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 Combined 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	**15**	(2)	**40**	(6)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**-**	(6)	**1**	(12)
	15	(8)	**41**	(18)
	27	(12)	**152**	(66)
Total income tax expense (recovery)	**$ (77)**	$ 70	**$ (1)**	$ 43

Combined Statements of Changes in Equity

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

(in millions of Canadian dollars)	Capital: Capital stock (Note 8)	Capital: Share capital	Undistributed surplus earnings	Accumulated other comprehensive income (Note 9)	Reserves: Stabilization reserve	Reserves: Reserve for future member dividends	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2018	**$ 5,350**	**$ 5**	**$ 3,649**	**$ (23)**	**$ 955**	**$ 270**	**$ 14,695**	**$ 15,920**	**$ 24,901**	**$ 748**	**$ 25,649**
Net surplus earnings for the period after member dividends	-	-	963	-	-	-	-	-	963	15	978
Other comprehensive income for the period	-	-	(419)	452	-	-	-	-	33	4	37
Comprehensive income for the period	-	-	544	452	-	-	-	-	996	19	1,015
Issuance of F capital shares	104	-	-	-	-	-	-	-	104	-	104
Other net change in capital stock	(234)	-	-	-	-	-	-	-	(234)	-	(234)
Issuance of share capital	-	-	-	-	-	-	-	-	-	7	7
Redemption of share capital	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Dividends	-	-	-	-	-	-	-	-	-	(18)	(18)
Transfer from undistributed surplus earnings (to reserves)	-	-	(2,620)	-	(3)	862	1,761	2,620	-	-	-
Other	-	-	2	4	-	-	-	-	6	2	8
BALANCE AS AT JUNE 30, 2019	**$ 5,220**	**$ 4**	**$ 1,575**	**$ 433**	**$ 952**	**$ 1,132**	**$ 16,456**	**$ 18,540**	**$ 25,772**	**$ 758**	**$ 26,530**
BALANCE AS AT DECEMBER 31, 2017	$ 5,361	$ 90	$ 1,360	$ 445	$ 1,014	$ 447	$ 15,246	$ 16,707	$ 23,963	$ 810	$ 24,773
Impact of changes in accounting policies	-	-	-	(34)	-	-	(180)	(180)	(214)	-	(214)
OPENING BALANCE AS AT JANUARY 1, 2018	5,361	90	1,360	411	1,014	447	15,066	16,527	23,749	810	24,559
Net surplus earnings for the period after member dividends	-	-	1,069	-	-	-	-	-	1,069	20	1,089
Other comprehensive income for the period	-	-	301	(233)	-	-	-	-	68	(5)	63
Comprehensive income for the period	-	-	1,370	(233)	-	-	-	-	1,137	15	1,152
Issuance of F capital shares	264	-	-	-	-	-	-	-	264	-	264
Other net change in capital stock	(197)	-	-	-	-	-	-	-	(197)	-	(197)
Issuance of share capital	-	1	-	-	-	-	-	-	1	-	1
Redemption of share capital	-	-	-	-	-	-	-	-	-	(9)	(9)
Remuneration on capital stock	-	-	(210)	-	-	-	-	-	(210)	-	(210)
Dividends	-	-	(3)	-	-	-	-	-	(3)	(20)	(23)
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,067)	-	97	(16)	986	1,067	-	-	-
Transactions related to buy-out options	-	-	-	-	-	-	30	30	30	(19)	11
Buy-out of non-controlling interests	-	-	-	-	-	-	(13)	(13)	(13)	(15)	(28)
Other	-	-	(3)	-	-	-	5	5	2	-	2
BALANCE AS AT JUNE 30, 2018	$ 5,428	$ 91	$ 1,447	$ 178	$ 1,111	$ 431	$ 16,074	$ 17,616	$ 24,760	$ 762	$ 25,522

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

Combined 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	**$ 1,397**	$ 1,438
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	**142**	127
Depreciation of right-of-use assets	**33**	N/A
Net change in insurance contract liabilities	**2,295**	328
Provision for credit losses	**98**	195
Overlay approach adjustment for insurance operations financial assets	**157**	(189)
Other	**10**	(35)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(2,089)**	(2,904)
Securities borrowed or purchased under reverse repurchase agreements	**(390)**	(848)
Loans	**(6,300)**	(7,543)
Derivative financial instruments, net amount	**527**	(406)
Net amounts receivable from and payable to clients, brokers and financial institutions	**355**	274
Deposits	**10,133**	9,936
Commitments related to securities sold short	**972**	1,928
Commitments related to securities lent or sold under repurchase agreements	**(5,584)**	500
Other	**(629)**	(406)
Payment of the contingent consideration	**(209)**	(250)
Income taxes paid on surplus earnings	**(274)**	(253)
Payment of member dividends	**(113)**	(196)
	531	1,696
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of lease liabilities	**(14)**	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
Other net change in capital stock	**(234)**	(197)
Remuneration on capital stock	**-**	(68)
Issuance of share capital	**7**	1
Redemption of share capital	**(1)**	(9)
Dividends paid	**(18)**	(23)
Buy-out of non-controlling interests	**-**	(28)
Transactions related to buy-out options	**-**	(63)
	(135)	(302)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(32,966)**	(34,810)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**13,716**	7,083
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**19,083**	26,972
Acquisitions of property, plant and equipment, intangible assets and investment property	**(151)**	(97)
Proceeds of disposal of property, plant and equipment, intangible assets and investment property	**3**	-
Payment of the contingent consideration recognized at acquisition date	**(35)**	(27)
	(350)	(879)
Net increase in cash and cash equivalents	**46**	515
Cash and cash equivalents at beginning of period	**3,384**	2,461
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 3,430**	$ 2,976
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 1,576**	$ 1,176
Interest and dividends received	**4,447**	3,966

[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 Combined Financial Statements.

Notes to the Condensed Interim Combined Financial Statements
(unaudited)

NOTE 1 – INFORMATION ON DESJARDINS GROUP

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

Basis of presentation of the Combined Financial Statements

As an integrated financial services group, Desjardins Group is a complete economic entity. These unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements) have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. The Desjardins caisses exercise a collective power over the Federation, which 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.

As Desjardins caisses and the Federation are financial services cooperatives, these Interim Combined Financial Statements differ from the consolidated financial statements of a group with a traditional organizational structure. Consequently, the Combined Financial Statements of Desjardins Group are a combination of the accounts of the Desjardins caisses of Quebec, the caisses populaires of Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario Inc.* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The capital stock of Desjardins Group represents the aggregate of the capital stock issued by the caisses, the Federation and the *Fédération des caisses populaires de l'Ontario Inc.*

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of Compliance

Pursuant to the *Act Respecting Financial Services Cooperatives*, these Interim Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), 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 Combined Financial Statements for the current period. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined 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 Combined Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on August 12, 2019.

Presentation and functional currency

These Interim Combined Financial Statements are expressed in Canadian dollars, which is also the functional currency of Desjardins Group. Dollar amounts presented in the tables of the Notes to the Interim Combined 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, Desjardins Group 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 Combined Financial Statements for the year ended December 31, 2018. Desjardins Group 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 Combined 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 Combined Statements of Income. As permitted by IFRS 16, Desjardins Group 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 Combined Statements of Income based on the terms of the lease. In addition, Desjardins Group 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 Combined Balance Sheet as at January 1, 2019.

Operating lease commitments reported as at December 31, 2018	**$ 567**
Adjustment related to the weighted average lessee's incremental borrowing rate as at January 1, 2019 (3.56%)	**(169)**
Finance lease obligations as at December 31, 2018	**19**
Short-term leases recognized in the Combined Statement of Income	**(9)**
Adjustments related to differences in the treatment of renewal and termination options	**317**
Adjustments related to non-refundable taxes	**(68)**
Other adjustments	**(8)**
Lease liabilities as at January 1, 2019	**$ 649**

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 Combined 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			
As at June 30, 2019	**Classified as at fair value through profit or loss[1]**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income[2]**	**Designated as at fair value through other comprehensive income**	**Amortized cost[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ -	$ 80	$ 911	$ -	$ 2,439	$ 3,430
Securities	20,989	18,016	21,614	48	1,728	62,395
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	12,324	12,324
Loans[3]	-	-	-	-	196,712	196,712
Other financial assets						
Clients' liability under acceptances	-	-	-	-	192	192
Premiums receivable	-	-	-	-	2,555	2,555
Derivative financial instruments[4]	4,293	-	-	-	-	4,293
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	3,183	3,183
Other	-	-	-	-	1,369	1,369
Total financial assets	$ 25,282	$ 18,096	$ 22,525	$ 48	$ 220,502	$ 286,453
Financial liabilities						
Deposits[5]	$ -	$ 34	$ -	$ -	$ 193,257	$ 193,291
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	-	-	-	-	11,261	11,261
Derivative financial instruments[4]	3,799	-	-	-	-	3,799
Amounts payable to clients, brokers and financial institutions	-	-	-	-	6,328	6,328
Other	144	-	-	-	2,866	3,010
Subordinated notes	-	-	-	-	1,399	1,399
Total financial liabilities	$ 15,744	$ 34	$ -	$ -	$ 215,303	$ 231,081

(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 $1 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 $634 million in assets and $179 million in liabilities.
(5) The maturity amount that Desjardins Group 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)*

As at December 31, 2018	At fair value through profit or loss		At fair value through other comprehensive income			
	Classified as at fair value through profit or loss[1]	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[2]	Designated as at fair value through other comprehensive income	Amortized cost[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ 291	$ 1,068	$ -	$ 2,025	$ 3,384
Securities	20,608	16,308	21,352	43	1,621	59,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,934	11,934
Loans[3]	-	-	-	-	190,510	190,510
Other financial assets						
Clients' liability under acceptances	-	-	-	-	160	160
Premiums receivable	-	-	-	-	2,376	2,376
Derivative financial instruments[4]	3,743	-	-	-	-	3,743
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	1,315	1,315
Other	13	-	-	-	1,163	1,176
Total financial assets	$ 24,364	$ 16,599	$ 22,420	$ 43	$ 211,104	$ 274,530
Financial liabilities						
Deposits	$ -	$ -	$ -	$ -	$ 183,158	$ 183,158
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	-	-	-	-	16,845	16,845
Derivative financial instruments[4]	2,816	-	-	-	-	2,816
Amounts payable to clients, brokers and financial institutions	-	-	-	-	4,105	4,105
Other	319	-	-	-	2,833	3,152
Subordinated notes	-	-	-	-	1,378	1,378
Total financial liabilities	$ 13,964	$ -	$ -	$ -	$ 208,479	$ 222,443

(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 $844 million in assets and $161 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 Combined 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	**$ 1,728**	**$ 1,705**	$ 1,621	$ 1,621
Loans	**196,712**	**197,202**	190,510	189,523
Financial liabilities				
Deposits	**193,257**	**193,406**	183,158	182,322
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 Combined 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	1	3,199	790	3,990
Equity securities	3,287	625	798	4,710
	30,416	7,025	1,644	39,085
Derivative financial instruments				
Interest rate contracts	-	1,541	-	1,541
Foreign exchange contracts	-	392	-	392
Other contracts	-	2,360	-	2,360
	-	4,293	-	4,293
Total financial assets at fair value through profit or loss	30,416	11,318	1,644	43,378
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	6,120	2,371	-	8,491
Provincial governmental entities and municipal corporations in Canada	8,296	1,078	-	9,374
Foreign public administrations	13	-	-	13
Other securities				
Financial institutions	103	2,994	-	3,097
Other issuers	-	550	89	639
Equity securities	-	48	-	48
Total financial assets at fair value through other comprehensive income	14,532	7,952	89	22,573
Financial instruments of segregated funds	6,056	9,916	78	16,050
Total financial assets	$ 51,004	$ 29,186	$ 1,811	$ 82,001
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	-	1,131	-	1,131
Foreign exchange contracts	-	376	-	376
Other contracts	-	2,292	-	2,292
	-	3,799	-	3,799
Total financial liabilities	$ 11,293	$ 4,341	$ 144	$ 15,778

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	5	2,763	742	3,510
Equity securities	3,106	627	698	4,431
	29,070	6,641	1,496	37,207
Derivative financial instruments				
Interest rate contracts	-	1,111	-	1,111
Foreign exchange contracts	-	1,263	-	1,263
Other contracts	-	1,369	-	1,369
	-	3,743	-	3,743
Other assets	-	-	13	13
Total financial assets at fair value through profit or loss	29,070	10,384	1,509	40,963
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	6,670	2,289	-	8,959
Provincial governmental entities and municipal corporations in Canada	7,681	793	-	8,474
Other securities				
Financial institutions	100	3,129	-	3,229
Other issuers	-	593	97	690
Equity securities	-	43	-	43
Total financial assets at fair value through other comprehensive income	14,586	7,780	97	22,463
Financial instruments of segregated funds	5,556	7,610	72	13,238
Total financial assets	$ 49,212	$ 25,774	$ 1,678	$ 76,664
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	-	1,175	-	1,175
Foreign exchange contracts	-	313	-	313
Other contracts	-	1,328	-	1,328
	-	2,816	-	2,816
Total financial liabilities	$ 10,535	$ 3,110	$ 319	$ 13,964

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

Desjardins Group 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 Combined Financial Statements.

Sensitivity of financial instruments categorized within Level 3

Desjardins Group 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.

For the six-month period ended June 30, 2019	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 56	$ -	$ -	$ -	$ -	$ -	$ -	$ 56
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	-	5
Mortgage bonds	736	-	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
Other	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)*

For the six-month period ended June 30, 2018	Balance as at December 31, 2017	Impact of changes in accounting policies	Balance as at January 1, 2018	Realized gains / losses recognized in profit or loss[(1)]	Unrealized gains / losses recognized in profit or loss[(2)]	Unrealized gains / losses recognized in other comprehensive income[(3)]	Transfers of instruments into (out of) Level 3	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets										
Financial assets at fair value through profit or loss										
Securities										
Other securities										
Financial institutions										
Mortgage bonds	$ 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										
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 Desjardins Group 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 Combined Financial Statements.

Loans

	Non-credit impaired		Credit-impaired	
As at June 30, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 33,742	$ 1	$ -	$ 33,743
Very low	33,651	2	-	33,653
Low	47,827	1,344	-	49,171
Moderate	2,451	2,776	-	5,227
High	119	993	-	1,112
Default	-	211	340	551
Total gross residential mortgages	$ 117,790	$ 5,327	$ 340	$ 123,457
Allowance for credit losses	(27)	(27)	(26)	(80)
Total net residential mortgages	$ 117,763	$ 5,300	$ 314	$ 123,377
Consumer, credit card and other personal loans				
Excellent	$ 3,543	$ -	$ -	$ 3,543
Very low	5,060	-	-	5,060
Low	10,408	106	-	10,514
Moderate	3,748	1,695	-	5,443
High	42	1,691	-	1,733
Default	-	52	232	284
Total gross consumer, credit card and other personal loans	$ 22,801	$ 3,544	$ 232	$ 26,577
Allowance for credit losses	(105)	(181)	(125)	(411)
Total net consumer, credit card and other personal loans	$ 22,696	$ 3,363	$ 107	$ 26,166
Business and government loans(1)				
Acceptable risk:				
Investment grade	$ 15,029	$ 40	$ -	$ 15,069
Other than investment grade	26,857	2,680	-	29,537
Under watch	1,018	1,171	-	2,189
Default	-	163	541	704
Total gross business and government loans	$ 42,904	$ 4,054	$ 541	$ 47,499
Allowance for credit losses	(34)	(21)	(83)	(138)
Total net business and government loans	$ 42,870	$ 4,033	$ 458	$ 47,361

(1) Including clients' liability under acceptances.

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

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

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 36,379	$ 4	$ -	$ 36,383
Very low	30,010	7	-	30,017
Low	46,705	990	-	47,695
Moderate	2,059	2,571	-	4,630
High	31	831	-	862
Default	-	206	320	526
Total gross residential mortgages	$ 115,184	$ 4,609	$ 320	$ 120,113
Allowance for credit losses	(27)	(26)	(25)	(78)
Total net residential mortgages	$ 115,157	$ 4,583	$ 295	$ 120,035
Consumer, credit card and other personal loans				
Excellent	$ 3,409	$ -	$ -	$ 3,409
Very low	4,920	-	-	4,920
Low	10,305	94	-	10,399
Moderate	3,856	1,652	-	5,508
High	33	1,685	-	1,718
Default	-	35	221	256
Total gross consumer, credit card and other personal loans	$ 22,523	$ 3,466	$ 221	$ 26,210
Allowance for credit losses	(112)	(263)	(122)	(497)
Total net consumer, credit card and other personal loans	$ 22,411	$ 3,203	$ 99	$ 25,713
Business and government loans[1]				
Acceptable risk:				
Investment grade	$ 14,428	$ 46	$ -	$ 14,474
Other than investment grade	25,257	2,579	-	27,836
Under watch	849	1,272	-	2,121
Default	-	134	501	635
Total gross business and government loans	$ 40,534	$ 4,031	$ 501	$ 45,066
Allowance for credit losses	(31)	(36)	(77)	(144)
Total net business and government loans	$ 40,503	$ 3,995	$ 424	$ 44,922

[1] Including clients' liability under acceptances.

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

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

Off-balance sheet items[(1)]

	Non-credit impaired		Credit-impaired	
As at June 30, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	**$ 30,282**	**$ -**	**$ -**	**$ 30,282**
Very low	**25,897**	**1**	**-**	**25,898**
Low	**12,873**	**198**	**-**	**13,071**
Moderate	**3,775**	**1,622**	**-**	**5,397**
High	**16**	**754**	**-**	**770**
Default	**-**	**-**	**67**	**67**
Total gross off-balance sheet items	**$ 72,843**	**$ 2,575**	**$ 67**	**$ 75,485**
Allowance for credit losses	**(26)**	**(5)**	**-**	**(31)**
Total net off-balance sheet items	**$ 72,817**	**$ 2,570**	**$ 67**	**$ 75,454**
Business and government				
Acceptable risk:				
Investment grade	**$ 24,005**	**$ 31**	**$ -**	**$ 24,036**
Other than investment grade	**11,154**	**1,056**	**-**	**12,210**
Under watch	**245**	**317**	**-**	**562**
Default	**-**	**11**	**99**	**110**
Total gross off-balance sheet items	**$ 35,404**	**$ 1,415**	**$ 99**	**$ 36,918**
Allowance for credit losses	**(5)**	**-**	**-**	**(5)**
Total net off-balance sheet items	**$ 35,399**	**$ 1,415**	**$ 99**	**$ 36,913**

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

	Non-credit impaired		Credit-impaired	
As at December 31, 2018	Stage 1	Stage 2	Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 27,970	$ 5	$ -	$ 27,975
Very low	25,443	1	-	25,444
Low	12,859	144	-	13,003
Moderate	3,590	1,601	-	5,191
High	17	720	-	737
Default	-	-	63	63
Total gross off-balance sheet items	$ 69,879	$ 2,471	$ 63	$ 72,413
Allowance for credit losses	(28)	(10)	-	(38)
Total net off-balance sheet items	$ 69,851	$ 2,461	$ 63	$ 72,375
Business and government				
Acceptable risk:				
Investment grade	$ 25,704	$ 34	$ -	$ 25,738
Other than investment grade	8,557	1,058	-	9,615
Under watch	133	309	-	442
Default	-	10	193	203
Total gross off-balance sheet items	$ 34,394	$ 1,411	$ 193	$ 35,998
Allowance for credit losses	(2)	(2)	-	(4)
Total net off-balance sheet items	$ 34,392	$ 1,409	$ 193	$ 35,994

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

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

ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	Allowance for
For the six-month period ended June 30, 2019	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of period	$ 27	$ 26	$ 25	$ 78
Provision for credit losses				
Transfers to(1):				
Stage 1	13	(11)	(2)	-
Stage 2	(2)	6	(4)	-
Stage 3	-	(2)	2	-
Net remeasurement due to transfers(2)	(5)	3	10	8
Changes in model inputs(3)	(10)	6	11	7
New originations or acquisitions(4)	6	2	-	8
Derecognition and maturities(5)	(2)	(3)	(16)	(21)
Net drawdowns (repayments)(6)	-	-	-	-
	-	1	1	2
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 27	$ 27	$ 26	$ 80
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 142	$ 275	$ 122	$ 539
Provision for credit losses				
Transfers to(1):				
Stage 1	151	(142)	(9)	-
Stage 2	(29)	52	(23)	-
Stage 3	(1)	(20)	21	-
Net remeasurement due to transfers(2)	(50)	29	106	85
Changes in model inputs(3)	(88)	18	181	111
New originations or acquisitions(4)	33	28	-	61
Derecognition and maturities(5)	(13)	(31)	(91)	(135)
Net drawdowns (repayments)(6)	(9)	(23)	-	(32)
	(6)	(89)	185	90
Write-offs and recoveries	-	-	(182)	(182)
Balance at end of period	$ 136	$ 186	$ 125	$ 447
Business and government				
Balance at beginning of period	$ 31	$ 36	$ 77	$ 144
Provision for credit losses				
Transfers to(1):				
Stage 1	13	(11)	(2)	-
Stage 2	(3)	5	(2)	-
Stage 3	-	(3)	3	-
Net remeasurement due to transfers(2)	(6)	5	20	19
Changes in model inputs(3)	(12)	(10)	10	(12)
New originations or acquisitions(4)	13	4	-	17
Derecognition and maturities(5)	(4)	(5)	(18)	(27)
Net drawdowns (repayments)(6)	2	-	2	4
Other	-	-	5	5
	3	(15)	18	6
Write-offs and recoveries	-	-	(12)	(12)
Balance at end of period	$ 34	$ 21	$ 83	$ 138
Total balances as at June 30, 2019	$ 197	$ 234	$ 234	$ 665
Composed of:				
Loans	$ 166	$ 229	$ 234	$ 629
Off-balance sheet items(7)	31	5	-	36

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

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

ALLOWANCE FOR CREDIT LOSSES *(continued)*

	Non-credit impaired		Credit-impaired	Allowance for
For the six-month period ended June 30, 2018	Stage 1	Stage 2	Stage 3	credit losses
Residential mortgages				
Balance at beginning of period	$ 20	$ 20	$ 18	$ 58
Provision for credit losses				
Transfers to[1]:				
Stage 1	14	(8)	(6)	-
Stage 2	(1)	3	(2)	-
Stage 3	-	(1)	1	-
Net remeasurement due to transfers[2]	(8)	2	7	1
Changes in model inputs[3]	(5)	7	27	29
New originations or acquisitions[4]	4	2	-	6
Derecognition and maturities[5]	(1)	(3)	(11)	(15)
Net drawdowns (repayments)[6]	-	-	1	1
	3	2	17	22
Write-offs and recoveries	-	-	(21)	(21)
Balance at end of period	$ 23	$ 22	$ 14	$ 59
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 106	$ 320	$ 102	$ 528
Provision for credit losses				
Transfers to[1]:				
Stage 1	146	(140)	(6)	-
Stage 2	(23)	38	(15)	-
Stage 3	-	(18)	18	-
Net remeasurement due to transfers[2]	(71)	35	68	32
Changes in model inputs[3]	(42)	98	143	199
New originations or acquisitions[4]	39	79	-	118
Derecognition and maturities[5]	(15)	(89)	(82)	(186)
Net drawdowns (repayments)[6]	(17)	(9)	26	-
	17	(6)	152	163
Write-offs and recoveries	-	-	(144)	(144)
Balance at end of period	$ 123	$ 314	$ 110	$ 547
Business and government				
Balance at beginning of period	$ 25	$ 34	$ 86	$ 145
Provision for credit losses				
Transfers to[1]:				
Stage 1	10	(7)	(3)	-
Stage 2	(1)	5	(4)	-
Stage 3	-	(1)	1	-
Net remeasurement due to transfers[2]	(4)	2	14	12
Changes in model inputs[3]	(7)	6	13	12
New originations or acquisitions[4]	10	3	-	13
Derecognition and maturities[5]	(4)	(6)	(18)	(28)
Net drawdowns (repayments)[6]	-	(1)	2	1
	4	1	5	10
Write-offs and recoveries	-	-	(6)	(6)
Balance at end of period	$ 29	$ 35	$ 85	$ 149
Total balances as at June 30, 2018	$ 175	$ 371	$ 209	$ 755
Composed of:				
Loans	$ 152	$ 353	$ 209	$ 714
Off-balance sheet items[7]	23	18	-	41

[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 Combined Balance Sheets.

NOTE 6 – INTERESTS IN OTHER ENTITIES

COVERED BONDS

Under its covered bond program, Desjardins Group 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 Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group 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, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling $7,162 million as at June 30, 2019 ($7,985 million as at December 31, 2018) are presented under “Loans – Residential mortgages” in the Combined Balance Sheets, and 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 Combined 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 Desjardins Group does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which Desjardins Group 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	**$ 51,244**	**$ 3,855**	**$ 54,541**	**$ 109,640**	$ 48,771	$ 3,792	$ 52,735	$ 105,298
Business and government	**30,990**	**359**	**49,886**	**81,235**	25,991	361	49,822	76,174
Deposit-taking institutions	**2,134**	**-**	**282**	**2,416**	1,618	-	68	1,686
	$ 84,368	**$ 4,214**	**$ 104,709**	**$ 193,291**	$ 76,380	$ 4,153	$ 102,625	$ 183,158

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 Combined Statements of Income				
Net unrealized gains (losses) on debt securities classified as at fair value through other comprehensive income[1]	**$ 211**	**$ 2**	$ (23)	$ (1)
Net unrealized gains (losses) related to the overlay approach for insurance operations financial assets	**106**	**4**	(16)	(2)
Net gains on derivative financial instruments designated as cash flow hedges	**117**	**-**	15	-
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	**$ 433**	**$ 6**	$ (23)	$ (3)

[1] Including an allowance for credit losses of $1 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

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.

Desjardins Group’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.

Designated by the AMF as a domestic systemically important financial institution, Desjardins Group must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.5%.

As at June 30, 2019, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents Desjardins Group’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	**$ 23,537**	$ 22,412
Tier 1 capital	**23,537**	22,412
Total capital	**23,737**	22,838
Risk-weighted assets for total capital calculation purposes		
Credit risk	**114,642**	107,082
Market risk	**6,138**	5,396
Operational risk	**12,492**	12,232
Total risk-weighted assets before adjustment charge and capital floor	**133,272**	124,710
Credit valuation adjustment (CVA) charge and transitional capital floor adjustment[1][2]	**-**	4,764
Total risk-weighted assets	**$ 133,272**	$ 129,474
Ratios and leverage ratio exposure		
Tier 1A capital	**17.7%**	17.3%
Tier 1 capital	**17.7**	17.3
Total capital	**17.8**	17.6
Leverage	**8.4**	8.3
Leverage ratio exposure	**$ 280,644**	$ 271,359

[1] In accordance with the guideline as updated during the first quarter of 2019, the transitional capital floor adjustment is now defined under the Basel III standardized approaches.

[2] To account for the CVA charge, scaling factors have been applied since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios. These scaling factors were 80%, 83% and 86%, respectively, in 2018. For fiscal 2019, in accordance with the AMF guideline, the CVA charge is entirely included in credit risk.

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	**$ 1,919**	$ 1,652	**$ 3,801**	$ 3,241
At fair value through other comprehensive income	**89**	74	**183**	155
At fair value through profit or loss	**5**	11	**12**	18
	2,013	1,737	**3,996**	3,414
Interest expense on financial liabilities at amortized cost	**714**	562	**1,433**	1,090
	$ 1,299	$ 1,175	**$ 2,563**	$ 2,324

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	**$ 55**	**$ 118**	**$ 173**	$ 94	$ (21)	$ 73
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**	**47**	**82**	34	4	38
At amortized cost and other	**33**	**6**	**39**	37	8	45
	$ 256	**$ 789**	**$ 1,045**	$ 290	$ 18	$ 308

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	**$ 119**	**$ 478**	**$ 597**	$ 184	$ (112)	$ 72
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**	**50**	**120**	66	(4)	62
At amortized cost and other	**66**	**22**	**88**	73	79	152
	$ 519	**$ 2,045**	**$ 2,564**	$ 568	$ (149)	$ 419

NOTE 12 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

The following tables provide a summary of Desjardins Group's financial results by business segment.

For the three-month periods ended June 30	Personal and Business Services 2019	Personal and Business Services 2018	Wealth Management and Life and Health Insurance 2019	Wealth Management and Life and Health Insurance 2018	Property and Casualty Insurance 2019	Property and Casualty Insurance 2018	Other 2019	Other 2018	Combined 2019	Combined 2018
Net interest income	**$ 1,170**	$ 1,056	**$ 2**	$ 1	**$ -**	$ -	**$ 127**	$ 118	**$ 1,299**	$ 1,175
Net premiums	**-**	-	**1,084**	1,190	**1,222**	1,073	**(64)**	(63)	**2,242**	2,200
Other income	**564**	531	**1,291**	762	**37**	(3)	**(151)**	(181)	**1,741**	1,109
Total income	**1,734**	1,587	**2,377**	1,953	**1,259**	1,070	**(88)**	(126)	**5,282**	4,484
Provision for credit losses	**(11)**	84	**-**	(4)	**-**	-	**-**	-	**(11)**	80
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**1,559**	993	**805**	734	**(3)**	-	**2,361**	1,727
Non-interest expense	**1,130**	1,100	**590**	577	**303**	280	**30**	(104)	**2,053**	1,853
Operating surplus earnings	**615**	403	**228**	387	**151**	56	**(115)**	(22)	**879**	824
Income taxes on surplus earnings	**154**	104	**45**	56	**28**	4	**(40)**	(17)	**187**	147
Surplus earnings before member dividends[(1)]	**461**	299	**183**	331	**123**	52	**(75)**	(5)	**692**	677
Member dividends, net of income tax recovery	**58**	53	**-**	-	**-**	-	**-**	-	**58**	53
Net surplus earnings for the period after member dividends	**$ 403**	$ 246	**$ 183**	$ 331	**$ 123**	$ 52	**$ (75)**	$ (5)	**$ 634**	$ 624
of which:										
Group's share	**$ 403**	$ 246	**$ 183**	$ 331	**$ 105**	$ 41	**$ (75)**	$ (5)	**$ 616**	$ 613
Non-controlling interests' share	**-**	-	**-**	-	**18**	11	**-**	-	**18**	11

(1) For the three-month periods ended June 30, 2019 and 2018, the Group's share of "Surplus earnings before member dividends" was respectively $461 million and $299 million for the Personal and Business Services segment, $183 million and $331 million for the Wealth Management and Life and Health Insurance segment, $123 million and $52 million for the Property and Casualty Insurance segment and $(75) million and $(5) million for the Other category.

NOTE 12 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT *(continued)*

For the six-month periods ended June 30	Personal and Business Services 2019	Personal and Business Services 2018	Wealth Management and Life and Health Insurance 2019	Wealth Management and Life and Health Insurance 2018	Property and Casualty Insurance 2019	Property and Casualty Insurance 2018	Other 2019	Other 2018	Combined 2019	Combined 2018
Net interest income	**$ 2,318**	$ 2,069	**$ 3**	$ 2	**$ -**	$ -	**$ 242**	$ 253	**$ 2,563**	$ 2,324
Net premiums	**-**	-	**2,281**	2,333	**2,406**	2,132	**(128)**	(126)	**4,559**	4,339
Other income	**1,131**	1,106	**2,852**	1,339	**160**	66	**(319)**	(378)	**3,824**	2,133
Total income	**3,449**	3,175	**5,136**	3,674	**2,566**	2,198	**(205)**	(251)	**10,946**	8,796
Provision for credit losses	**97**	199	**-**	(4)	**-**	-	**1**	-	**98**	195
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**3,578**	1,834	**1,906**	1,549	**(5)**	-	**5,479**	3,383
Non-interest expense	**2,284**	2,213	**1,157**	1,200	**610**	557	**(79)**	(190)	**3,972**	3,780
Operating surplus earnings	**1,068**	763	**401**	644	**50**	92	**(122)**	(61)	**1,397**	1,438
Income taxes on surplus earnings	**272**	189	**79**	107	**8**	14	**(55)**	(50)	**304**	260
Surplus earnings before member dividends[(1)]	**796**	574	**322**	537	**42**	78	**(67)**	(11)	**1,093**	1,178
Member dividends, net of income tax recovery	**115**	89	**-**	-	**-**	-	**-**	-	**115**	89
Net surplus earnings for the period after member dividends	**$ 681**	$ 485	**$ 322**	$ 537	**$ 42**	$ 78	**$ (67)**	$ (11)	**$ 978**	$ 1,089
of which:										
Group's share	**$ 681**	$ 485	**$ 322**	$ 537	**$ 27**	$ 58	**$ (67)**	$ (11)	**$ 963**	$ 1,069
Non-controlling interests' share	**-**	-	**-**	-	**15**	20	**-**	-	**15**	20

(1) For the six-month periods ended June 30, 2019 and 2018, the Group's share of "Surplus earnings before member dividends" was respectively $796 million and $574 million for the Personal and Business Services segment, $322 million and $537 million for the Wealth Management and Life and Health Insurance segment, $42 million and $78 million for the Property and Casualty Insurance segment and $(67) million and $(11) million for the Other category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at June 30, 2019	**$ 239,457**	**$ 47,228**	**$ 13,352**	**$ 10,869**	**$ 310,906**
As at December 31, 2018	$ 232,526	$ 41,916	$ 13,007	$ 8,016	$ 295,465

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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