Financial Report

Second quarter of 2023

Desjardins Group posts surplus earnings of $553 million for the second quarter of 2023

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended			As at and for the six-month periods ended	
	June 30, 2023	March 31, 2023	June 30, 2022[1] Restated	**June 30, 2023**	June 30, 2022[1] Restated
Results					
Net interest income	**$ 1,769**	$ 1,657	$ 1,596	**$ 3,426**	$ 3,102
Insurance service result	**288**	109	210	**397**	518
Net insurance finance result	**177**	123	(247)	**300**	(147)
Net insurance service income (loss)	**465**	232	(37)	**697**	371
Other income	**1,005**	778	751	**1,783**	1,453
Total net income	**3,239**	2,667	2,310	**5,906**	4,926
Provision for credit losses	**66**	105	66	**171**	72
Non-interest expense					
Gross non-interest expense	**2,680**	2,345	2,427	**5,025**	4,683
Non-interest expense included in insurance service expenses[2]	**(246)**	(249)	(253)	**(495)**	(505)
Net non-interest expense	**2,434**	2,096	2,174	**4,530**	4,178
Income taxes on surplus earnings	**186**	124	32	**310**	187
Surplus earnings before member dividends	**$ 553**	$ 342	$ 38	**$ 895**	$ 489
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 341**	$ 223	$ 234	**$ 564**	$ 452
Wealth Management and Life and Health Insurance	**170**	109	(1)	**279**	161
Property and Casualty Insurance	**56**	(25)	(167)	**31**	(114)
Other	**(14)**	35	(28)	**21**	(10)
	$ 553	$ 342	$ 38	**$ 895**	$ 489
Return to members and the community[4]					
Member dividends	**$ 109**	$ 106	$ 109	**$ 215**	$ 211
Sponsorships, donations and scholarships[5]	**37**	26	36	**63**	52
	$ 146	$ 132	$ 145	**$ 278**	$ 263
Indicators					
Net interest margin[4]	**2.32%**	2.22%	2.17%	**2.27%**	2.13%
Return on equity[6]	**6.8**	4.3	0.6	**5.6**	3.0
Credit loss provisioning rate[6]	**0.10**	0.18	0.11	**0.14**	0.06
Gross credit-impaired loans/gross loans and acceptances[6]	**0.57**	0.50	0.44	**0.57**	0.44
Liquidity Coverage Ratio[7]	**143**	140	135	**143**	135
Net Stable Funding Ratio[7]	**125**	127	126	**125**	126
Productivity index – Personal and Business Services[6][8]	**77.9**	81.7	82.0	**79.7**	83.2
Insurance and annuity premiums – Wealth Management and Life and Health Insurance[6]	**$ 1,434**	$ 1,307	$ 1,146	**$ 2,741**	$ 2,331
Total contractual service margin (CSM) – Wealth Management and Life and Health Insurance[9]	**2,643**	2,668	2,824	**2,643**	2,824
Direct Written Premiums – Property and Casualty Insurance[6]	**1,910**	1,440	1,715	**3,350**	3,035
Loss ratio - Property and Casualty Insurance[4]	**68.9%**	75.1%	70.2%	**71.9%**	68.1%
On-balance sheet and off-balance sheet					
Assets	**$ 409,558**	$ 398,604	$ 400,440	**$ 409,558**	$ 400,440
Net loans and acceptances	**257,743**	252,401	241,944	**257,743**	241,944
Deposits	**265,539**	262,358	252,671	**265,539**	252,671
Equity	**32,943**	33,213	32,889	**32,943**	32,889
Assets under administration[6]	**467,716**	471,575	426,393	**467,716**	426,393
Assets under management[6]	**80,229**	79,390	75,604	**80,229**	75,604
Capital measures					
Tier 1A capital ratio[10]	**20.9%**	19.9%	19.5%	**20.9%**	19.5%
Tier 1 capital ratio[10]	**20.9**	19.9	19.5	**20.9**	19.5
Total capital ratio[10]	**22.4**	21.4	20.4	**22.4**	20.4
TLAC ratio[11]	**29.7**	29.3	25.3	**29.7**	25.3
Leverage ratio[10]	**7.6**	7.7	7.7	**7.6**	7.7
TLAC leverage ratio[11]	**10.6**	11.4	9.7	**10.6**	9.7
Risk-weighted assets[10]	**$ 135,499**	$ 140,232	$ 142,774	**$ 135,499**	$ 142,774
Other information					
Number of employees	**59,389**	59,384	57,744	**59,389**	57,744

(1) The data have been adjusted to conform to the current period's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) Represents the non-interest expense directly related to the fulfilment of insurance contracts presented under "Insurance service result".
(3) The breakdown by line item is presented in Note 11, "Segmented information", to the Interim Combined Financial Statements.
(4) For more information about financial measures that are not generally accepted accounting principles (GAAP) financial measures as well as non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 9.
(5) Including $15 million from the caisses' Community Development Fund ($8 million for the first quarter of 2023, $12 million for the second quarter of 2022, $23 million for the first six months of 2023 and $18 million for the first six months of 2022).
(6) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(7) In accordance with the *Liquidity Adequacy Guideline* issued by the *Autorité des marchés financiers* (AMF), see the "Risk management" section.
(8) Following the transition to IFRS 17, Desjardins Group now presents the productivity index of the Personal and Business Services segment, which is a supplementary financial measure, replacing Desjardins Group's productivity index, which was a non-GAAP financial measure.
(9) Total CSM of $2,895 million ($3,139 million as at June 30, 2022) presented net of reinsurance for a total of $252 million ($315 million as at June 30, 2022). Included in the line items "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)" of the Combined Balance Sheets. For more information, see Note 7, "Insurance and reinsurance contracts" to the Interim Combined Financial Statements.
(10) In accordance with the *Capital Adequacy Guideline* issued by the AMF for financial services cooperatives in particular; see the "Capital management" section.
(11) In accordance with the *Total Loss Absorbing Capacity Guideline* ("TLAC Guideline") issued by the AMF and based on risk-weighted assets and exposures for purposes of the leverage ratio at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.; see the "Capital management" section.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, August 10, 2023 – For the second quarter ended June 30, 2023, Desjardins Group, the largest financial cooperative group in North America, posted surplus earnings before member dividends of $553 million, up $515 million from the same quarter of 2022 and restated following the adoption of IFRS 17, “Insurance Contracts,” on January 1, 2023. This increase is mainly explained by the growth of the net insurance finance result of $424 million. The latter had been adversely affected by a significant rise in interest rates in the second quarter of 2022[1]. The increase in surplus earnings is also explained by the growth in net interest income as well as the increase in income from insurance activities in the Property and Casualty Insurance segment.

This result reflects the contribution of $341 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment contributed $170 million to surplus earnings, and the Property and Casualty Insurance segment, $56 million.

As mentioned earlier, Desjardins Group adopted IFRS 17, “Insurance Contracts”, as at January 1, 2023, restating comparative data for fiscal 2022. This new standard was introduced to increase transparency and the comparability of insurance companies, and may lead to volatility in Desjardins Group’s results from one period to the next. This does not, however, change the economic value created by insurance contracts. The standard only introduces changes to the presentation and timing of the recognition of results, so that it has no impact on the results and returns generated over the life of insurance contracts. It should be noted that certain financial statement headings have been modified to reflect the new naming convention required by IFRS 17. For more information on the changes to accounting policies, please refer to Note 2, “Significant accounting policies”, to the Interim Combined Financial Statements. For further information on certain concepts introduced by IFRS 17, please consult the Glossary in this Management’s Discussion and Analysis for the second quarter of 2023.

The total amount returned to members and the community[2] was $146 million in the second quarter of 2023, including a $109 million provision for member dividends and $37 million in the form of sponsorships, donations and scholarships, $15 million of which was from the caisses’ Community Development Fund, compared to a total amount returned to members and the community[2] of $145 million for the corresponding period of 2022. In addition to this, commitments of $5 million were made for the second quarter of 2023 in connection with the GoodSpark Fund, which seeks, in particular, to provide social and economic support to the regions. Since 2017, Desjardins Group has made commitments totalling $170 million to the GoodSpark Fund.

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at June 30, 2023, Desjardins Group’s Tier 1A and total capital ratios were 20.9% and 22.4%, respectively, compared to 20.2% and 21.9%, respectively, as at December 31, 2022.

“Desjardins Group is reporting solid financial results for the second quarter of 2023. We remain fully committed to our members and clients by listening to their needs and proposing solutions that suit their financial situations. We're also continuing to invest in technology and security for improved efficiency and greater simplicity,” said Guy Cormier, President and Chief Executive Officer of Desjardins Group.

[1] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.
[2] For more information about non-GAAP financial measures, see “Non-GAAP and other financial measures” on pages 7 to 9.

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 2022 Annual Report, the Interim Financial Report for the second quarter of 2023 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 is a summary of disclosures under the EDTF recommendations and the location of the disclosures (page number):

				Second quarter of 2023		
Type of risk	Recommen-dation	Disclosure	2022 Annual Report	Interim Financial Report	Supplemental Financial Information	Pillar 3 Report
General	1	Summary of risk information	XXXIX	Current page		
	2	Risk terminology, risk measures and key parameters	61-66, 113-120	57-64	11	84-86
	3	Top and emerging risks	50-52, 58-60, 66-92	11, 12		
	4	New regulatory ratios	50-53, 85, 87-89, 207, 208	31-34, 43, 44, 46-48		
Risk governance, risk management and business models	5	Organizational risk management structure	61-66			
	6	Risk management culture	62-66			
	7	Risks from business model and risk appetite	13, 29, 33, 37, 40, 50, 54-56, 61-67			
	8	Stress testing	50, 62, 66, 67, 81-83			
Capital adequacy and risk-weighted assets	9	Minimum regulatory capital requirements	50, 51	31		10-12, 78, 79
	10	Reconciliation of the accounting balance sheet and the regulatory balance sheet	52-54, 207, 208	32		14, 15, 25, 78
	11	Movements in regulatory capital	51, 53, 54	34		
	12	Capital management and planning	50-56	30-34		
	13	Risk-weighted assets by business segment	55, 67			5-8
	14	Breakdown of capital requirements by type of risk and by calculation method	54, 55, 68, 69, 72, 73, 81-83	32-34		5-7, 9
	15	Credit risk	54-56	32-34		53-56, 59
	16	Movements in risk-weighted assets by type of risk	55, 56	33, 34		5-9, 53
	17	Back testing and validation of credit models	72			59
Liquidity	18	Management of liquidity needs and reserve	85-89	43-48		80
Funding	19	Encumbered and unencumbered assets	85-88, 90-92, 212-214	44-47		
	20	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	89, 90, 214-218	49, 51-54		
	21	Funding sources and strategies	49, 85, 90, 91	43, 44, 49, 50		
Market risk	22	Reconciliation of market risk measures to balance sheet	80, 81	39, 40		
	23	Market risk factors	80-84, 190-194	38-43		
	24	Assumptions, limitations and validation procedures for market risk models	81-83	40-42		
	25	Extreme loss measures	50, 62, 81-83	40-42		
Credit risk	26	Credit risk profile	48, 59, 60, 62, 72, 73, 75-79	29, 35, 36, 38	6-10	27-59
	27	Policy for identifying gross credit-impaired loans	74, 134-152			
	28	Reconciliation of gross credit-impaired loans and allowance for credit losses	48, 75-79, 134-152, 166-173	29, 36, 88-94		41-52
	29	Counterparty risk related to derivatives	79, 196-205			60-70
	30	Credit risk mitigation techniques	73, 79, 196-205			31-36
Other risks	31	Management of other risks	54-56, 58-60, 64-67, 92-98	34, 35		
	32	Publicly known risk events	92-94, 212-214			

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Management's Discussion and Analysis (MD&A) dated August 10, 2023, presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended June 30, 2023, in comparison to prior periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* (Regulation 52-109) prescribed by the Canadian Securities Administrators (CSA). Unlike the Federation, Desjardins Group is not a reporting issuer, on a combined basis, under this or any other applicable securities regulation. Pursuant to Decision No. 2021-FS-0091 of the *Autorité des marchés financiers* (AMF) dated April 23, 2021, the Combined Financial Statements and MD&As of Desjardins Group are to be filed by the Federation in place of the Consolidated Financial Statements and MD&As of the Federation, in order to meet its financial disclosure obligations as a reporting issuer under Regulation 51-102 respecting Continuous Disclosure Obligations of the CSA, and the Federation will maintain controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group in compliance with Regulation 52-109. Since April 23, 2021, and pursuant to the AMF and CSA decision, the Federation has used the financial statements and MD&As of Desjardins Group for all relevant purposes under the applicable securities regulations. Information on the controls and procedures with respect to the Combined Financial Statements and MD&As of Desjardins Group may be found 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, 2023, and Desjardins Group's 2022 Annual Report (the 2022 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.sedarplus.ca (under the Desjardins Capital Inc. profile for the years ended prior to December 31, 2021, and since first quarter 2021, under the *Fédération des caisses Desjardins du Québec* 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. None of the information presented on these sites is incorporated by reference into this MD&A.

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 AMF, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). These Interim Combined Financial Statements of Desjardins have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". All the accounting policies have been applied as described in Note 2, "Significant accounting policies", to the Annual Combined Financial Statements, except for the changes resulting from the adoption of IFRS 17, "Insurance Contracts", on January 1, 2023, which are described in Note 2, "Significant accounting policies", to the Interim Combined Financial Statements. The adoption of this standard has led to major changes in Desjardins Group's Combined Financial Statements. Certain comparative figures for the year ended December 31, 2022 have been restated, and a restated opening Balance Sheet as at January 1, 2022 is presented in the Interim Combined Financial Statements to reflect this new standard.

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.

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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, particularly in Québec, Canada and the United States. Forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications.

The forward-looking statements include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and financial markets, the outlook for the Québec, Canadian, U.S. and global economies, and the impact of the COVID-19 pandemic on its operations, its results and its financial position, as well as on economic conditions and financial markets. Such forward-looking statements are typically identified by words or phrases such as "target", "objective", "believe", "expect", "count on", "anticipate", "intend", "estimate", "plan", "forecast", "aim", "propose", "should" 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. Desjardins Group cautions readers against placing undue reliance on forward-looking statements since 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, individually or collectively, the accuracy of the assumptions, predictions, forecasts or other forward-looking statements in this MD&A. It is also possible that these assumptions, 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 significantly.

The factors that may affect the accuracy of the forward-looking statements in this MD&A include those discussed in the "Risk management" section of Desjardins Group's 2022 annual MD&A and this MD&A for the second quarter of 2023 and, include credit, market, liquidity, operational, insurance, strategic and reputational risk, environmental or social risk, and regulatory risk.

Such factors also include those related to security breaches, the housing market and household and corporate indebtedness, technological advancement and regulatory developments, including changes to liquidity and capital adequacy guidelines, and requirements relating to their presentation and interpretation, as well as interest rate fluctuations, inflation, climate change, biodiversity loss and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group operates; monetary policies; 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; reliance on third parties; the ability to recruit and retain talent; tax risk and the COVID-19 pandemic. Other factors include interest rate benchmark reform, unexpected changes in consumer spending and saving habits, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, or any other similar disease affecting the local, national or global economy, as well as Desjardins Group's ability to anticipate and properly manage the risks associated with these factors despite a disciplined risk management environment. Additional information on these factors is available under the "Risk management" section of Desjardins Group's 2022 annual MD&A and of this MD&A for the second quarter of 2023.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an effect on Desjardins Group's results. Additional information on these and other factors is available under the "Risk management" section of Desjardins Group's 2022 annual MD&A and of this MD&A for the second quarter of 2023.

Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable and founded on valid bases, it cannot guarantee that these expectations will materialize or prove to be accurate. 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 forward-looking statements must carefully consider these risk factors and other uncertainties and potential events, including the uncertainty inherent in forward-looking statements.

The significant economic assumptions underlying the forward-looking statements in this document are described in the "Economic environment and outlook" section of Desjardins Group's 2022 annual MD&A and of this MD&A for the second quarter of 2023. Readers are cautioned to consider the foregoing factors when reading this section. When relying on forward-looking statements to make decisions about Desjardins Group, they should carefully consider these factors, as well as other uncertainties and contingencies. To determine our economic growth forecasts in general, and for the financial services sector in particular, Desjardins Group mainly uses historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies.

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 financial position as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives as considered as at the date hereof. These forward-looking 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 EVENTS

Changes to the Desjardins Group governance model

At the Federation's last annual general meeting, held on March 24 and 25, 2023, the delegates of the Desjardins caisse networks in Québec and Ontario approved a proposal to separation of the roles of Chair of the Board of Directors and President and Chief Executive Officer of Desjardins Group.

On June 22, 2023, Desjardins Group's Board of Directors announced that Guy Cormier would assume the role of President and CEO starting in March 2024, when this separation of leadership roles at the head of Desjardins Group will come into effect. In addition to assisting the Board of Directors with its work to split the leadership roles between March 2024 and March 2026 at the latest, Mr. Cormier will continue to lead and develop Desjardins Group during this period, with the full powers granted to him as President and CEO. At the end of the period for implementing the separation of roles, meaning no later than March 2026, the Board of Directors will select the person who will succeed Mr. Cormier as President and CEO of Desjardins Group. It should be noted that Mr. Cormier will not be eligible for this position. Meanwhile, the new Chair of the Board of Directors will be elected by their peers on the Desjardins Group Board of Directors and step into the new role in May 2024.

Changes in organizational structure

On May 16, 2023, changes to the organizational structure were announced, which will make it possible to standardize the way in which the business segments operated by Desjardins are organized considering that Éric Lachaîne, Executive Vice-President (EVP), Caisse Network and Member and Client Services, has announced that he will retire in September 2023, after a career spanning 35 years with Desjardins Group. The main changes are:

- Nathalie Larue is now the new Executive Vice-President, Personal Services. She is therefore taking over from Mr. Lachaîne, while still keeping part of the teams that were already reporting to her. All the teams under the EVP, Caisse Network and Member and Client Services will now report to the new EVP, except for the teams under the Vice-President (VP), Wealth Management Advisory Services, which have been transferred to Denis Dubois, Executive Vice-President, Wealth Management and Life and Health Insurance.
- Isabelle Garon is the new Executive Vice-President of Marketing, Communications, Cooperation and the President's Office. Ms. Garon's responsibilities have been increased to include the marketing and member and client experience teams that previously reported to Nathalie Larue, as well as the corporate communications and change management team, which was previously under Marie-Huguette Cormier.
- The EVP, Human Resources and Communications has become the EVP, Human Resources and will continue to report to Marie-Huguette Cormier.
- The Operations Executive Division, which Di-Thaï Hua continues to head, has also changed. In particular, Di-Thaï Hua has taken on part of the Desjardins Group Project and Process Management Division, previously under Nathalie Larue, namely the process management teams.
- Johanne Duhaime, formerly Executive Vice-President, Information Technology, is now Executive Vice-President, Technology and Projects. Her title was changed to reflect the transfer of the other part of the Desjardins Group Project and Process Management Division, namely the project management teams.

NON-GAAP AND OTHER FINANCIAL MEASURES

To measure its performance, Desjardins Group uses different GAAP (IFRS) financial measures and various other financial measures, some of which are Non-GAAP financial measures. *Regulation 52-112 respecting Non-GAAP and Other Financial Measures Disclosure* (Regulation 52-112) provides guidance to issuers disclosing specified financial measures, including those used by Desjardins Group below:

- Non-GAAP financial measures;
- Non-GAAP ratios;
- Supplementary financial measures.

Non-GAAP financial measures

Non-GAAP financial measures used by Desjardins Group, and which do not have a standardized definition, are not directly comparable to similar measures used by other companies, and may not be directly comparable to any GAAP measures. Investors, among others, may find these non-GAAP financial measures useful in analyzing Desjardins Group's overall performance or financial position. They are defined as follows:

Return to members and the community

By its very nature as a cooperative financial group, Desjardins Group's goal is to improve the economic and social well-being of people and communities. The amounts returned to members and the community are in the form of member dividends, and sponsorships, donations and scholarships.

More detailed information about the amounts returned to members and the community may be found in the "Financial results and indicators" table on page 13 of this MD&A.

Non-GAAP ratios

Non-GAAP ratios that are used by Desjardins Group and do not have a standardized definition are not directly comparable to similar measures used by other companies, and may not be directly comparable to any GAAP measures. Regulation 52-112 states, among other things, that any ratio which has at least one non-GAAP financial measure meets the definition of a non-GAAP ratio. Non-GAAP ratios can be useful to investors in analyzing Desjardins Group's financial position or performance, and they are defined as follows:

Net interest margin

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

Average interest-bearing assets and average interest-bearing liabilities are non-GAAP financial measures that reflect Desjardins Group's financial position and are equal to the average of month-end balances for the period. Average interest-bearing assets include securities, cash and deposits with financial institutions, as well as loans. Average interest-bearing liabilities include deposits, subordinated notes and other interest-bearing liabilities. Average interest-bearing assets and liabilities exclude insurance assets and liabilities as well as all other assets and liabilities not generating net interest income.

The "Net interest income on average assets and liabilities" table on page 16 of this MD&A provides more detailed information on net interest margin, average interest-bearing assets and average interest-bearing liabilities.

Loss ratio – Expense ratio – Ratio of losses on onerous contracts - Combined ratio

These ratios, which are net of reinsurance, are used to measure the performance of the Property and Casualty Insurance segment and more specifically:
- Loss ratio: Used as a measure of business quality.
- Expense ratio: Used as a measure of the effectiveness of non-interest expense management, excluding certain items that include non-interest expense related to claims.
- Ratio of losses on onerous contracts: Used as a measure of the effect of onerous contracts on profitability.
- Combined ratio: Used as a measure of business profitability, excluding the effect of the net insurance finance result and certain other income.

The loss ratio is equal to the net claims expenses expressed as a percentage of net insurance revenue. Net claims expenses constitute a non-GAAP financial measure, which is used to exclude the effect of policy costs, acquisition costs, the effect of the loss component on onerous contracts, and to include in the indicators the effect of reinsurance held.

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 held.
- 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 related reinsurance held.
- Ratio of changes in prior year claims, which is the loss ratio including changes in prior year claims, net of related reinsurance held.

The expense ratio is equal to non-interest expense, excluding non-interest expense related to claims and certain items, expressed as a percentage of net insurance revenue. Non-interest expense excluding non-interest expense related to claims and certain items is a non-GAAP financial measure, and is used to eliminate expenses related to the income excluded from the calculation of the ratio.

The ratio of losses on onerous contracts is equal to the effect of the loss component on net onerous contracts expressed as a percentage of net insurance revenue. The effect of the loss component on onerous contracts includes losses and reversals of losses on net onerous contracts, as well as decreases in the loss component relating to past services, net of reinsurance.

The combined ratio is equal to the sum of the loss ratio, the expense ratio and the ratio of losses on onerous contracts.

The following table presents the calculation of the loss ratio, the expense ratio, the ratio of losses on onerous contracts, and the combined ratio for the Property and Casualty Insurance segment.

Loss ratio – Expense ratio – Ratio of losses on onerous contracts – Combined ratio

	For the three-month periods ended			For the six-month periods ended	
(in millions of dollars and as a percentage)	**June 30, 2023**	March 31, 2023	June 30, 2022 Restated	**June 30, 2023**	June 30, 2022 Restated
Insurance revenue	**$ 1,634**	$ 1,569	$ 1,543	**$ 3,203**	$ 3,061
Less: Premiums paid related to reinsurance activities[1]	**72**	67	44	**139**	87
Net insurance revenue	**$ 1,562**	$ 1,502	$ 1,499	**$ 3,064**	$ 2,974
Insurance service expenses	**$ 1,459**	$ 1,593	$ 1,522	**$ 3,052**	$ 2,877
Less: Policy costs and acquisition costs	**315**	312	326	**627**	643
Less: Effect of loss component on onerous contracts	**19**	106	72	**125**	108
Less: Claims incurred and costs of ceded claims[1]	**49**	47	72	**96**	101
Net claims expenses	**$ 1,076**	$ 1,128	$ 1,052	**$ 2,204**	$ 2,025
Gross non-interest expense	**$ 268**	$ 257	$ 247	**$ 525**	$ 483
Less: Non-interest expense related to claims[2] and certain items[3]	**118**	107	109	**225**	213
Plus: Acquisition costs included in insurance service expenses and certain items[3]	**256**	255	264	**511**	519
Non-interest expense excluding non-interest expense related to claims and certain items	**$ 406**	$ 405	$ 402	**$ 811**	$ 789
Effect of loss component on onerous contracts	**$ 19**	$ 106	$ 72	**$ 125**	$ 108
Less: Effect of loss component on ceded onerous contracts[1]	**3**	13	4	**16**	5
Effect of loss component on net onerous contracts	**$ 16**	$ 93	$ 68	**$ 109**	$ 103
Loss ratio	**68.9%**	75.1%	70.2%	**71.9%**	68.1%
Expense ratio	**26.0**	27.0	26.8	**26.5**	26.5
Ratio of losses on onerous contracts	**1.0**	6.2	4.5	**3.6**	3.5
Combined ratio	**95.9**	108.3	101.5	**102.0**	98.1

(1) These items are included under "Net reinsurance service income (expenses)".
(2) Represents non-interest expense directly related to claims adjustments, which are presented under "Insurance service expenses".
(3) Mainly from investment management fees and certain other expenses.

Supplementary financial measures

In accordance with Regulation 52-112, supplementary financial measures are used to show historical or expected future financial performance, financial position or cash flow. In addition, these measures are not presented in the financial statements. Desjardins Group uses certain supplementary financial measures, and their composition is presented in the Glossary on pages 57 to 64.

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative group in North America, with assets of $409.6 billion. As at June 30, 2023, the organization included 209 caisses in Québec, as well as Caisse Desjardins Ontario Credit Union Inc., the *Fédération des caisses Desjardins du Québec* and its subsidiaries, 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, and Desjardins Florida Branch.

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 over 59,300 employees and the commitment of close to 2,350 directors in the caisse network.

The Federation is a cooperative entity that is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group and acts as a financial agent on Canadian and foreign financial markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. It acts as a monitoring and control organization for the caisses and its mission includes risk management and capital management for Desjardins Group, as well as ensuring the financial soundness and sustainability of the Desjardins Cooperative Group (comprised of the Desjardins caisse network in Québec, the Federation and the *Fonds de sécurité Desjardins*), pursuant to the *Act respecting financial services cooperatives* (AFSC). In particular, the Federation is the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system. The Federation also has the right to participate in the Visa Inc. and MasterCard Inc. payment systems in Canada on behalf of Desjardins Group. In addition, it manages majority interests in joint-stock companies through holding companies.

The AFSC provides that the entities comprising the Desjardins Cooperative Group may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner. It should be mentioned that Caisse Desjardins Ontario Credit Union Inc. is excluded from this amalgamation-liquidation provided for in the Act.

Summary additional information on the entities that are not part of the Desjardins Cooperative Group or the subsidiaries of the entities that comprise it but that are included in Desjardins Group's financial statements may be found under "Additional information required pursuant to the AMF's Decision No.2021-FS-0091".

CHANGES IN THE REGULATORY ENVIRONMENT

Desjardins Group closely monitors regulations for financial products and services, as well as new developments, particularly 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 it aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of Desjardins Group's 2022 annual MD&A, and the "Capital management" section of this MD&A for the second quarter of 2023 presents further information on regulatory developments relating to capital. Since the release of Desjardins Group's 2022 annual MD&A, the changes in the regulatory environment described below must also be considered:

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

Amendments were announced to the PCMLTFA and its regulations on July 10, 2019. Most of them came into force on July 10, 2019, June 1, 2020 and June 1, 2021, while those relating to reporting requirements will come into force in October 2023 and June 2024. After the publication of these regulatory changes, a project was implemented within Desjardins Group so that its systems, processes and procedures would be amended accordingly. New regulatory changes to the PCMLTFA and its regulations were published in the *Canada Gazette* on February 18, 2023. After analysis, the only change affecting the Desjardins Group reporting entities is the assessment that the reporting entities will need to pay to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) to cover their examination fees. Finally, on June 7, 2023, the Department of Finance Canada launched a consultation on the parliamentary review of the PCMLTFA, with a complete overhaul to be carried out every five years. Reporting entities had until August 1, 2023 to comment, and Desjardins Group will produce a brief as part of this consultation.

Protection of personal information

As a result of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. After being passed by the National Assembly and assented to in September 2021, an *Act to modernize legislative provisions as regards the protection of personal information* will come into force by being phased in over a three-year period. Desjardins Group complies fully with the provisions that came into force on September 22, 2022 and will also comply, within the deadlines, regarding the provisions that will come into force on September 22, 2023 and 2024. On May 16, 2023, the *Commission d'accès à l'information* published a notice of consultation regarding a draft of the *Lignes directrices sur les critères de validité du consentement* [guidelines on valid consent criteria] in order to obtain comments from the industry. These draft guidelines are in line with Desjardins Group's approach to consent and the processing of personal information. On May 23, 2023, the *Commission d'accès à l'information* also published its general framework for the application of administrative monetary penalties, which describes the process for imposing penalties and the factors taken into account to establish the amount of the penalty. Desjardins Group also continues to be on the lookout for announced regulatory amendments to other Canadian privacy laws and, in particular, it has completed consideration of the provisions of the federal Bill C-27, an *Act to enact the Consumer Privacy Protection Act,* the *Personal Information and Data Protection Tribunal Act* and the *Artificial Intelligence and Data Act and to make consequential and related amendments to other Acts,* which was tabled in June 2022.

Interest rate benchmark reform

Interest rate benchmark reform is a global initiative that includes Canada and is being led by the central banks and regulatory authorities. Its objective is to improve benchmark indices by making sure they comply with stringent international standards. The gradual withdrawal of certain interest rate benchmarks, began on May 17, 2021, with the discontinuation of the 6-month and 12-month Canadian Dollar Offered Rate (CDOR). In addition, on March 5, 2021, rate administrators announced that the publication of London Interbank Offered Rate (LIBOR) would officially cease after December 31, 2021 for all currencies except certain USD LIBOR settings, which stopped being published on June 30, 2023. Subsequently, on July 29, 2021, USD LIBOR rate administrators officially recommended the use of the Secured Overnight Financing Rate (SOFR) for loans, which concluded the final phase of the transition plan that was initiated to promote the use of the SOFR. On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (RBSL), CDOR's administrator, announced that it would cease publication of all tenors of CDOR after June 28, 2024. This announcement triggered the two-stage transition period recommended by the Canadian Alternative Reference Rate working group (CARR) in its White Paper in December 2021. By the end of the first stage of the transition plan, which was completed on June 30, 2023, the CARR working group expected CDOR to be replaced by the Canadian Overnight Repo Rate Average (CORRA) for new derivatives (except in some specific circumstances) and securities. By the end of the second stage of the transition plan, which is to be completed on June 28, 2024, CDOR loan agreements should have transitioned to CORRA or any other alternative benchmark rate in effect at the time of the cessation. On January 11, 2023, the Canadian Alternative Reference Rate working group confirmed the creation of a term CORRA rate following the strong interest voiced by Canadian businesses in having a forward-looking term rate available. The use of the term CORRA rate for certain maturities, which is expected to be available toward the end of the third quarter of 2023, will however be limited to loans and derivative financial instruments linked to ancillary hedging strategies. Desjardins Group has set up an internal task force on interest rate benchmark reform to ensure a seamless transition from benchmark interest rates, including CDOR, to risk-free rates. The discontinuation of CDOR, including the effect on hedging relationships, is also being managed by this task force.

Regulators' strong interest in environmental, social and governance (ESG) factors

In 2023, regulatory and standard-setting authorities are continuing to clarify their ESG expectations by developing frameworks and standards:

- In March 2023, the Office of the Superintendent of Financial Institutions (OSFI) issued Guideline B-15, *Climate Risk Management*. This Guideline includes two chapters (Governance and Risk Management Expectations and Climate-Related Financial Disclosures) and will be phased in at the end of fiscal years 2024 to 2026, depending on the organizations and information involved. OSFI also launched a consultation in June 2023 on its climate risk returns, which aim to collect information on climate-related emissions and exposures from financial institutions.
- Internationally, the International Sustainability Standards Board (ISSB), established by the IFRS Foundation, issued Sustainability-related Disclosure Requirements (IFRS S1), and Climate-related Disclosure Requirements (IFRS S2) in June 2023. Two consultations were also launched during the second quarter of 2023 in order to revise the disclosure standards of the Sustainability Accounting Standards Board (SASB) and to prioritize future topics of interest to ISSB, such as biodiversity, human rights and human capital.
- The second reading in the Senate of the bill regarding climate-aligned finance (S-243) has been completed. The aim of the bill is to require banks to increase capital risk weights and capital reserve requirements for financing exposed to acute transition risks.

These points confirm that climate change consideration and disclosure requirements will be strengthened internationally, nationally and provincially in the future. Desjardins Group continues to closely monitor developments in this file and responds, where relevant, to consultations on this subject directly or via industry associations. Desjardins is also ensuring that it follows best practices in ESG integration, monitoring and disclosure. This disclosure is reflected in the annual Social and Cooperative Responsibility report, which is aligned with the standards of the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The key elements of disclosure related to the TCFD recommendations are summarized under "Environmental or social risk" in Section 4.0, "Risk management", of the 2022 annual MD&A and detailed in the "Climate action at Desjardins – 2022 TCFD report on Climate change-related risks and opportunities".

Canadian tax measures

On March 28, 2023, the Government of Canada brought down its 2023 budget. In particular, the budget provides for a new rule to deny the "dividend received deduction" for dividends received by financial institutions after December 31, 2023 on Canadian shares that are mark-to-market property for tax purposes. These proposals, if enacted, will increase the amount of income tax payable by Desjardins Group as of 2024. The final impact of this proposed measure will depend on the final legislation that is enacted.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The global economy is running out of steam, particularly in terms of the production and trade in goods. The interest rate hikes appear to be gradually having the desired effect. Since March, the U.S. and European banking sectors have also been giving cause for some concern. Total inflation has eased in several countries due to lower energy prices and an easing of pressures on supply chains. It is also noteworthy that the PMIs (Purchasing Managers Index) for the manufacturing sectors of most of the major economies have now fallen below 50, the threshold between growth and contraction in economic activity. Led by Germany, the eurozone's real GDP declined for two consecutive quarters at the end of 2022 and the beginning of 2023. In the UK, the economy continues to skirt recession, with modest growth in real GDP. This being said, inflation in the UK is far from under control. Even Japan is experiencing an inflationary surge, but in contrast to other central banks, the Bank of Japan continues to wait out this new situation. Economic activity in China appears to be slowing after rallying at the start of the year. Inflation in China has been very low compared to the other major economies.

Economic growth should slow further in most countries and, under the weight of interest rate hikes, real GDP rates are expected to decline in late 2023 and early 2024. Global economic growth should improve next year, when inflation will have slowed enough to support real incomes and allow the major central banks to begin cutting their key rates. Following growth of 2.6% in 2023, global real GDP should rise 2.7% in 2024.

The world's main stock market indexes began 2023 on an upward trend, fuelled by falling inflation and a slower pace in rate hikes by central banks. The outlook for corporate earnings deteriorated slightly in response to high interest rates and moderating economic growth. The problems experienced by some U.S. and European banks in March also briefly raised gave cause for concern, but without dampening the momentum of the main indexes in any sustained way. Growing optimism among investors and a change in tone at several central banks also spurred a recovery in government bond yields in the second quarter. In the second half of 2023, however, the economic slowdown could weigh on stock market returns.

United States

For the U.S. economy, 2023 began on a positive, if modest, note. Real GDP continued growing in the second quarter with an annualized gain of 2.4% in the quarter. Close to two million jobs were created in the first half of the year, announcements of more layoffs in certain sectors and rising unemployment insurance claims. The housing market showed signs of stabilizing after significant declines in 2022. So far, the U.S. economy has proved somewhat resilient despite the rate hikes implemented by the Federal Reserve, the problems that emerged in the banking sector in March, and fears – now resolved – around the legislative limit on the federal government's debt.

Rising key interest rates and tighter credit conditions will have a greater impact on economic activity in the U.S. in the second half of 2023, and real GDP is expected to decline for a few quarters, starting in the fall. The situation should improve commencing in the spring of 2024. Real GDP in the U.S. is expected to rise 1.9% in 2023, followed by 0.8% growth in 2024.

Canada

Economic activity in Canada is still outpacing expectations. This prompted the Bank of Canada to end its winter pause and raise key interest rates at its June and July meetings. These increases brought the overnight rate to 5.00%, the highest level recorded since April 2001. The Canadian labour market remains strong, however, and consumption and investment are relatively robust in certain sectors. The Canadian economy, and the housing market in particular, are benefiting from rapid population growth as a result of increased immigration.

According to the Bank of Canada, the full effects of an interest rate hike are not felt for 18 to 24 months. In other words, the restrictive effects of rate hikes will gradually become stronger later in 2023. Under these conditions, the Canadian economy is expected to slip into a mild recession at the end of this year and early in 2024. If inflation continues to fall as forecast, the Bank of Canada could begin gradually reducing its key interest rates in the early months of 2024. After rising by 3.4% in 2022, Canadian real GDP could therefore grow by 1.7% in 2023. Another 0.3% gain is expected in 2024.

Québec

Québec's economy is already showing several signs of weakness. The province has slower population growth than that of the rest of the country, and the demographic impacts seen in Canada are much less present in Québec. The province's real GDP and employment do not have the same momentum as nationally, and several other indicators are clearly weaker. Residential construction continues to plummet in Québec, and the revival of the resale market is proving to be limited. Moreover, business investment and international exports in Québec are in decline, whereas they are holding up fairly well at the national level. However, strong household spending has kept the economy afloat so far. The environment will be less favourable over the next few quarters. Rising interest rates will further erode household borrowing capacity, government financial support will be much more limited, and the labour market seem to have started a period of deterioration. Our scenario assumes a period of contraction in Québec's real GDP that will last until early 2024.

REVIEW OF FINANCIAL RESULTS

IMPACT OF SIGNIFICANT TRANSACTION

Acquisition of independent insurance, mutual fund and securities distribution operations

On March 1, 2023, Desjardins Group, acting through 9479-5176 Québec Inc., a wholly-owned indirect subsidiary of the Federation, acquired, in particular, all the outstanding shares of IDC Worldsource Insurance Network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. (collectively hereinafter referred to as "Worldsource"). Worldsource specializes in independent insurance, mutual fund and securities distribution operations. As a result of this acquisition, Desjardins Group has been able to consolidate its independent distribution position across Canada and to strengthen its growth strategy throughout the Canadian market.

The following table presents the impact of this acquisition on Desjardins Group's financial results, including in the Wealth Management and Life and Health Insurance segment.

Impact of the acquisition of Worldsource

	For the three-month periods ended		For the six-month period ended
(in millions of dollars)	**June 30, 2023**	March 31, 2023	**June 30, 2023**
Other income	**$ 162**	$ 17	**$ 179**
Total net income	**162**	17	**179**
Net non-interest expense	**160**	19	**179**
Income taxes on surplus earnings	**(1)**	—	**(1)**
Net surplus earnings (deficit) for the period	**$ 3**	$ (2)	**$ 1**

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, 2023	March 31, 2023	June 30, 2022[1] Restated	**June 30, 2023**	June 30, 2022[1] Restated
Results					
Net interest income	**$ 1,769**	$ 1,657	$ 1,596	**$ 3,426**	$ 3,102
Insurance service result					
Insurance revenue	**2,562**	2,493	2,406	**5,055**	4,783
Insurance service expenses	**(2,238)**	(2,358)	(2,221)	**(4,596)**	(4,277)
Net reinsurance service income (expenses)	**(36)**	(26)	25	**(62)**	12
	288	109	210	**397**	518
Net insurance finance result					
Net insurance investment income (loss)	**249**	1,080	(2,404)	**1,329**	(4,776)
Net insurance finance income (expenses)	**(83)**	(999)	2,250	**(1,082)**	4,838
Net reinsurance finance income (expenses)	**11**	42	(93)	**53**	(209)
	177	123	(247)	**300**	(147)
Net insurance service income (loss)	**465**	232	(37)	**697**	371
Other income					
Deposit and payment service charges	**117**	113	114	**230**	218
Lending fees and credit card service revenues	**242**	266	218	**508**	440
Brokerage and investment fund services	**400**	253	251	**653**	519
Management and custodial service fees	**189**	163	170	**352**	329
Net other investment income (loss)	**(86)**	(110)	(120)	**(196)**	(281)
Foreign exchange income	**47**	39	27	**86**	58
Other	**96**	54	91	**150**	170
	1,005	778	751	**1,783**	1,453
Total net income	**3,239**	2,667	2,310	**5,906**	4,926
Provision for credit losses	**66**	105	66	**171**	72
Non-interest expense					
Gross non-interest expense	**2,680**	2,345	2,427	**5,025**	4,683
Non-interest expense included in insurance service expenses[2]	**(246)**	(249)	(253)	**(495)**	(505)
Net non-interest expense	**2,434**	2,096	2,174	**4,530**	4,178
Income taxes on surplus earnings	**186**	124	32	**310**	187
Surplus earnings before member dividends	**$ 553**	$ 342	$ 38	**$ 895**	$ 489
Contribution to combined surplus earnings by business segment[3]					
Personal and Business Services	**$ 341**	$ 223	$ 234	**$ 564**	$ 452
Wealth Management and Life and Health Insurance	**170**	109	(1)	**279**	161
Property and Casualty Insurance	**56**	(25)	(167)	**31**	(114)
Other	**(14)**	35	(28)	**21**	(10)
	$ 553	$ 342	$ 38	**$ 895**	$ 489
Return to members and the community[4]					
Member dividends	**$ 109**	$ 106	$ 109	**$ 215**	$ 211
Sponsorships, donations and scholarships[5]	**37**	26	36	**63**	52
	$ 146	$ 132	$ 145	**$ 278**	$ 263
Indicators					
Net interest margin[4]	**2.32%**	2.22%	2.17%	**2.27%**	2.13%
Return on equity[6]	**6.8**	4.3	0.6	**5.6**	3.0
Credit loss provisioning rate[6]	**0.10**	0.18	0.11	**0.14**	0.06
Productivity index – Personal and Business Services[6][7]	**77.9**	81.7	82.0	**79.7**	83.2
Insurance and annuity premiums – Wealth Management and Life and Health Insurance[6]	**$ 1,434**	$ 1,307	$ 1,146	**$ 2,741**	$ 2,331
Total contractual service margin (CSM) – Wealth Management and Life and Health Insurance[8]	**2,643**	2,668	2,824	**2,643**	2,824
Direct Written Premiums – Property and Casualty Insurance[6]	**1,910**	1,440	1,715	**3,350**	3,035
Loss ratio – Property and Casualty Insurance[4]	**68.9%**	75.1%	70.2%	**71.9%**	68.1%

(1) The data have been adjusted to conform to the current period's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) Represents the non-interest expense directly related to the fulfilment of insurance contracts presented under "Insurance service result".
(3) The breakdown by line item is presented in Note 11, "Segmented information", to the Interim Combined Financial Statements.
(4) For more information about non-GAAP financial measures and non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 9.
(5) Including $15 million from the caisses' Community Development Fund ($8 million for the first quarter of 2023, $12 million for the second quarter of 2022, $23 million for the first six months of 2023 and $18 million for the first six months of 2022).
(6) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(7) Following the transition to IFRS 17, Desjardins Group now presents the productivity index of the Personal and Business Services segment, which is a supplementary financial measure, replacing Desjardins Group's productivity index, which was a non-GAAP financial measure.
(8) Total CSM of $2,895 million ($3,139 million as at June 30, 2022) presented net of reinsurance for a total of $252 million ($315 million as at June 30, 2022). Included in the line items "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)" on the Combined Balance Sheets. For more information, see Note 7, "Insurance and reinsurance contracts" to the Interim Combined Financial Statements.

Surplus earnings

Comparison of the second quarters of 2023 and 2022

For the second quarter ended June 30, 2023, Desjardins Group posted surplus earnings before member dividends of $553 million, up $515 million from the same quarter of 2022 and restated following the adoption of IFRS 17, "Insurance Contracts," on January 1, 2023. This increase is mainly explained by the growth of the net insurance finance result of $424 million. The latter had been adversely affected by a significant rise in interest rates in the second quarter of 2022[1]. The increase in surplus earnings is also explained by the growth in net interest income as well as the increase in income from insurance activities in the Property and Casualty Insurance segment.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the social and economic well-being of people and communities, which it continued to strive to achieve in the second quarter of 2023.

- A total of $146 million was returned to members and the community[2], an amount comparable to that of the same period in 2022.
  - The provision for member dividends totalled $109 million for the quarter ended June 30, 2023; the same amount as in the corresponding quarter of 2022.
  - An amount of $37 million was returned in the form of sponsorships, donations and scholarships, compared to $36 million for the same period last year, including $15 million in the second quarter of 2023 and $12 million in the second quarter of 2022 from the caisses' Community Development Fund.
- Commitments of $5 million were made for the second quarter of 2023 with regard to the GoodSpark Fund, which seeks in particular to provide social and economic support to the regions. Since 2017, Desjardins Group has made commitments totalling $170 million.

Business segment contributions to surplus earnings

- Personal and Business Services: **Surplus earnings of $341 million,** up $107 million, or 45.7%, compared to the same period in 2022, essentially due to the following:
  - Increase in net interest income.
  - Offset by a rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $170 million,** compared to a deficit of $1 million in the second quarter of 2022, due to the following:
  - Increase in net insurance finance result, including a favourable adjustment to the liability discount curve parameters. The finance result had been unfavourably affected by a significant rise in interest rates in the second quarter of 2022[1].
  - Higher other income related to net investment income from non-insurance activities in individual annuities.

  This increase was partially offset by:
  - Increase in gross non-interest expense due in particular to higher technology costs.
  - Insurance service result slightly down due to the less favourable experience in group insurance and credit and direct insurance.
- Property and Casualty Insurance: **Surplus earnings of $56 million,** compared to a deficit of $167 million in the second quarter of 2022, due mainly to the following:
  - Increase in net insurance finance result.
  - More favourable ratio of changes in prior year claims than in the comparative quarter of 2022, due to automobile insurance.
  - Higher net insurance revenue, mainly due to property insurance and automobile insurance.
  - Offset by higher current year loss ratio compared to the corresponding quarter of 2022.

- **Return on equity was 6.8%,** compared to 0.6% for the quarter ended June 30, 2022, mainly because of the increase in surplus earnings, as previously explained.

The following table presents the calculation of the return on equity.

Return on equity

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2023	March 31, 2023	June 30, 2022 Restated	**June 30, 2023**	June 30, 2022 Restated
Surplus earnings before member dividends	**$ 553**	$ 342	$ 38	**$ 895**	$ 489
Non-controlling interests' share	**(11)**	(3)	11	**(14)**	—
Group's share before member dividends	**$ 542**	$ 339	$ 49	**$ 881**	$ 489
Average equity before non-controlling interests' share	**$ 32,195**	$ 31,920	$ 32,221	**$ 31,967**	$ 32,352
Return on equity[1][2]	**6.8%**	4.3%	0.6%	**5.6%**	3.0%

(1) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(2) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

(1) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.
(2) For more information about non-GAAP financial measures, see "Non-GAAP and other financial measures" on pages 7 to 9.

Comparison of the first six months of 2023 and 2022

For the first six months ended June 30, 2023, Desjardins Group posted surplus earnings before member dividends of $895 million, up $406 million from the same period of 2022, as restated following the adoption of IFRS 17, "Insurance Contracts", on January 1, 2023. This increase in surplus earnings was mainly due to a $447 million increase in net insurance finance result as explained above, and growth in both net interest income and other income. The increase in surplus earnings was offset by a rise in spending on personnel and technology to support business growth and enhance the services offered to members and clients. In addition, loss experience in the Property and Casualty Insurance segment went up, mainly due to a surge in the average cost of automobile insurance claims that was mostly related to the impact of inflation and an uptick in car thefts. In addition, the provision for credit losses increased from the same period of 2022, mainly in the personal loan and credit card portfolios.

- A total of $278 million was returned to members and the community[1], compared to $263 million for the first half of 2022.
  - The provision for member dividends totalled $215 million, up $4 million compared to the corresponding period in 2022.
  - An amount of $63 million was returned in the form of sponsorships, donations and scholarships, compared to $52 million for the same period in 2022, including $23 million for the first six months of 2023 and $18 million for the first six months of 2022, from the caisses' Community Development Fund.
- Commitments of $9 million were made for the first half of 2023 with regard to the GoodSpark Fund.

Business segment contributions to surplus earnings
- Personal and Business Services: **Surplus earnings of $564 million,** up $112 million, or 24.8%, compared to the first six months of 2022, mainly due to:
  - Increase in net interest income and other income.

  This increase was mitigated by the following:
  - Rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses compared to the corresponding period of 2022, reflecting an increase in provisions for credit losses in personal loan and credit card portfolios.
- Wealth Management and Life and Health Insurance: **Surplus earnings of $279 million,** up $118 million, compared to the corresponding period of 2022, mainly because of the following:
  - Increase in net insurance finance result, including a favourable adjustment to the liability discount curve parameters. The financial result was negatively affected by a significant rise in interest rates in the first half of 2022[2].
  - Higher other income related to net investment income from non-insurance activities in individual annuities.

  This increase was partially offset by:
  - Increase in gross non-interest expense particularly because of the rise in spending on personnel and technology.
  - Insurance service result slightly down due to the less favourable experience in credit and direct insurance.
- Property and Casualty Insurance: **Surplus earnings of $31 million,** compared to a deficit of $114 million for the first half of 2022, mainly due to the following:
  - Increase in net insurance finance result.
  - Lower loss ratio related to catastrophes and major events compared to the first six months of 2022.
  - Offset by higher current year loss ratio compared to the first six months of 2022, essentially due to automobile insurance.

- **Return on equity was 5.6%,** compared to 3.0% for the six-month period ended June 30, 2022, mainly because of higher surplus earnings, as explained earlier.

Net interest income

Comparison of the second quarters of 2023 and 2022

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

Net interest income totalled $1,769 million, up $173 million, or 10.8%, because of the following:
- Increase in the average return on loans due to the higher interest rate environment.
- Growth in average residential mortgages outstanding and in average business loans outstanding.
- Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.
- Rise in interest income from liquidities, also resulting from the higher interest rate environment.

This increase was offset in part by:
- Higher interest expense on deposits mainly because of rising interest rates and the migration of depositors to term products with higher rates.
- Growth in financing cost for credit card payment activities.

- **Net interest margin of 2.32%** for the quarter ended June 30, 2023, up 15 basis points compared to the corresponding period in 2022, mainly as a result of growth in the average volume of loans coupled with higher interest rates.

[1] For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 9.
[2] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.

The table below presents the calculation of the net interest margin.

Net interest income on average assets and liabilities

(in millions of dollars and as a percentage)	For the three-month periods ended									For the six-month periods ended					
	June 30, 2023			March 31, 2023			June 30, 2022			**June 30, 2023**			June 30, 2022		
	Average volume	**Interest**	**Average rate**	Average volume	Interest	Average rate	Average volume	Interest	Average rate	**Average volume**	**Interest**	**Average rate**	Average volume	Interest	Average rate
Assets															
Interest-bearing assets[1]	**$ 305,390**	**$ 3,377**	**4.44%**	$ 303,035	$ 3,138	4.20%	$ 294,675	$ 2,084	2.84%	**$ 304,789**	**$ 6,515**	**4.31%**	$ 293,433	$ 3,956	2.72%
Other assets	**10,735**			10,735			9,819			**10,709**			9,669		
Total assets	**$ 316,125**	**$ 3,377**	**4.28%**	$ 313,770	$ 3,138	4.06%	$ 304,494	$ 2,084	2.75%	**$ 315,498**	**$ 6,515**	**4.16%**	$ 303,102	$ 3,956	2.63%
Liabilities and equity															
Interest-bearing liabilities[1]	**$ 268,760**	**$ 1,608**	**2.40%**	$ 265,910	$ 1,481	2.26%	$ 253,731	$ 488	0.77%	**$ 267,125**	**$ 3,089**	**2.33%**	$ 250,089	$ 854	0.69%
Other liabilities	**12,103**			20,907			27,226			**17,824**			31,859		
Equity	**35,262**			26,953			23,537			**30,549**			21,154		
Total liabilities and equity	**$ 316,125**	**$ 1,608**	**2.04%**	$ 313,770	$ 1,481	1.91%	$ 304,494	$ 488	0.64%	**$ 315,498**	**$ 3,089**	**1.97%**	$ 303,102	$ 854	0.57%
Net interest income		**$ 1,769**			$ 1,657			$ 1,596			**$ 3,426**			$ 3,102	
Net interest margin[1]			**2.32%**			2.22%			2.17%			**2.27%**			2.13%

(1) For more information about non-GAAP financial measures and non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 9.

Comparison of the first six months of 2023 and 2022

Net interest income of $3,426 million, up $324 million, or 10.4%, because of:

- Increase in the average return on loans due to the higher interest rate environment.
- Growth in average residential mortgages outstanding and average business loans outstanding.
- Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.
- Rise in interest income from liquidities, also resulting from the higher interest rate environment.

This increase was offset in part by:

- Increase in interest expense on deposits mainly because of rising interest rates and the migration of depositors to term products with higher rates.
- Growth in financing cost for credit card payment activities.

- **Net interest margin of 2.27%** for the first six months ended June 30, 2023, up 14 basis points compared to the same period in 2022, mainly because of growth in the average volume of loans coupled with higher interest rates.

Net insurance service income

Comparison of the second quarters of 2023 and 2022

Net insurance service income stood at $465 million[1], up $502 million, compared to the second quarter of 2022. The change in this heading, which consists of the insurance service result and the net insurance finance result, can be explained by the items from the following segments:

Wealth Management and Life and Health Insurance segment

- Insurance service result of $137 million, down $15 million, or 9.9%.
  - Increase in income, essentially from insurance contracts measured using the premium allocation approach, in group insurance for long-term disability and accident and health insurance.
  - This income growth was offset by higher insurance and reinsurance service expenses, essentially because of the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, essentially in group insurance, because of business growth.
    - Less favourable group insurance experience in long-term disability including a provision related to the indexing of future benefits in 2023, and unfavourable experience in accident and health insurance.
    - Less favourable experience in credit and direct insurance, essentially for disability loan insurance.

- Net insurance finance result of $114 million, up $186 million, essentially from:
  - Positive impact of interest rates on net insurance investment income supporting insurance contract liabilities, which was negatively affected in 2022 as a result of the significant rise in interest rates[2].
  - Offset by an increase in net insurance finance expenses due essentially to the unfavourable effect of interest rate fluctuations, including the favourable adjustment to rate curve parameters.

(1) The difference between this result and the sum total of the segment results relates to intersegment transactions.

(2) As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.

Property and Casualty Insurance segment

- Insurance service result of $154 million, up $101 million.
  - Insurance revenue of $1,634 million, up $91 million, or 5.9%. By including ceded insurance service income of $72 million presented under "Net reinsurance service income (expenses)", there was an increase of $63 million, or 4.2%, mainly due to growth in property and automobile insurance business.
  - Insurance service expenses of $1,459 million, down $63 million, or 4.1%. By including ceded insurance service expenses of $51 million presented under "Net reinsurance service income (expenses)", there was a decrease of $38 million, or 2.6%, primarily due to the following:
    - Ratio of losses on onerous contracts of 1.0% vs. 4.5% for the corresponding quarter of 2022, due to automobile insurance.
    - Loss ratio of 68.9%, vs. 70.2% for the comparative quarter of 2022.
      - More favourable ratio of changes in prior year claims than in the comparative quarter of 2022, i.e. (11.1)% vs. (4.1)%, due to automobile insurance.
      - Lower loss ratio related to catastrophes and major events compared to the corresponding quarter of 2022, i.e. 5.1% vs. 8.4% The second quarter of 2023 was marked by two major events, namely an ice storm in Ontario and Québec as well as forest fires in Nova Scotia, whereas the corresponding quarter of 2022 had been marked by a catastrophe, a rare weather phenomenon known as a *derecho*, in Ontario and Québec, and one major event, i.e. a wind storm and flooding in Québec.
      - Higher current year loss ratio compared to the corresponding quarter of 2022, i.e. 74.9%, vs. 65.9%, mainly due to automobile insurance, particularly because of the higher average cost of claims due to the impact of inflation and to the increase in car thefts, as well as to property insurance.

- Net insurance finance result of $34 million, up $235 million.
  - Net insurance investment income of $24 million, compared to a loss of $281 million for the comparative quarter. The change was essentially due to the following:
    - Net gains on shares, while net losses were recorded in the second quarter of 2022.
    - Smaller decrease in the fair value of matched bonds, compared to the corresponding quarter of 2022, mainly because of the less unfavourable effect of higher market interest rates, compared to the corresponding quarter of 2022.
  - Net insurance finance income of $11 million, compared to income of $89 million for the comparative quarter. By including net reinsurance finance expenses of $1 million ($9 million for the second quarter of 2022), the net insurance finance income was $10 million, compared to $80 million for the corresponding quarter. The changes are due to:
    - Greater effect of accretion of net liabilities for incurred claims because of higher discount rates used, compared to the second quarter of 2022.
    - Less favourable impact of the increase in the discount rates used to measure net liabilities for incurred claims, compared to the corresponding quarter of 2022.

Comparison of the first six months of 2023 and 2022

Net insurance service income totalled $697 million[1], up $326 million, compared to the first half of 2022. The change in this heading, which consists of the insurance service result and the net insurance finance result, can be explained by items from the following segments:

Wealth Management and Life and Health Insurance segment

- Insurance service result of $289 million, down $13 million, or 4.3%.
  - Increase in income, essentially from insurance contracts measured using the premium allocation approach, in group insurance for long-term disability and accident and health insurance.
  - This income growth was offset by higher insurance and reinsurance service expenses, essentially because of the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, essentially in group insurance, because of business growth.
    - Less favourable experience in credit and direct insurance, essentially for disability loan insurance.

- Net insurance finance result of $175 million, up $118 million, essentially due to the following:
  - Positive impact of interest rates on net insurance investment income supporting insurance contract liabilities, which was negatively affected in 2022 as a result of the significant rise in interest rates[2].
  - Offset by an increase in net insurance finance expenses due essentially to the unfavourable effect of interest rate fluctuations, including the positive adjustment to rate curve parameters.

[1] The difference between this result and the sum total of the segment results relates to intersegment transactions.
[2] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.

Property and Casualty Insurance segment

- Insurance service result of $123 million, down $80 million, or 39.4%.
  - Insurance revenue of $3,203 million, up $142 million, or 4.6%. By including ceded insurance service income of $140 million presented under "Net reinsurance service income (expenses)", there was an increase of $89 million, or 3.0%, mainly due to growth in property insurance business.
  - Insurance service expenses of $3,052 million, up $175 million, or 6.1%. By including ceded insurance service expenses of $112 million presented under "Net reinsurance service income (expenses)", there was an increase of $169 million, or 6.1%, due to the following:
    - Loss ratio of 71.9% vs. 68.1% for the first six months of 2022.
      - Higher current year loss ratio compared to the corresponding six-month period of 2022, i.e. 76.1% vs. 68.0%, mainly due to automobile insurance, essentially because of the higher average cost of claims due to the impact of inflation and to the increase in car thefts.
      - Loss ratio for catastrophes and major events of 2.6% vs. 4.8% for the comparative six-month period of 2022. The first six months of 2023 were marked by two major events, namely an ice storm in Ontario and Québec as well as forest fires in Nova Scotia, whereas the six-month period of 2022 had been marked by one catastrophe, a rare weather phenomenon known as a *derecho*, and two major events.
      - More favourable ratio of changes in prior year claims than in the comparative six-month period of 2022, i.e. (6.8)% vs. (4.7)%, due to automobile insurance.

- Net insurance finance result of $127 million, up $330 million.
  - Net insurance investment income of $224 million, compared to a loss of $434 million for the comparative six-month period. The change was essentially due to the following:
    - Increase in the fair value of matched bonds compared to a decrease for the comparative six-month period of 2022, mainly because of higher market interest rates in the first half of 2022.
    - Net gains on shares, while net losses were recorded for the first six months of 2022.
  - Net insurance finance expenses of $108 million, compared to income of $258 million for the comparative six-month period. By including net reinsurance finance income of $11 million (finance expenses of $27 million for the first six months of 2022), the net insurance finance expenses were $97 million, compared to income of $231 million for the comparative six-month period in 2022. The changes were due to the following:
    - Less favourable impact of higher discount rates used to measure net liability for incurred claims compared to the first six months of 2022.
    - Greater effect of accretion of net liability for incurred claims because of higher discount rates used compared to the first six months of 2022.

Other income

Comparison of the second quarters of 2023 and 2022

Other income rose to $1,005 million, up $254 million, or 33.8%, compared to the same quarter of 2022, due to the following:
- Income related to operations acquired from Worldsource.
- Increase in business volumes from credit card payment activities.
- Higher net investment income from non-insurance activities than in the corresponding quarter of 2022, for investment contracts not transferring insurance risk to the holders, essentially in individual annuities.

Comparison of the first six months of 2023 and 2022

Other income increased to $1,783 million, up $330 million, or 22.7%, compared to the same period of 2022, due to the following:
- Income related to operations acquired from Worldsource.
- Growth in business volumes from credit card payment activities.
- Higher net investment income from non-insurance activities than in the corresponding six-month period of 2022 for investment contracts not transferring insurance risk to the holders, mainly in individual annuities.

Total net income

For the second quarter of 2023, **total net income amounted to $3,239 million,** up $929 million, or 40.2%, compared to the same period in 2022.

For the first half of 2023, **total net income was $5,906 million,** up $980 million, or 19.9%, compared to the first six-month period in 2022.

Provision for credit losses

Comparison of the second quarters of 2023 and 2022

The provision for credit losses was $66 million, unchanged from the provision for the second quarter of 2022. An increase in the provision for credit losses on credit card portfolios compared to the same period in 2022 was, in fact, offset by a decrease in the provision for credit losses on residential mortgage portfolios. More favourable impact of the change in the macroeconomic outlook for the current quarter than in the corresponding quarter of 2022. The provision for credit losses for the second quarter of 2023 also reflected the rise in net write-offs, which are gradually returning to their pre-pandemic levels.

- Credit loss provisioning rate of 0.10% for the second quarter of 2023 was comparable to the ratio for the corresponding period in 2022.
- Ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.57%, compared to 0.44% as at June 30, 2022.

The following table presents the calculation of the credit loss provisioning rate.

Credit loss provisioning rate

	For the three-month periods ended			For the six-month periods ended	
(in millions of dollars and as a percentage)	**June 30, 2023**	March 31, 2023	June 30, 2022 Restated	**June 30, 2023**	June 30, 2022 Restated
Total provision for credit losses	**$ 66**	$ 105	$ 66	**$ 171**	$ 72
Provision for (recovery of) credit losses on securities	**—**	(4)	1	**(4)**	1
Provision for credit losses on loans and off-balance sheet items	**$ 66**	$ 109	$ 65	**$ 175**	$ 71
Average gross loans	**256,104**	252,068	238,536	**254,304**	236,184
Average gross acceptances	**7**	16	112	**13**	164
Average gross loans and acceptances[1]	**$ 256,111**	$ 252,084	$ 238,648	**$ 254,317**	$ 236,348
Credit loss provisioning rate[1][2]	**0.10%**	0.18%	0.11%	**0.14%**	0.06%

[1] For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
[2] Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

Comparison of the first six months of 2023 and 2022

The provision for credit losses totalled $171 million, up $99 million, compared to the same period in 2022. This increase in the provision for credit losses was mainly affected the personal loan and credit card portfolios. Less favourable impact on personal loan portfolios of the change in the macroeconomic outlook for the current six-month period than in the corresponding six-month period of 2022. The provision for credit losses for the first six months of 2023 also reflected a decline in credit quality for certain business loans as well as higher net write-offs, which are gradually returning to their pre-pandemic levels.

Desjardins Group has continued to present a quality loan portfolio in 2023.
- The credit loss provisioning rate was 0.14% for the first six months of 2023, which was up compared to 0.06% for the corresponding period of 2022, as a result of the higher provision for credit losses explained earlier.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.57% compared to 0.44% as at June 30, 2022.

Gross non-interest expense

Comparison of the second quarters of 2023 and 2022

Gross non-interest expense totalled $2,680 million, up $253 million, or 10.4%, compared to the second quarter of 2022, primarily because of the following:
- Expense related to operations acquired from Worldsource.
- Rise in spending on personnel, related mainly to wage indexation, and on technology to support growth in operations and enhance the services offered to members and clients.
- Higher expenses related to suppliers of credit card payment activities.

Comparison of the first six months of 2023 and 2022

Gross non-interest expense totalled $5,025 million, up $342 million, or 7.3%, compared to the first six months of 2022, essentially because of:
- Expense related to operations acquired from Worldsource.
- Rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.
- Higher expenses related to suppliers of credit card payment activities.
- Higher expenses related to the rewards program on account of growth in volume of credit card payment activities.

Income taxes on surplus earnings

Comparison of the second quarters of 2023 and 2022

Income taxes on surplus earnings before member dividends of $186 million, up $154 million compared to the second quarter of 2022.
- Effective tax rate[1] of 25.2% for the quarter ended June 30, 2023, which was down from 45.7% for the corresponding period in 2022, mainly as a result of non-taxable investment income in the second quarter of 2023 compared to non-deductible investment losses in the comparative period of 2022.

Comparison of the first six months of 2023 and 2022

Income taxes on surplus earnings before member dividends of $310 million, up $123 million compared to the first half of 2022.
- Effective tax rate[1] of 25.7% for the first six months of 2023, which was down from 27.7% for the same period in 2022, mainly as a result of non-taxable investment income for the first half of 2023 compared to non-deductible investment losses in the comparative period of 2022.

[1] For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

RESULTS BY BUSINESS SEGMENT

Desjardins Group's financial reporting is organized by business segments, which are defined based on the needs of 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 the 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, services, 2022 achievements and industry, can be found on pages 28 to 40 of Desjardins Group's 2022 annual MD&A.

Personal and Business Services

Personal and Business Services 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 Québec and a player on the financial services scene in Ontario as well.

Desjardins's offer includes everyday financial management, savings transactions, payment services, wealth management, financing, specialized services, access to capital markets, risk and 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 Québec, made up of dedicated professionals who are there for them at every stage of their life or entrepreneurial growth.

To meet the constantly-changing expectations of its members and clients, Desjardins Group offers its services through the caisse network, the Desjardins Business centres and the Signature Service centres, as well as through complementary distribution networks and specialized mobile teams, either in person, by phone, online, via applications for mobile devices, or at ATMs.

Personal and Business Services – Segment results

	For the three-month periods ended			For the six-month periods ended	
(in millions of dollars and as a percentage)	**June 30, 2023**	March 31, 2023	June 30, 2022[1]	**June 30, 2023**	June 30, 2022[1]
Net interest income	**$ 1,638**	$ 1,532	$ 1,399	**$ 3,170**	$ 2,683
Other income	**720**	700	726	**1,420**	1,375
Total net income	**2,358**	2,232	2,125	**4,590**	4,058
Provision for credit losses	**66**	109	65	**175**	71
Gross non-interest expense	**1,836**	1,823	1,743	**3,659**	3,375
Income taxes on surplus earnings	**115**	77	83	**192**	160
Surplus earnings before member dividends	**341**	223	234	**564**	452
Member dividends, net of income tax recovery	**80**	78	80	**158**	155
Net surplus earnings for the period after member dividends	**$ 261**	$ 145	$ 154	**$ 406**	$ 297
Indicators					
Average gross loans and acceptances[2]	**$ 254,304**	$ 250,029	$ 236,004	**$ 252,376**	$ 233,541
Average deposits[2]	**231,274**	222,196	215,919	**226,264**	210,958
Productivity index[2]	**77.9%**	81.7%	82.0%	**79.7%**	83.2%
Credit loss provisioning rate[2]	**0.10**	0.18	0.11	**0.14**	0.06
Gross credit-impaired loans/gross loans and acceptances[2]	**0.57**	0.50	0.44	**0.57**	0.44

(1) The data have been adjusted to conform to the current period's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.
(2) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

Comparison of the second quarters of 2023 and 2022

- **Surplus earnings before member dividends of $341 million,** up $107 million, or 45.7%, compared to the same period in 2022, essentially due to the following:
  - Increase in net interest income.
  - Offset by a rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.

- **Net interest income of $1,638 million,** up $239 million, or 17.1%, as a result of:
  - Increase in the average return on loans due to the higher interest rate environment.
  - Growth in average residential mortgages outstanding and in average business loans outstanding.
  - Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.
  - Rise in interest income from liquidities, also resulting from the higher interest rate environment.

  This increase was offset in part by:
  - Higher interest expense on deposits mainly because of rising interest rates and the migration of depositors to term products with higher rates.
  - Growth in financing cost for credit card payment activities.

- **Other income totalling $720 million,** down $6 million, or 0.8%, due primarily to:
  - Decline in activities related to derivative financial instruments, which was offset by growth in net interest income.
  - Offset by increase in business volumes from credit card payment activities.

- **Total net income of $2,358 million,** up $233 million, or 11.0%.

- **Provision for credit losses of $66 million,** up $1 million compared to the same period in 2022. An increase in the provision for credit losses on credit card portfolios compared to the same period in 2022 was, in fact, offset by a decrease in the provision for credit losses on residential mortgage portfolios. More favourable impact of the change in the macroeconomic outlook for the current quarter than in the corresponding quarter of 2022. The provision for credit losses for the second quarter of 2023 also reflected the rise in net write-offs, which are gradually returning to their pre-pandemic levels.

- **Gross non-interest expense of $1,836 million,** up $93 million, or 5.3%, essentially due to:
  - Rise in spending on personnel and technology to support business growth and enhance the services offered to members and clients.
  - Higher expenses related to suppliers of credit card payment activities.

- **Productivity index at 77.9%,** compared to 82.0% for the corresponding period of 2022, due in particular to growth in income.

Comparison of the first six months of 2023 and 2022

- **Surplus earnings before member dividends of $564 million,** up $112 million, or 24.8%, compared to the first six months of 2022, mainly due to:
  - Increase in net interest income and other income.

  This increase was mitigated by the following:
  - Rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.
  - Higher provision for credit losses compared to the corresponding period of 2022, reflecting an increase in provisions for credit losses in personal loan and credit card portfolios.

- **Net interest income of $3,170 million,** up $487 million, or 18.2%, as a result of:
  - Increase in the average return on loans due to the higher interest rate environment.
  - Growth in average residential mortgages outstanding and average business loans outstanding.
  - Increase in average interest-bearing assets and liabilities outstanding in credit card payment activities.
  - Rise in interest income from liquidities, also resulting from the higher interest rate environment.

  This increase was offset in part by:
  - Increase in interest expense on deposits mainly because of rising interest rates and the migration of depositors to term products with higher rates.
  - Growth in financing cost for credit card payment activities.

- **Other income totalling $1,420 million,** up $45 million, or 3.3%, mainly due to the following:
  - Growth in business volumes from credit card payment activities.
  - Conversely, there was a decline in activities related to derivative financial instruments, which was offset by growth in net interest income.

- **Total net income of $4,590 million,** up $532 million, or 13.1%.

- **Provision for credit losses of $175 million,** up $104 million, compared to the first half of 2022. This increase in the provision for credit losses was mainly affected the personal loan and credit card portfolios. Less favourable impact on personal loan portfolios of the change in the macroeconomic outlook for the current six-month period than in the corresponding six-month period of 2022. The provision for credit losses for the first six months of 2023 also reflected a decline in credit quality for certain business loans as well as higher net write-offs, which are gradually returning to their pre-pandemic levels.

- **Gross non-interest expense of $3,659 million,** up $284 million, or 8.4%, essentially due to:
  - Rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.
  - Higher expenses related to suppliers of credit card payment activities.
  - Higher expenses related to the rewards program on account of growth in volume of credit card payment activities.

- **Productivity index at 79.7%,** compared to 83.2% for the first six months of 2022, due in particular to growth in income.

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 and protecting the assets of Desjardins Group members and clients. These offers are intended for individuals and for businesses and their employees.

The segment designs several lines of individual insurance (life and health) coverage as well as investment solutions. It also includes asset management and trust services for institutional clients. This segment is a Canadian leader in responsible investing and responsible insurance.

The Wealth Management and Life and Health Insurance segment's vast and diversified Canada-wide distribution networks are one of its greatest strengths:

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

To meet members' and clients' needs and preferences, certain product lines are also distributed directly via Customer Relations Centres, online or through applications for mobile devices. Online services are constantly being fine-tuned so that they meet clients' changing requirements.

Since March 1, 2023, the Wealth Management and Life and Health Insurance segment also includes operations resulting from the acquisition of Worldsource, which specializes in independent insurance, mutual funds and securities distribution operations. As a result of this acquisition, Desjardins Group has been able to consolidate its independent distribution position across Canada and to strengthen its growth strategy throughout the Canadian market.

Wealth Management and Life and Health Insurance – Segment results

	As at and for the three-month periods ended			As at and for the six-month periods ended	
(in millions of dollars)	**June 30, 2023**	March 31, 2023	June 30, 2022 Restated	**June 30, 2023**	June 30, 2022 Restated
Net interest income	**$ 6**	$ 4	$ 2	**$ 10**	$ 2
Insurance service result					
Insurance revenue	**974**	945	885	**1,919**	1,766
Insurance service expenses	**(821)**	(775)	(726)	**(1,596)**	(1,457)
Net reinsurance service income (expenses)	**(16)**	(18)	(7)	**(34)**	(7)
	137	152	152	**289**	302
Net insurance finance result					
Net insurance investment income (loss)	**196**	917	(2,155)	**1,113**	(4,357)
Net insurance finance income (expenses)	**(94)**	(886)	2,167	**(980)**	4,596
Net reinsurance finance income (expenses)	**12**	30	(84)	**42**	(182)
	114	61	(72)	**175**	57
Net insurance service income	**251**	213	80	**464**	359
Other income	**519**	362	325	**881**	647
Total net income	**776**	579	407	**1,355**	1,008
Provision for (recovery of) credit losses	**—**	(1)	—	**(1)**	—
Non-interest expense					
Gross non-interest expense	**640**	521	470	**1,161**	954
Non-interest expense included in insurance service expenses(1)	**(88)**	(93)	(97)	**(181)**	(196)
Net non-interest expense	**552**	428	373	**980**	758
Income taxes on surplus earnings	**54**	43	35	**97**	89
Net surplus earnings for the period	**$ 170**	$ 109	$ (1)	**$ 279**	$ 161
Indicators					
Contractual service margin (CSM)(2)					
Total CSM(2)(3)	**$ 2,643**	$ 2,668	$ 2,824	**$ 2,643**	$ 2,824
CSM on new sales(2)(4)	**25**	11	20	**25**	20
Net sales of savings products(5)	**(685)**	592	223	**(93)**	2,367
Insurance sales(5)	**119**	156	101	**275**	237
Group insurance premiums(5)	**955**	931	880	**1,886**	1,754
Individual insurance premiums(5)	**246**	250	235	**496**	473
Annuity premiums(5)	**233**	126	31	**359**	104
Segregated fund receipts(5)	**751**	1,260	1,149	**2,011**	2,104

(1) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result."
(2) Included under "Insurance contract liabilities" and "Reinsurance contract assets (liabilities)" in the Combined Balance Sheets. For further information, see Note 7, "Insurance and reinsurance contracts" of the Interim Combined Financial Statements.
(3) Total CSM of $2,895 million ($3,139 million as at June 30, 2022) presented net of reinsurance for a total of $252 million ($315 million as at June 30, 2022).
(4) CSM on new insurance business totalling $27 million ($22 million as at June 30, 2022) presented net of reinsurance for a total of $2 million ($2 million as at June 30, 2022).
(5) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.

Comparison of the second quarters of 2023 and 2022

- **Net surplus earnings of $170 million,** compared to a net deficit of $1 million in the second quarter of 2022, due to the following:
  - Increase in net insurance finance result, including a favourable adjustment to the liability discount curve parameters. The finance result had been unfavourably affected by a significant rise in interest rates in the second quarter of 2022[1].
  - Higher other income related to net investment income from non-insurance activities in individual annuities.

  This increase was partially offset by:
  - Increase in gross non-interest expense due in particular to higher technology costs.
  - Insurance service result slightly down due to the less favourable experience in group insurance and credit and direct insurance.

- **Insurance service result of $137 million,** down $15 million, or 9.9%.
  - Increase in income, essentially from insurance contracts measured using the premium allocation approach, in group insurance for long-term disability and accident and health insurance.
  - This income growth was offset by higher insurance and reinsurance service expenses, essentially because of the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, essentially in group insurance, because of business growth.
    - Less favourable group insurance experience in long-term disability including a provision related to the indexing of future benefits in 2023, and unfavourable experience in accident and health insurance.
    - Less favourable experience in credit and direct insurance, essentially for disability loan insurance.

- **Net insurance finance result of $114 million,** up $186 million, essentially from:
  - Positive impact of interest rates on net insurance investment income supporting insurance contract liabilities, which was negatively affected in 2022 as a result of the significant rise in interest rates[1].
  - Offset by an increase in net insurance finance expenses due essentially to the unfavourable effect of interest rate fluctuations, including the favourable adjustment to rate curve parameters.

- **Other income of $519 million,** up $194 million, or 59.7%, essentially due to:
  - Income related to operations acquired from Worldsource.
  - Higher net investment income from non-insurance activities than in the corresponding quarter of 2022, for investment contracts not transferring insurance risk to the holders, essentially in individual annuities.

- **Total net income of $776 million,** up $369 million.

- **Gross non-interest expense of $640 million,** up $170 million, or 36.2%, primarily due to the following:
  - Expense related to operations acquired from Worldsource.
  - Increased spending on technology to support business growth and enhance the services offered to members and clients.

  It should be noted that gross non-interest expense of $88 million is included under insurance service expenses, compared to $97 million in the second quarter of 2022.

Additional information for certain indicators:

- **Contractual service margin (CSM)**
  - The decline in total CSM compared to March 31, 2023 is due essentially to services provided, which stem primarily from the creation of the CSM at the transition, outweighing new sales.

- **Business growth**
  - Decline in net sales of savings products essentially from market-linked guaranteed investments (MLGI) partially offset by growth in net sales of exchange-traded funds (ETF).
  - Growth in insurance sales essentially from group insurance.
  - Growth in insurance premiums, essentially in group insurance.
  - Growth in annuity premiums, primarily in group retirement savings related to several groups.

Comparison of the first six months of 2023 and 2022

- **Net surplus earnings of $279 million,** up $118 million, compared to the corresponding period of 2022, mainly due to the following items:
  - Increase in net insurance finance result, including a favourable adjustment to the liability discount curve parameters. The financial result was negatively affected by a significant rise in interest rates in the first half of 2022[1].
  - Higher other income related to net investment income from non-insurance activities in individual annuities.

  This increase was partially offset by:
  - Increase in gross non-interest expense particularly because of the rise in spending on personnel and technology.
  - Insurance service result slightly down due to the less favourable experience in credit and direct insurance.

[1] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.

- **Insurance service result of $289 million,** down $13 million, or 4.3%.
  - Increase in income, essentially from insurance contracts measured using the premium allocation approach, in group insurance for long-term disability and accident and health insurance.
  - This income growth was offset by higher insurance and reinsurance service expenses, essentially because of the following:
    - Higher expenses for insurance contracts measured using the premium allocation approach, essentially in group insurance, because of business growth.
    - Less favourable experience in credit and direct insurance, essentially for disability loan insurance.

- **Net insurance finance result of $175 million,** up $118 million, essentially due to the following:
  - Positive impact of interest rates on net insurance investment income supporting insurance contract liabilities, which was negatively affected in 2022 as a result of the significant rise in interest rates[1].
  - Offset by an increase in net insurance finance expenses due essentially to the unfavourable effect of interest rate fluctuations, including the positive adjustment to rate curve parameters.

- **Other income of $881 million,** up $234 million, or 36.2%, essentially as a result of:
  - Income related to operations acquired from Worldsource.
  - Higher net investment income from non-insurance activities than in the corresponding six-month period of 2022 for investment contracts not transferring insurance risk to the holders, mainly in individual annuities.

- **Net total income of $1,355 million,** up $347 million, or 34.4%.

- **Gross non-interest expense of $1,161 million,** up $207 million, or 21.7%, mainly due to:
  - Expense related to operations acquired from Worldsource.
  - Rise in spending on personnel and technology to support growth in operations and enhance the services offered to members and clients.

  It should be noted that gross non-interest expense of $181 million is included under insurance service expenses, compared to $196 million for the first six months of 2022.

Additional information for certain indicators:

- **Business growth**
  - Decline in net sales of savings products essentially from MLGIs and mutual funds.
  - Growth in insurance sales, mainly in group insurance.
  - Growth in insurance premiums, mainly in group insurance.
  - Growth in annuity premiums, primarily in group retirement savings related to several groups.

Property and Casualty Insurance

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

Desjardins General Insurance Group Inc., which has more than 3.7 million clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner.

[1] As permitted by IFRS 17, Desjardins Group has chosen to recognize the impact of the reclassification of its investments related to insurance activities as of January 1, 2023 and, therefore, not to restate the comparative period for this item. This could therefore limit the comparability of the results with the previous period.

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, 2023	March 31, 2023	June 30, 2022 Restated	**June 30, 2023**	June 30, 2022 Restated
Insurance service result					
Insurance revenue	**$ 1,634**	$ 1,569	$ 1,543	**$ 3,203**	$ 3,061
Insurance service expenses	**(1,459)**	(1,593)	(1,522)	**(3,052)**	(2,877)
Net reinsurance service income (expenses)	**(21)**	(7)	32	**(28)**	19
	154	(31)	53	**123**	203
Net insurance finance result					
Net insurance investment income (loss)	**24**	200	(281)	**224**	(434)
Net insurance finance income (expenses)	**11**	(119)	89	**(108)**	258
Net reinsurance finance income (expenses)	**(1)**	12	(9)	**11**	(27)
	34	93	(201)	**127**	(203)
Net insurance service income (loss)	**188**	62	(148)	**250**	—
Other income (loss)	**(7)**	(8)	(8)	**(15)**	(13)
Total net income (loss)	**181**	54	(156)	**235**	(13)
Provision for (recovery of) credit losses	**—**	(2)	—	**(2)**	—
Non-interest expense					
Gross non-interest expense	**268**	257	247	**525**	483
Non-interest expense included in insurance service expenses[1]	**(167)**	(164)	(166)	**(331)**	(329)
Net non-interest expense	**101**	93	81	**194**	154
Income taxes on surplus earnings	**24**	(12)	(70)	**12**	(53)
Net surplus earnings (deficit) for the period	**$ 56**	$ (25)	$ (167)	**$ 31**	$ (114)
Of which:					
Group's share	**$ 45**	$ (28)	$ (156)	**$ 17**	$ (114)
Non-controlling interests' share	**11**	3	(11)	**14**	—
Indicators					
Direct Written Premiums[2]	**$ 1,910**	$ 1,440	$ 1,715	**$ 3,350**	$ 3,035
Loss ratio[3]	**68.9%**	75.1%	70.2%	**71.9%**	68.1%
Current year loss ratio[3]	**74.9**	77.4	65.9	**76.1**	68.0
Loss ratio related to catastrophes and major events[3]	**5.1**	—	8.4	**2.6**	4.8
Ratio of favourable changes in prior year claims[3]	**(11.1)**	(2.3)	(4.1)	**(6.8)**	(4.7)
Expense ratio[3]	**26.0**	27.0	26.8	**26.5**	26.5
Ratio of losses on onerous contracts[3]	**1.0**	6.2	4.5	**3.6**	3.5
Combined ratio[3]	**95.9**	108.3	101.5	**102.0**	98.1

(1) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result."
(2) For further information about supplementary financial measures, see the Glossary on pages 57 to 64.
(3) For more information about non-GAAP ratios, see "Non-GAAP and other financial measures" on pages 7 to 9.

Comparison of the second quarters of 2023 and 2022

- **Net surplus earnings of $56 million,** compared to a net deficit of $167 million in the second quarter of 2022, primarily due to:
  - Increase in net insurance finance result.
  - More favourable ratio of changes in prior year claims than in the comparative quarter of 2022, due to automobile insurance.
  - Higher net insurance revenue, mainly due to property insurance and automobile insurance.
  - Offset by higher current year loss ratio compared to the corresponding quarter of 2022.

- **Insurance service result** of $154 million, up $101 million.
  - **Insurance revenue** of $1,634 million, up $91 million, or 5.9%. By including ceded insurance service income of $72 million presented under "Net reinsurance service income (expenses)", there was an increase of $63 million, or 4.2%, mainly due to growth in property and automobile insurance business.
  - **Insurance service expenses** of $1,459 million, down $63 million, or 4.1%. By including ceded insurance service expenses of $51 million presented under "Net reinsurance service income (expenses)", there was a decrease of $38 million, or 2.6%, primarily due to the following:
    - Ratio of losses on onerous contracts of 1.0%, vs. 4.5% for the corresponding quarter of 2022, due to automobile insurance.

- Loss ratio of 68.9%, vs. 70.2% for the comparative quarter of 2022.
  - More favourable ratio of changes in prior year claims than in the comparative quarter of 2022, i.e. (11.1)% vs. (4.1)%, due to automobile insurance.
  - Lower loss ratio related to catastrophes and major events compared to the corresponding quarter of 2022, i.e. 5.1% vs. 8.4%. The second quarter of 2023 was marked by two major events, namely an ice storm in Ontario and Québec as well as forest fires in Nova Scotia, whereas the corresponding quarter of 2022 had been marked by a catastrophe, a rare weather phenomenon known as a *derecho*, in Ontario and Québec, and one major event, i.e. a wind storm and flooding in Québec.
  - Higher current year loss ratio compared to the corresponding quarter of 2022, i.e. 74.9% vs. 65.9%, mainly due to automobile insurance, particularly because of the higher average cost of claims due to the impact of inflation and to the increase in car thefts, as well as to property insurance.

- **Net insurance finance result of $34 million,** up $235 million.
  - **Net insurance investment income** of $24 million, compared to a loss of $281 million for the comparative quarter. The change was essentially due to the following:
    - Net gains on shares, while net losses were recorded in the second quarter of 2022.
    - Smaller decrease in the fair value of matched bonds, compared to the corresponding quarter of 2022, mainly because of the less unfavourable effect of higher market interest rates, compared to the corresponding quarter of 2022.
  - **Net insurance finance income** of $11 million, compared to income of $89 million for the comparative quarter. By including net reinsurance finance expenses of $1 million ($9 million for the second quarter of 2022), the net insurance finance income was $10 million, compared to $80 million for the corresponding quarter. The changes are due to:
    - Greater effect of accretion of net liabilities for incurred claims because of higher discount rates used, compared to the second quarter of 2022.
    - Less favourable impact of the increase in the discount rates used to measure net liabilities for incurred claims, compared to the corresponding quarter of 2022.

- **Other losses of $7 million,** an amount comparable to that of the comparative quarter of 2022.

- **Total net income of $181 million,** up $337 million.

- **Gross non-interest expense of $268 million,** up $21 million, or 8.5%, mainly due to the following:
  - Increase in the provision related to the compensation program for Desjardins Agents whereas there had been a decrease in the corresponding quarter of 2022.
  - Derecognition of a computer licence.

  It should be mentioned that gross non-interest expense of $167 million is included in insurance service expenses, that is, an amount comparable to that of the second quarter of 2022.

Comparison of the first six months of 2023 and 2022

- **Net surplus earnings of $31 million,** compared to a net deficit of $114 million for the first half of 2022, essentially due to:
  - Increase in net insurance finance result.
  - Lower loss ratio related to catastrophes and major events compared to the first six months of 2022.
  - Offset by higher current year loss ratio compared to the first six months of 2022, essentially due to automobile insurance.

- **Insurance service result of $123** million, down $80 million, or 39.4%.
  - **Insurance revenue** of $3,203 million, up $142 million, or 4.6%. By including ceded insurance service income of $140 million presented under "Net reinsurance service income (expenses)", there was an increase of $89 million, or 3.0%, mainly due to growth in property insurance business.
  - **Insurance service expenses** of $3,052 million, up $175 million, or 6.1%. By including ceded insurance service expenses of $112 million presented under "Net reinsurance service income (expenses)", there was an increase of $169 million, or 6.1%, due to the following:
    - Loss ratio of 71.9% vs. 68.1% for the first six months of 2022.
      - Higher current year loss ratio compared to the corresponding six-month period of 2022, i.e. 76.1% vs. 68.0%, mainly due to automobile insurance, essentially because of the higher average cost of claims due to the impact of inflation and to the increase in car thefts.
      - Loss ratio for catastrophes and major events of 2.6% vs. 4.8% for the comparative six-month period of 2022. The first six months of 2023 were marked by two major events, namely an ice storm in Ontario and Québec as well as forest fires in Nova Scotia, whereas the six-month period of 2022 had been marked by one catastrophe, a rare weather phenomenon known as a *derecho*, and two major events.
      - More favourable ratio of changes in prior year claims than in the comparative six-month period of 2022, i.e. (6.8)% vs. (4.7)%, due to automobile insurance.

- **Net insurance finance result of $127 million,** up $330 million.
  - **Net insurance investment income** of $224 million, compared to a loss of $434 million for the comparative six-month period. The change was essentially due to the following:
    - Increase in the fair value of matched bonds compared to a decrease for the comparative six-month period of 2022, mainly because of higher market interest rates in the first half of 2022.
    - Net gains on shares, while net losses were recorded for the first six months of 2022.
  - **Net insurance finance expenses** of $108 million, compared to income of $258 million for the comparative six-month period. By including net reinsurance finance income of $11 million (finance expenses of $27 million for the first six months of 2022), the net insurance finance expenses were $97 million, compared to income of $231 million for the comparative six-month period in 2022. The changes were due to the following:
    - Less favourable impact of higher discount rates used to measure net liability for incurred claims compared to the first six months of 2022.
    - Greater effect of accretion of net liability for incurred claims because of higher discount rates used compared to the first six months of 2022.

- **Other losses of $15 million,** up $2 million, or 15.4%, on account of the larger increase than in the first half of 2022 in the contingent consideration payable as part of the acquisition of the Canadian operations of the State Farm Mutual Automobile Insurance Company, arising from favourable developments in claims taken over.

- **Total net income of $235 million,** up $248 million.

- **Gross non-interest expense of $525 million,** up $42 million, or 8.7%, primarily due to the following:
  - Increase in the provision related to the compensation program for Desjardins Agents whereas there had been a decrease in the corresponding six-month period of 2022.
  - Higher salary expenses than in the corresponding period of 2022 mainly on account of wage indexation.

  It should be noted that gross non-interest expense of $331 million was included in insurance service expenses, that is, an amount comparable to that of the first half of 2022.

Other category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and those related to financial intermediation between the liquidity surpluses and needs of the caisses. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, including finance, administration, risk management, human resources, communications and marketing, as well as the Desjardins Group Security Office. It also includes the operations of 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.

Other category

	For the three-month periods ended			For the six-month periods ended	
(in millions of dollars)	**June 30, 2023**	March 31, 2023	June 30, 2022[1] Restated	**June 30, 2023**	June 30, 2022[1] Restated
Net interest income	**$ 125**	$ 121	$ 195	**$ 246**	$ 417
Net insurance service income (loss)	**26**	(43)	31	**(17)**	12
Other income (loss)	**(227)**	(276)	(292)	**(503)**	(556)
Total net income (loss)	**(76)**	(198)	(66)	**(274)**	(127)
Provision for (recovery of) credit losses	**—**	(1)	1	**(1)**	1
Net non-interest expense	**(55)**	(248)	(23)	**(303)**	(109)
Income taxes on surplus earnings	**(7)**	16	(16)	**9**	(9)
Net surplus earnings (deficit) for the period	**$ (14)**	$ 35	$ (28)	**$ 21**	$ (10)

(1) The data have been adjusted to conform to the current period's presentation notwithstanding IFRS 17, which was adopted on January 1, 2023.

Comparison of the second quarters of 2023 and 2022

- **Net deficit of $14 million,** compared to a net deficit of $28 million for the second quarter of 2022.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions had an unfavourable effect on net interest income and, to a lesser degree, a favourable effect on net other investment income (loss) included under other income.
  - Net non-interest expense included amounts invested for the continued implementation of Desjardins-wide strategic projects, in particular for the digital shift and security, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of best practices in security. It also included commitments made to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

Comparison of the first six months of 2023 and 2022

- **Net surplus earnings of $21 million,** compared to a net deficit of $10 million for the first six months of 2022.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions had an unfavourable effect on net interest income and, to a lesser degree, a favourable effect on net other investment income (loss) included under other income.
  - Net non-interest expense included amounts invested for the continued implementation of Desjardins-wide strategic projects, particularly for the digital shift and security, thereby enhancing the member and client experience, improving productivity and ensuring the implementation of best practices in security. It also included changes in contingency provisions for our operations, supplier agreements and the investment portfolio, as well as commitments made to the GoodSpark Fund, with the aim, in particular, of providing social and economic support to the regions.

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

	2023		2022				2021	
(in millions of dollars)	Q2	Q1	Q4 Restated	Q3 Restated	Q2 Restated	Q1 Restated	Q4[1]	Q3[1]
Net interest income	**$ 1,769**	$ 1,657	$ 1,579	$ 1,649	$ 1,596	$ 1,506	$ 1,455	$ 1,476
Net premiums	**N/A**	N/A	N/A	N/A	N/A	N/A	3,201	2,905
Insurance service result								
Insurance revenue	**2,562**	2,493	2,480	2,462	2,406	2,377	N/A	N/A
Insurance service expenses	**(2,238)**	(2,358)	(2,177)	(2,158)	(2,221)	(2,056)	N/A	N/A
Net reinsurance service income (expenses)	**(36)**	(26)	(40)	(27)	25	(13)	N/A	N/A
	288	109	263	277	210	308	N/A	N/A
Net insurance finance result								
Net insurance investment income (loss)	**249**	1,080	286	119	(2,404)	(2,372)	N/A	N/A
Net insurance finance income (expenses)	**(83)**	(999)	(30)	(214)	2,250	2,588	N/A	N/A
Net reinsurance finance income (expenses)	**11**	42	(17)	11	(93)	(116)	N/A	N/A
	177	123	239	(84)	(247)	100	N/A	N/A
Net insurance service income (loss)	**465**	232	502	193	(37)	408	N/A	N/A
Other income								
Deposit and payment service charges	**117**	113	115	115	114	104	111	109
Lending fees and credit card service revenues	**242**	266	256	269	218	222	168	198
Brokerage and investment fund services	**400**	253	235	235	251	268	267	283
Management and custodial service fees	**189**	163	182	151	170	159	201	185
Net other investment income (loss)	**(86)**	(110)	(60)	(159)	(120)	(161)	956	(90)
Overlay approach adjustment for insurance operations financial assets	**N/A**	N/A	N/A	N/A	N/A	N/A	(88)	(24)
Foreign exchange income	**47**	39	42	19	27	31	29	34
Other	**96**	54	21	70	91	79	71	60
	1,005	778	791	700	751	702	1,715	755
Total net income	**3,239**	2,667	2,872	2,542	2,310	2,616	6,371	5,136
Provision for credit losses	**66**	105	80	125	66	6	16	52
Claims, benefits, annuities and changes in insurance contract liabilities	**N/A**	N/A	N/A	N/A	N/A	N/A	3,185	1,713
Non-interest expense								
Gross non-interest expense	**2,680**	2,345	2,525	2,317	2,427	2,256	2,736	2,288
Non-interest expense included in insurance service expenses[2]	**(246)**	(249)	(262)	(256)	(253)	(252)	N/A	N/A
Net non-interest expense	**2,434**	2,096	2,263	2,061	2,174	2,004	N/A	N/A
Income taxes on surplus earnings	**186**	124	71	61	32	155	41	267
Surplus earnings before member dividends	**553**	342	458	295	38	451	393	816
Member dividends, net of income tax recovery	**80**	78	64	78	80	75	86	66
Net surplus earnings (deficit) for the period after member dividends	**$ 473**	$ 264	$ 394	$ 217	$ (42)	$ 376	$ 307	$ 750
Of which:								
Group's share	**$ 462**	$ 261	$ 379	$ 214	$ (31)	$ 365	$ 267	$ 716
Non-controlling interests' share	**11**	3	15	3	(11)	11	40	34

(1) According to the standards that were in force before Desjardins Group retrospectively adopted IFRS 17, "Insurance Contracts", on January 1, 2023, with restatement of the comparative periods for fiscal 2022.

(2) Represents the non-interest expense directly related to the fulfillment of insurance contracts presented under "Insurance service result."

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 financial markets. Following the transition to IFRS 17, "Insurance Contracts", on January 1, 2023, insurers' net surplus earnings are more sensitive mainly to financial market changes, but also to interest rates, which made the quarterly results more volatile compared to past quarterly results. In addition, the provisions of IFRS 17 allow for the review of the designation or classification of financial assets recognized under IFRS 9, "Financial Instruments", held in respect of insurance operations as at the date IFRS 17 was first applied. Desjardins Group elected not to restate the comparative figures of its Combined Financial Statements to reflect the changes in designation or classification for these financial assets made as at January 1, 2023. As a result, comparability between results for the 2023 and 2022 periods may be reduced. For more information about quarterly trends before the adoption of IFRS 17, see pages 44 and 45 of the 2022 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Combined Balance Sheets

(in millions of dollars and as a percentage)	As at June 30, 2023		As at December 31, 2022 Restated	
Assets				
Cash and deposits with financial institutions	**$ 8,218**	**2.0%**	$ 8,913	2.2%
Securities	**83,610**	**20.4**	85,295	21.1
Securities borrowed or purchased under reverse repurchase agreements	**13,611**	**3.3**	17,024	4.2
Net loans and acceptances	**257,743**	**62.9**	249,695	61.9
Segregated fund net assets	**23,251**	**5.7**	21,356	5.3
Derivative financial instruments	**5,554**	**1.4**	5,723	1.4
Other assets	**17,571**	**4.3**	15,938	3.9
Total assets	**$ 409,558**	**100.0%**	$ 403,944	100.0%
Liabilities and equity				
Deposits	**$ 265,539**	**65.0%**	$ 259,836	64.3%
Insurance contract liabilities	**31,288**	**7.6**	30,202	7.5
Commitments related to securities sold short	**10,657**	**2.6**	9,859	2.4
Commitments related to securities lent or sold under repurchase agreements	**20,502**	**5.0**	24,565	6.1
Derivative financial instruments	**7,062**	**1.7**	6,691	1.7
Segregated fund net liabilities for investment contracts	**19,721**	**4.8**	17,826	4.4
Other liabilities	**18,933**	**4.6**	19,630	4.9
Subordinated notes	**2,913**	**0.7**	2,928	0.7
Equity	**32,943**	**8.0**	32,407	8.0
Total liabilities and equity	**$ 409,558**	**100.0%**	$ 403,944	100.0%

Assets

As at June 30, 2023, Desjardins Group's total assets stood at $409.6 billion, up $5.6 billion, or 1.4%, since December 31, 2022.

Desjardins Group's cash and deposits with financial institutions were down $0.7 billion, or 7.8%, and securities, including securities borrowed or purchased under reverse repurchase agreements, decreased by $5.1 billion, or 5.0%, reflecting cash management activities.

Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $8.0 billion, or 3.2%, primarily as a result of business and government loans.

Loans and acceptances

(in millions of dollars and as a percentage)	As at June 30, 2023		As at December 31, 2022 Restated	
Residential mortgages	**$ 162,296**	**62.7%**	$ 159,682	63.6%
Consumer, credit card and other personal loans	**24,226**	**9.4**	24,211	9.7
Business and government	**72,261**	**27.9**	66,837	26.7
	258,783	**100.0%**	250,730	100.0%
Allowance for credit losses	**(1,040)**		(1,035)	
Total loans and acceptances	**$ 257,743**		$ 249,695	

Outstanding business and government loans, including acceptances, were up $5.4 billion, or 8.1%. Residential mortgages have increased by $2.6 billion, or 1.6%, since December 31, 2022. Consumer, credit card and other personal loans outstanding were up $15 million, or 0.1%, since the end of 2022.

Information on the quality of Desjardins Group's credit portfolio can be found in the "Risk management" section, on pages 36 to 38 of this MD&A.

Segregated fund net assets grew $1.9 billion, or 8.9%, on account of the increase in the fair value of the portfolio due to developments in financial markets, coupled with a slight growth in contract holders.

Derivative financial instrument assets were down $0.2 billion, or 3.0%, because of higher interest rates and fluctuating exchange rates partially offset by an increase in stock market index options as a result of rising financial markets.

Other assets increased by $1.6 billion, or 10.2%, mainly as a result of the increase in amounts receivable from clients, brokers and financial institutions as well as the increase in intangible assets and goodwill after acquiring Worldsource.

Liabilities

Desjardins Group's total liabilities amounted to $376.6 billion as at June 30, 2023, up $5.1 billion, or 1.4%, since December 31, 2022.

Deposits

(in millions of dollars and as a percentage)	As at June 30, 2023		As at December 31, 2022	
Individuals	**$ 147,289**	**55.4%**	$ 145,377	56.0%
Business and government	**117,584**	**44.3**	114,172	43.9
Deposit-taking institutions	**666**	**0.3**	287	0.1
Total deposits	**$ 265,539**	**100.0%**	$ 259,836	100.0%

Outstanding deposits grew by $5.7 billion, or 2.2%. The increase in business and government deposits, which comprised 44.3% of Desjardins Group's total deposit portfolio partly accounted for this growth. In fact, these outstanding deposits were up $3.4 billion, or 3.0%, primarily because of growth in business member deposits in the caisse network. The various securities issued in particular on Canadian, U.S. and international markets made it possible to support Desjardins Group's funding requirements. Personal deposits outstanding, which represented 55.4% of the total deposit portfolio, were up $1.9 billion, or 1.3%, because of growth in member deposits in the caisse network. Deposits from deposit-taking institutions were up by $379 million.

Desjardins Group's insurance contract liabilities were up $1.1 billion, or 3.6%, primarily on account of the change in liabilities as a result of life and health insurance operations.

Commitments related to securities sold short and lent or sold under repurchase agreements were down by $3.3 billion, or 9.5%, to reach a volume of $31.2 billion.

Derivative financial instrument liabilities were up $0.4 billion, or 5.5%, primarily because of the increase in stock index options as a result of the upturn in the financial markets.

Segregated fund net liabilities for investment contracts were up by $1.9 billion, or 10.6%, due to the increase in the fair value of the portfolio caused by developments in the financial markets, combined with a slight growth in contract holders.

Other liabilities declined by $0.7 billion, or 3.6%, due primarily to the lower amounts payable to clients, brokers and financial institutions.

As at June 30, 2023, subordinated notes stood at $2.9 billion, comparable to the December 31, 2022 amount.

Equity

Equity has increased by $0.5 billion, or 1.7%, since December 31, 2022, in particular because of the net surplus earnings after member dividends totalling $0.7 billion for the first six months of 2023.

Note 23, "Capital stock", and Note 24, "Share capital", to the Annual Combined Financial Statements provide additional information about Desjardins Group's capital stock and share capital.

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, clients and creditors, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in Section 3.2, "Capital management", of Desjardins Group's 2022 annual MD&A.

The current situation and the forecasts show that, overall, Desjardins Group has a solid capital base that allows it to continue to be one of the best-capitalized Canadian financial institutions.

Regulatory framework and internal policies

Desjardins Group's regulatory capital ratios are calculated according to the *Capital Adequacy Guideline* (in French only) issued by the AMF and applicable, in particular, to financial services cooperatives. In February 2023, the AMF issued an update of the *Capital Adequacy Guideline* based on the Basel III regulatory reforms approved by the Basel Committee on Banking Supervision (BCBS) in 2017.

These reforms focus essentially on reducing the excessive variability of risk-weighted assets and improving the comparability and transparency of financial institutions' capital ratios by:
- Enhancing the robustness and sensitivity of standardized approaches for credit risk and operational risk.
- Restricting the use of Internal Ratings-Based (IRB) approaches by limiting the use of certain variables in calculating capital requirements and by revoking the use of advanced methods for certain portfolios.
- Adjusting the exposure measure for leverage ratio purposes.
- Replacing the existing threshold with a more robust and risk-sensitive floor based on the revised Basel III standardized approaches.

This update to the *Capital Adequacy Guideline* came into force in the first quarter of 2023.

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 funding, which are set by regulatory authorities governing trusts, credit unions, insurers and securities, among other things. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulations.

In this regard, it should be mentioned that the life and health insurance subsidiary under provincial jurisdiction is subject to the *Capital Adequacy Requirements Guideline* (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the *Guideline on Capital Adequacy Requirements* issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's *Minimum Capital Test Guideline* for federally regulated property and casualty insurance companies. These guidelines were updated in July 2022 to reflect IFRS 17, and the resulting changes came into force on January 1, 2023.

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

In addition, since April 1, 2022, Desjardins Group has been required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the criteria set by the *Total Loss Absorbing Capacity Guideline* (TLAC Guideline) issued by the AMF, or regulatory capital instruments to support its recapitalization in the event of a failure.

The following table 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

(as a percentage)	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[1][2]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratios as at June 30, 2023
Tier 1A capital ratio[3]	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**20.9%**
Tier 1 capital ratio[3]	> 6.0	2.5	> 8.5	1.0	> 9.5	**20.9**
Total capital ratio[3]	> 8.0	2.5	> 10.5	1.0	> 11.5	**22.4**
TLAC ratio[4]	> 21.5	N/A	> 21.5	N/A	> 21.5	**29.7**
Leverage ratio[5]	> 3.5	N/A	> 3.5	N/A	> 3.5	**7.6**
TLAC leverage ratio[6]	> 6.75	N/A	> 6.75	N/A	> 6.75	**10.6**

(1) Supplement of 1% applicable to Desjardins Group as a domestic systemically important financial institution (D-SIFI).
(2) 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.
(3) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.
(4) The TLAC ratio is expressed as a percentage of regulatory capital and TLAC-eligible instruments (as set out in the TLAC Guideline) compared to risk-weighted assets at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.
(5) 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) off-balance sheet items.
(6) The TLAC leverage ratio is calculated by dividing the sum total of regulatory capital and TLAC-eligible instruments by the exposure measure at the level of the resolution group.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the BCBS and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in Desjardins Group's 2022 annual MD&A on page 51. The "Changes in the regulatory environment" section of this MD&A also presents additional details on regulation as it affects all Desjardins Group operations.

In February 2023, the AMF issued an update to the *Capital Adequacy Guideline*, resulting from the Basel III regulatory reforms approved by the BCBS on December 7, 2017. The provisions relating to the market risk framework and the enhanced robustness and risk sensitivity of the standardized approaches for credit valuation adjustment (CVA) risk will become effective on January 1, 2024.

Compliance with requirements

As at June 30, 2023, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 20.9%, 20.9% and 22.4%, respectively. The leverage ratio was 7.6%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

As at June 30, 2023, the Tier 1A capital ratio was up 70 basis points compared to December 31, 2022, mainly due to the revision of some of the methodological aspects of risk-weighted assets.

In addition, the TLAC ratio and the TLAC leverage ratio were respectively 29.7% and 10.6% as at June 30, 2023.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at June 30, 2023.

Regulatory capital and other TLAC instruments

The following tables present Desjardins Group's main capital components, regulatory capital balances and other TLAC instruments, as well as risk-weighted assets, regulatory ratios, and changes in regulatory capital and other TLAC instruments during the period.

Main capital components and other TLAC instruments

<table>
<tr><th rowspan="4"></th><th colspan="4">Regulatory capital and other TLAC instruments</th></tr>
<tr><th colspan="3">Total capital</th><th rowspan="3">Other TLAC instruments</th></tr>
<tr><th colspan="2">Tier 1 capital</th><th rowspan="2">Tier 2 capital</th></tr>
<tr><th>Tier 1A[1]</th><th>Tier 1B[1]</th></tr>
<tr><td>Eligible items</td><td>• Reserves and undistributed surplus earnings
• Eligible accumulated other comprehensive income
• F capital shares</td><td>• Non-controlling interests[2]</td><td>• General allowance
• NVCC subordinated notes[3]
• Eligible qualifying shares</td><td>• TLAC senior notes</td></tr>
<tr><td>Regulatory adjustments</td><td>• Goodwill
• Software
• Other intangible assets
• Net defined benefit plan assets
• Deferred tax assets essentially resulting from loss carryforwards
• Provision deficit
• Gains and losses from fluctuations in the fair value of financial liabilities due to changes in the entity's credit risk
• Equity investments in investment funds subject to the fallback approach[4]</td><td></td><td></td><td></td></tr>
<tr><td>Deductions</td><td>• Mainly significant investments in financial entities[5]</td><td>• Investment in preferred shares of a component deconsolidated for regulatory capital purposes</td><td>• Investment in preferred shares of a component deconsolidated for regulatory capital purposes
• Subordinated financial instrument</td><td></td></tr>
</table>

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios for financial services cooperatives regulated by the AMF.

(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the *Capital Adequacy Guideline*. To be eligible, the notes must include a clause requiring the full and permanent conversion into a Tier 1A capital instrument at the point of non-viability.

(4) New requirement in force in the first quarter of 2023, resulting from the update of the *Capital Adequacy Guideline*.

(5) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance is subject to risk weighting at a rate of 250%.

Regulatory capital and other TLAC instruments[1]

(in millions of dollars and as a percentage)	As at June 30, 2023	As at December 31, 2022
Capital		
Tier 1A capital	**$ 28,332**	$ 28,156
Tier 1 capital	**28,332**	28,156
Total capital	**30,339**	30,445
Total loss absorbing capacity (TLAC) available[2]	**39,003**	38,722
Risk-weighted assets		
Credit risk	**$ 111,051**	$ 118,783
Market risk	**3,283**	3,959
Operational risk	**21,165**	15,114
Total risk-weighted assets before the capital floor	**135,499**	137,856
Transitional capital floor adjustment	**—**	1,455
Total risk-weighted assets	**$ 135,499**	$ 139,311
Total risk-weighted assets for TLAC ratio purposes[2]	**131,342**	134,880
Leverage ratio exposure	**373,309**	371,598
TLAC leverage ratio exposure[2]	**366,286**	364,519
Ratios		
Tier 1A capital ratio	**20.9%**	20.2%
Tier 1 capital ratio	**20.9**	20.2
Total capital ratio	**22.4**	21.9
TLAC[2]	**29.7**	28.7
Leverage ratio[3]	**7.6**	7.6
TLAC leverage ratio[2][3]	**10.6**	10.6

(1) The comparative data comply with the requirements of the *Capital Adequacy Guideline*, which came into force on December 31, 2022.
(2) Data calculated at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.
(3) Under the temporary relief measures issued by the AMF on March 31, 2020, reserves with central banks are excluded from the total exposure used in the leverage ratio calculation until further notice.

The Federation is able to issue Non-Viability Contingent Capital-eligible instruments on Canadian, U.S. and European markets. Since the program was implemented, the Federation has in fact issued a total amount of $3.0 billion in such securities as at June 30, 2023. Therefore, should there be a trigger event as defined in the *Capital Adequacy Guideline*, these notes would automatically and immediately be converted into Tier 1A capital of the Federation.

In addition, Desjardins Group has been issuing TLAC-eligible debt since October 1, 2019 in order to meet minimum requirements, for a total of $9.6 billion as at June 30, 2023, including $315 million in the second quarter of 2023.

Change in regulatory capital and other TLAC instruments
For the three-month period ended

(in millions of dollars)	June 30, 2023
Tier 1A capital	
Balance at beginning of period	$ 28,156
Increase in reserves and undistributed surplus earnings[(1)]	128
Eligible accumulated other comprehensive income	299
Deductions	(251)
Balance at end of period	28,332
Total Tier 1 capital[(2)]	28,332
Tier 2 capital	
Balance at beginning of period	2,289
Eligible instruments	(16)
General allowance	(116)
Deductions	(150)
Balance at end of period	2,007
Total capital	$ 30,339
Total capital for TLAC purposes[(3)]	$ 29,441
Other TLAC instruments	
Balance at beginning of period	9,179
TLAC senior notes	383
Balance at end of period	9,562
Total loss absorbing capacity (TLAC) available[(3)]	$ 39,003

(1) Amount including the change in defined benefit pension plans.
(2) No Tier 1B capital instrument has been issued to date.
(3) Data calculated at the level of the resolution group, which is deemed to be Desjardins Group, excluding Caisse Desjardins Ontario Credit Union Inc.

Risk-weighted assets (RWA)

Desjardins Group calculates RWA for credit risk, market risk and operational risk.

Credit risk

- Desjardins uses the Internal Ratings-Based Approach for credit risk.
- This approach is used for retail exposures – Personal as well as for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures.
- The Standardized Approach is used to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

- Desjardins Group uses internal market risk models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking book.

Operational risk

- Desjardins Group uses the Standardized Approach to calculate operational risk.

Desjardins is also subject to an RWA floor. When the RWA modelled are lower than the RWA calculated using the Standardized Approach multiplied by a factor set by the AMF, the difference is added to the denominator of the regulatory capital, as specified in the AMF's *Capital Adequacy Guideline*.

RWA totalled $135.5 billion as at June 30, 2023, down $4.7 billion compared to the previous quarter.

For credit risk, changes in RWA for the second quarter of 2023 are divided into two segments: credit risk other than counterparty risk, and counterparty risk.
- In credit risk other than counterparty risk, the net decrease of $5.1 billion in RWA was mainly the result of the following:
  - Changes in methods and policies resulting in a $9.0 billion decrease in RWA.
  - Growth in portfolio size resulting in a $2.3 billion increase in RWA.
  - Changes in portfolio quality causing a $1.7 billion increase in RWA.
- In counterparty risk, a $0.3 billion decrease in RWA was due to changes in portfolio size, partially offset by changes in portfolio quality.

In market risk, a $0.2 billion decrease in RWA resulted from a change in risk levels.

An increase of $0.9 billion in RWA was noted in operational risk as a result of fluctuations in the income generated.

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, guarantees and structured entities, including securitization. Additional information can be found in Section 3.3, “Off-balance sheet arrangements”, of Desjardins Group’s 2022 annual MD&A.

Note 14, “Interests in other entities”, and Note 29, “Commitments, guarantees and contingent liabilities”, to Desjardins Group’s Annual Combined Financial Statements contain information about structured entities, credit instruments and guarantees, while Note 9, “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, 2023, Desjardins Group administered, for the account of its members and clients, assets worth $467.7 billion, for an increase of $20.4 billion, or 4.6%, since December 31, 2022. The financial assets entrusted to Desjardins Group as wealth manager totalled $80.2 billion as at June 30, 2023, up $4.1 billion, or 5.3%, since December 31, 2022. The increase in assets under management and under administration is due mainly to the increase in assets as a result of changes in financial markets.

It should be noted that the 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 sectors and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its business strategies and organizational risk-taking philosophy which is aimed, among other things, at giving its senior management and the Federation’s Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the risks associated with the achievement of its objectives, including risks related to external factors such as climate change.

Desjardins Group is exposed to different types of risk in the normal course of its operations, including credit risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk, reputational risk, environmental or social risk, and regulatory risk.

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 2023, 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, environmental or social risk, and regulatory risk) did not change significantly from those described on pages 61 to 98 of Desjardins Group’s 2022 annual MD&A. In addition to these types of risk, other risk factors, which are beyond 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 58 to 60 of Desjardins Group’s 2022 annual MD&A, except for the economic situation as specified in the “Economic environment and outlook” section of this 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.

The current macroeconomic environment, characterized mainly by increased inflationary pressures, rapid interest rate hikes, major supply chain disruptions, labour shortages and growing geopolitical tensions, continues to cause uncertainty.

In the current inflationary environment with the Bank of Canada’s continued restrictive monetary policy, Desjardins Group supports its vulnerable members and clients who are more greatly affected by the higher interest rates.

This situation also requires management to continue to make particularly complex judgments to estimate the loss allowance for expected credit losses. In order to take into account the relevant risk factors of this unprecedented macroeconomic environment that are not reflected in the models, management continues to apply expert credit judgments in measuring the loss allowance for expected credit losses. Expert adjustments are thus applied to certain credit risk measures and to some forward-looking information that should not be as representative of an improvement in portfolio credit quality as the historical data used in the models would otherwise suggest.

The credit portfolio remains in good shape despite the economic uncertainty.

Quality of loan portfolio

As at June 30, 2023, in accordance with Note 5, “Loans and allowance for credit losses”, to the Interim Combined Financial Statements, the loss allowance for expected credit losses on loans totalled $1,040 million, and that for off-balance-sheet items was $85 million, for a total of $1,125 million, up $37 million compared to December 31, 2022. This increase was mainly due to the higher risk of the business loan portfolio, as well as to certain changes made to methodology. The effects of this were, however, partially offset by the effects of updating forward-looking information. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, “Loans and allowance for credit losses”, to the Interim Combined Financial Statements.

Gross credit-impaired loans outstanding are 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 0.57% for the second quarter of 2023, compared to 0.47% as at December 31, 2022. The allowance for credit losses on credit-impaired loans totalled $398 million as at June 30, 2023, resulting in a provisioning rate of 27.0% 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[(1)]

(in millions of dollars)	As at June 30, 2023			As at December 31, 2022		
	31 to 90 days	**91 days or more**	**Total**	31 to 90 days	91 days or more	Total
Residential mortgages	**$ 212**	**$ 21**	**$ 233**	$ 139	$ 20	$ 159
Consumer, credit card and other personal loans	**137**	**20**	**157**	134	38	172
Business and government	**73**	**78**	**151**	32	64	96
	$ 422	**$ 119**	**$ 541**	$ 305	$ 122	$ 427

(1) Loans less than 31 days past due are not presented because, in general, they are not an indication that borrowers will not meet their payment obligations.

The following tables present gross credit-impaired loans by Desjardins Group borrower category and the change in gross credit-impaired loans.

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at June 30, 2023					As at December 31, 2022	
	Gross carrying amount			**Allowance for credit losses on credit-impaired loans**	**Net credit-impaired loans**	Gross credit-impaired loans	Net credit-impaired loans
	Gross loans and acceptances	**Gross credit-impaired loans[(1)]**					
Residential mortgages	**$ 162,296**	**$ 310**	**0.19 %**	**$ 22**	**$ 288**	$ 245	$ 229
Consumer, credit card and other personal loans	**24,226**	**185**	**0.76**	**130**	**55**	170	79
Business and government	**72,261**	**981**	**1.36**	**246**	**735**	776	572
Total	**$ 258,783**	**$ 1,476**	**0.57 %**	**$ 398**	**$ 1,078**	$ 1,191	$ 880

(1) For more information on the gross credit-impaired loans/gross loans and acceptances ratio, which is a supplementary financial measure, see the Glossary on pages 57 to 64.

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2023	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Gross credit-impaired loans at the beginning of the period	**$ 1,270**	$ 1,191	$ 1,072	**$ 1,191**	$ 1,088
Gross loans that became credit-impaired since the last period	**834**	670	566	**1,504**	1,191
Loans returned to unimpaired status	**(550)**	(528)	(528)	**(1,078)**	(1,120)
Write-offs and recoveries	**(77)**	(61)	(52)	**(138)**	(101)
Other changes	**(1)**	(2)	—	**(3)**	—
Gross credit-impaired loans at the end of the period	**$ 1,476**	$ 1,270	$ 1,058	**$ 1,476**	$ 1,058

The following tables are presented to meet the disclosure requirements of the *Residential Hypothecary Lending Guideline* issued by the AMF. They present the residential mortgage portfolio of the caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc. by product type and geographic area, as well as the corresponding loan-to-value ratios.

Residential mortgage portfolio[1]
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[2]

	As at June 30, 2023							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[3]		Uninsured loans[4]		Home equity lines of credit[5]		Total	
Québec	$ 29,002	97.8%	$ 89,966	95.2%	$ 5,619	94.9%	$ 124,587	95.8%
Ontario	634	2.1	4,578	4.8	300	5.1	5,512	4.2
Other[6]	20	0.1	44	—	—	—	64	—
All geographic areas	$ 29,656	100.0%	$ 94,588	100.0%	$ 5,919	100.0%	$ 130,163	100.0%

	As at March 31, 2023							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[3]		Uninsured loans[4]		Home equity lines of credit[5]		Total	
Québec	$ 28,916	97.7%	$ 88,398	95.1%	$ 5,649	94.9%	$ 122,963	95.7%
Ontario	648	2.2	4,526	4.9	303	5.1	5,477	4.3
Other[6]	20	0.1	43	—	—	—	63	—
All geographic areas	$ 29,584	100.0%	$ 92,967	100.0%	$ 5,952	100.0%	$ 128,503	100.0%

	As at June 30, 2022							
(in millions of dollars and as a percentage)	Guaranteed or insured loans[3]		Uninsured loans[4]		Home equity lines of credit[5]		Total	
Québec	$ 28,588	97.6%	$ 85,908	95.3%	$ 5,655	94.7%	$ 120,151	95.8%
Ontario	683	2.3	4,250	4.7	316	5.3	5,249	4.2
Other[6]	19	0.1	39	—	—	—	58	—
All geographic areas	$ 29,290	100.0%	$ 90,197	100.0%	$ 5,971	100.0%	$ 125,458	100.0%

(1) Represents all loans secured by a property with up to four units. Residential mortgages on properties with up to four units held outside of the caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc. totalled $209 million as at June 30, 2023 ($207 million as at March 31, 2023 and $179 million as at June 30, 2022).
(2) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but is instead subject to the Financial Services Regulatory Authority of Ontario (FSRA) rules.
(3) Term mortgages and the amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.
(4) Conventional term mortgages including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to four units.
(5) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to four units.
(6) Represents the geographic areas of Canada other than Québec and Ontario.

Average loan-to-value (LTV) ratio for uninsured residential mortgage granted during the quarter
Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.[1]

	As at June 30, 2023			As at March 31, 2023			As at June 30, 2022		
(average loan-to-value ratio, by geographic area)	Uninsured loans[2]	Home equity lines of credit and related loans[3]	Total uninsured	Uninsured loans[2]	Home equity lines of credit and related loans[3]	Total uninsured	Uninsured loans[2]	Home equity lines of credit and related loans[3]	Total uninsured
Québec	61.6%	65.2%	64.4%	62.4%	65.3%	64.6%	65.3%	67.5%	67.0%
Ontario	61.1	61.9	61.6	64.4	64.6	64.5	66.5	66.7	66.6
Other[4]	79.7	69.6	72.4	79.4	75.0	76.7	79.3	68.5	76.3
All geographic areas	61.5%	65.1%	64.3%	62.6%	65.3%	64.6%	65.4%	67.4%	67.0%

(1) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but rather to the FSRA rules.
(2) Conventional term mortgages and amortized consumer loans secured by a property with up to four units.
(3) Home equity lines of credit including related amortized loans and consumer lines of credit secured by a property with up to four units.
(4) Represents the geographic areas of Canada other than Québec and Ontario.

The following table presents Desjardins Group's residential mortgage portfolio by remaining amortization period.

Remaining amortization period for residential mortgages(1)(2)

Caisse network in Québec and Caisse Desjardins Ontario Credit Union Inc.(3)

(in millions of dollars in gross loans and as a percentage of the total by remaining amortization category)	Total amortized loans					
	As at June 30, 2023		As at March 31, 2023		As at June 30, 2022(4)	
0 to 10 years	**$ 3,598**	**2.9%**	$ 3,538	2.9%	$ 3,671	3.1%
10 to 20 years	**23,161**	**18.6**	23,083	18.8	23,215	19.4
20 to 25 years	**79,468**	**63.9**	78,489	64.0	81,628	68.4
25 to 30 years	**9,650**	**7.8**	9,501	7.8	9,849	8.2
30 to 35 years	**1,097**	**0.9**	1,073	0.9	867	0.7
35 years or more(5)	**7,270**	**5.9**	6,867	5.6	257	0.2
All amortization periods	**$ 124,244**	**100.0%**	$ 122,551	100.0%	$ 119,487	100.0%

(1) The caisse network's variable-rate mortgages represented 25.9% as at June 30, 2023 (28.2% as at March 31, 2023 and 28.5% as at June 30, 2022).
(2) In accordance with Desjardins Group's internal practices, the remaining amortization period for residential mortgages is limited to 30 years. However, exceeding this 30-year maximum amortization is permitted in certain exceptional situations.
(3) Caisse Desjardins Ontario Credit Union Inc. is not legally subject to the AMF rules but rather to the FSRA rules.
(4) Comparative data have been adjusted to conform to the current period's presentation because of a refinement in methodology.
(5) Negative amortization loans are included in the over 35 years category, which reflects the impact of interest rate hikes on the variable-rate mortgage portfolio.

International exposures

As at June 30, 2023, Desjardins Group credit risk exposures outside of Canada and the U.S. represented 1% of the total exposures.

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, Québec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Apart from the U.S. sovereign debt holdings and commitments with major international banks, Desjardins Group's exposure to foreign entities is low.

MARKET RISK

Market risk refers to the risk of loss arising from changes in the fair value of financial instruments as a result of 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 in the pages that follow.

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, 2023

	Combined Balance Sheets	Exposed to market risk		Not exposed to market risk	Principal risks associated with non-trading activities
(in millions of dollars)		Trading activities[1][2]	Non-trading activities[3]		
Assets					
Cash and deposits with financial institutions	$ 8,218	$ —	$ 8,218	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	32,308	9,074	23,234	—	Interest rate
Securities at fair value through other comprehensive income	51,253	—	51,253	—	Interest rate, FX, price
Securities at amortized cost	49	—	49	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	13,611	11,960	1,651	—	Interest rate
Net loans and acceptances	257,743	—	257,743	—	Interest rate
Segregated fund net assets	23,251	—	23,251	—	Interest rate, price
Derivative financial instruments	5,554	436	5,118	—	Interest rate, FX, price
Other assets	17,571	—	—	17,571	
Total assets	$ 409,558	$ 21,470	$ 370,517	$ 17,571	
Liabilities and equity					
Deposits	$ 265,539	$ —	$ 265,539	$ —	Interest rate
Insurance contract liabilities	31,288	—	31,288	—	Interest rate
Commitments related to securities sold short	10,657	9,226	1,431	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	20,502	18,483	2,019	—	Interest rate
Derivative financial instruments	7,062	763	6,299	—	Interest rate, FX, price
Segregated fund net liabilities from investment contracts	19,721	—	19,721	—	Interest rate, price
Other liabilities	18,933	—	678	18,255	Interest rate
Subordinated notes	2,913	—	2,913	—	Interest rate
Equity	32,943	—	—	32,943	
Total liabilities and equity	$ 409,558	$ 28,472	$ 329,888	$ 51,198	

Footnotes to this table are presented on the next page.

Link between market risk and the Combined Balance Sheets (continued)

As at December 31, 2022 Restated

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk		Not exposed to market risk	Principal risks associated with non-trading activities
		Trading activities[1][2]	Non-trading activities[3]		
Assets					
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	Interest rate
Securities					
Securities at fair value through profit or loss	33,987	9,801	24,186	—	Interest rate
Securities at fair value through other comprehensive income	51,258	—	51,258	—	Interest rate, FX, price
Securities at amortized cost	50	—	50	—	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	17,024	14,677	2,347	—	Interest rate
Net loans and acceptances	249,695	—	249,695	—	Interest rate
Segregated fund net assets	21,356	—	21,356	—	Interest rate, price
Derivative financial instruments	5,723	635	5,088	—	Interest rate, FX, price
Other assets	15,938	—	—	15,938	
Total assets	$ 403,944	$ 25,113	$ 362,893	$ 15,938	
Liabilities and equity					
Deposits	$ 259,836	$ —	$ 259,836	$ —	Interest rate
Insurance contract liabilities	30,202	—	30,202	—	Interest rate
Commitments related to securities sold short	9,859	9,611	248	—	Interest rate
Commitments related to securities lent or sold under repurchase agreements	24,565	23,893	672	—	Interest rate
Derivative financial instruments	6,691	689	6,002	—	Interest rate, FX, price
Segregated fund net liabilities from investment contracts	17,826	—	17,826	—	Interest rate, price
Other liabilities	19,630	—	654	18,976	Interest rate
Subordinated notes	2,928	—	2,928	—	Interest rate
Equity	32,407	—	—	32,407	
Total liabilities and equity	$ 403,944	$ 34,193	$ 318,368	$ 51,383	

(1) Trading activity positions for which the risk measure is VaR and SVaR.
(2) The amounts presented under trading activities take inter-company eliminations into account.
(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 day-to-day 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 reported 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, which includes the financial crisis of 2008. However, a ratio of aggregate SVaR to VaR is calculated on a daily basis to ensure that the stress period selected is still adequate. In addition, this stress period is reviewed periodically, as well as stress testing.

Capital requirements related to 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 market 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 *Capital Adequacy Guideline* (in French only) issued by the AMF.

Market risk measures for the trading portfolio

(in millions of dollars)		For the quarter ended June 30, 2023			For the quarters ended			
					March 31, 2023		June 30, 2022	
	As at June 30, 2023	**Average**	**High**	**Low**	As at March 31, 2023	Average	As at June 30, 2022	Average
Equities	**$ 0.4**	**$ 0.3**	**$ 0.4**	**$ 0.3**	$ 0.4	$ 0.7	$ 0.7	$ 0.6
Foreign exchange	**0.4**	**0.4**	**1.1**	**0.1**	0.8	0.9	0.3	0.7
Interest rate	**4.4**	**4.8**	**7.0**	**2.8**	4.6	5.1	4.2	4.1
Specific interest rate risk[1]	**5.6**	**3.8**	**8.5**	**1.8**	3.7	2.2	2.7	2.1
Diversification effect[2]	**(6.4)**	**(4.5)**	**N/A[3]**	**N/A[3]**	(4.8)	(3.5)	(3.8)	(3.3)
Aggregate VaR	**$ 4.4**	**$ 4.8**	**$ 7.1**	**$ 2.7**	$ 4.7	$ 5.4	$ 4.1	$ 4.2
Aggregate SVaR	**$ 7.8**	**$ 11.5**	**$ 18.5**	**$ 6.5**	$ 14.2	$ 11.9	$ 9.5	$ 9.7
Incremental risk charge (IRC)	**$ 79.1**	**$ 78.1**	**$ 88.0**	**$ 61.2**	$ 76.5	$ 58.8	$ 82.7	$ 73.3

(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. It is not relevant to calculate a diversification effect.

The average of the trading portfolio's aggregate VaR was $4.8 million for the quarter ended June 30, 2023, down $0.6 million compared to the quarter ended March 31, 2023. The average of the aggregate SVaR was $11.5 million for the quarter ended June 30, 2023, down $0.4 million compared to the quarter ended March 31, 2023. The average of the incremental risk charge totalled $78.1 million, up $19.3 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.

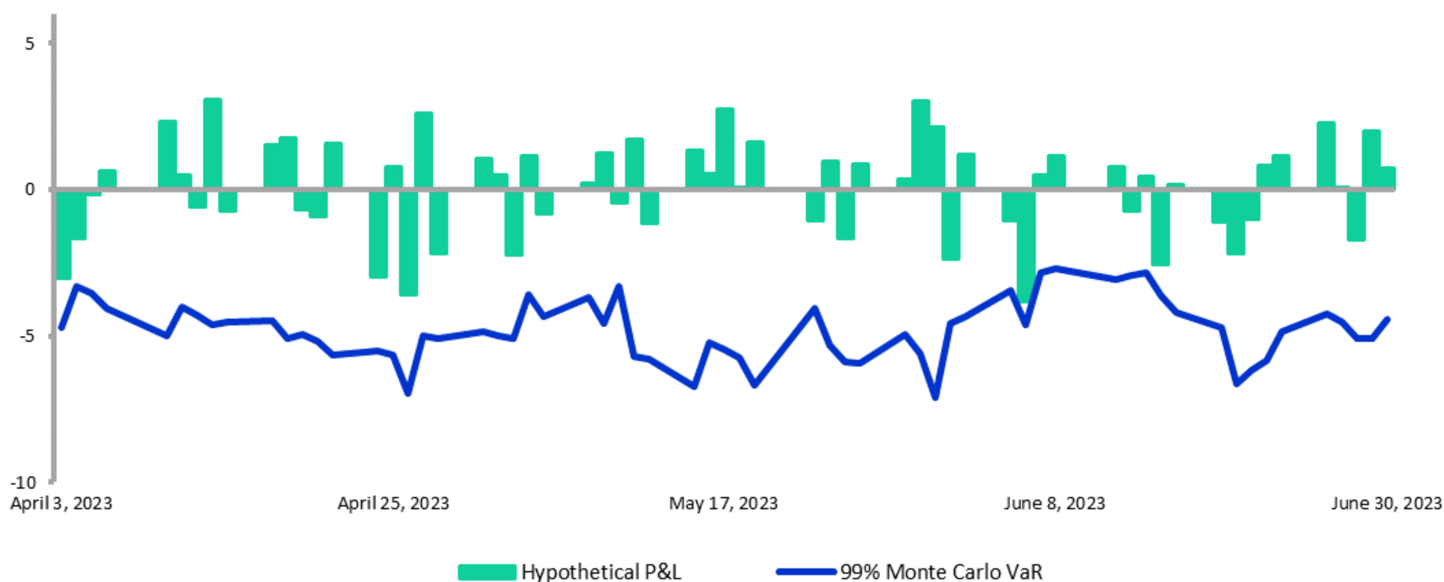
Back testing

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 graph shows changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the second quarter of 2023, no overage of actual or hypothetical P&L was observed in relation to the VaR for Desjardins Group.

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 a 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 the 2020 COVID-19 pandemic or the 2008 credit crisis. Using such stress testing, changes can be monitored in the fair 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 non-trading banking activities, 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 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:
- Trend in interest rate level and volatility.
- Changes in the shape of the yield curve.
- Member and client behaviour in their choice of products.
- Financial intermediation margin.
- Optionality of the various financial products offered.

In order to mitigate these 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. Stress testing is 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 based on portfolio volatility (daily, monthly and quarterly).

The assumptions used in the stress testing 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, assuming the balance sheet is stable and management takes no measures to mitigate risk. The impact related to insurance activities is presented in Note 1 of this table.

Interest rate sensitivity (before income taxes)[(1)]

	As at June 30, 2023		As at March 31, 2023		As at June 30, 2022	
(in millions of dollars)	**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	**$ 69**	**$ (80)**	$ 19	$ (94)	$ 89	$ 1
Impact of a 100-basis-point decrease in interest rates	**(67)**	**12**	(24)	(26)	(91)	3

(1) Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For information on interest rate sensitivity related to insurance activities, refer to Note 7, “Insurance and reinsurance contracts”, to the Interim Combined Financial Statements.

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

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

Foreign exchange risk management

Foreign exchange risk refers to the potential loss resulting from a change in foreign exchange rates.

Desjardins Group and its components are exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro, as a result of their intermediation activities with members and clients, and their financing and investment activities. Desjardins Group frameworks set foreign exchange risk exposure limits, which are monitored by the Risk Management Executive Division and by the insurance components for their respective operations. To ensure that this risk is properly controlled, Desjardins Group and its components also use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps. Desjardins Group's residual exposure to this risk is low because it reduces its foreign exchange risk by using derivative financial instruments.

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 financial markets.

Furthermore, Desjardins Group issues covered bonds and securitizes loans insured by the Canada Mortgage and Housing Corporation (CMHC) in the course of its day-to-day 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 AMF announced that it had made changes to its *Liquidity Adequacy Guideline*, effective in 2023. The changes deal mainly with the requirements related to the NCCF supervisory tool to improve the risk sensitivity of the metric. The changes to this guideline do not have a material impact on Desjardins Group's liquidity practices.

Liquidity risk measurement and monitoring

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

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

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

Liquid assets

The following tables present a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because those assets are committed to covering 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 because of regulatory, legal, operational or other restrictions.

Liquid assets[(1)]

As at June 30, 2023

(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	**$ 5,855**	**$ —**	**$ 5,855**	**$ 586**	**$ 5,269**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**47,452**	**13,083**	**60,535**	**30,055**	**30,480**
Other securities in Canada	**6,416**	**687**	**7,103**	**1,142**	**5,961**
Issued or guaranteed by foreign issuers	**689**	**—**	**689**	**1**	**688**
Loans					
Insured residential mortgage-backed securities	**11,366**	**—**	**11,366**	**2,946**	**8,420**
Total	**$ 71,778**	**$ 13,770**	**$ 85,548**	**$ 34,730**	**$ 50,818**

See next page for the footnote.

Liquid assets[1] (continued)
As at December 31, 2022

(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	$ 7,751	$ —	$ 7,751	$ 589	$ 7,162
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	50,469	16,651	67,120	34,407	32,713
Other securities in Canada	5,813	557	6,370	798	5,572
Issued or guaranteed by foreign issuers	567	3	570	6	564
Loans					
Insured residential mortgage-backed securities	9,564	—	9,564	3,065	6,499
Total	$ 74,164	$ 17,211	$ 91,375	$ 38,865	$ 52,510

[1] Excluding assets held by insurance subsidiaries.

Unencumbered liquid assets by entity[1]

(in millions of dollars)	As at June 30, 2023	As at December 31, 2022
Federation	**$ 24,045**	$ 27,381
Caisse network	**23,200**	20,858
Other entities	**3,573**	4,271
Total	**$ 50,818**	$ 52,510

[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 course of its day-to-day 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 insurance contract liabilities.

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, 2023

				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[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,218	$ —	$ 8,218	$ 179	$ 586	$ 5,090	$ 2,363
Securities	83,610	21,733	105,343	38,061	1,121	37,109	29,052
Securities borrowed or purchased under reverse repurchase agreements	13,611	—	13,611	—	—	—	13,611
Net loans and acceptances	257,743	—	257,743	29,287	—	62,834	165,622
Segregated fund net assets	23,251	—	23,251	—	—	—	23,251
Other assets	23,125	—	23,125	—	—	—	23,125
Total	$ 409,558	$ 21,733	$ 431,291	$ 67,527	$ 1,707	$ 105,033	$ 257,024

See next page for footnotes.

Encumbered assets (continued)

As at December 31, 2022 Restated

				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[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 8,913	$ —	$ 8,913	$ —	$ 589	$ 7,162	$ 1,162
Securities	85,295	23,686	108,981	41,121	545	38,869	28,446
Securities borrowed or purchased under reverse repurchase agreements	17,024	—	17,024	—	—	—	17,024
Net loans and acceptances	249,695	—	249,695	28,097	—	65,501	156,097
Segregated fund net assets	21,356	—	21,356	—	—	—	21,356
Other assets	21,661	—	21,661	—	—	—	21,661
Total	$ 403,944	$ 23,686	$ 427,630	$ 69,218	$ 1,134	$ 111,532	$ 245,746

(1) Assets that cannot be used for legal or other reasons.

(2) “Other” unencumbered assets include those of the insurance companies as well as other assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form. Some of these other assets could eventually be assigned to the central bank as collateral.

Liquidity coverage ratio

The liquidity coverage ratio (LCR) was developed by the BCBS to promote the short-term resilience of the liquidity risk profile of financial institutions, and incorporated into the *Liquidity Adequacy Guideline* issued by the AMF. 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 qualifying 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 financial 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. This guideline also prescribes weightings for cash inflows and outflows.

The AMF stipulates that this ratio is not to be less than the minimum requirements of 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.

The table below presents quantitative information regarding the LCR, based on the template recommended in the AMF's *Liquidity Adequacy Guideline* for disclosure requirements.

Liquidity coverage ratio[1]

(in millions of dollars and as a percentage)	For the quarter ended June 30, 2023 Total non-weighted value[2] (average[4])	For the quarter ended June 30, 2023 Total weighted value[3] (average[4])	For the quarter ended March 31, 2023 Total weighted value[3] (average[4])
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 45,914**	$ 45,794
Cash outflows			
Retail deposits and small business deposits, including:	**$ 99,329**	**7,564**	7,868
Stable deposits	**51,991**	**1,560**	1,573
Less stable deposits	**47,338**	**6,004**	6,295
Unsecured wholesale funding, including:	**37,758**	**17,520**	18,985
Operational deposits (all counterparties) and deposits in cooperative bank networks	**14,827**	**3,578**	2,911
Non-operational deposits (all counterparties)	**15,153**	**6,164**	6,527
Unsecured debt	**7,778**	**7,778**	9,547
Secured wholesale funding	**N/A**	**81**	100
Additional requirements, including:	**22,158**	**4,374**	3,760
Outflows related to exposures on derivatives and other collateral required	**1,279**	**1,161**	1,146
Outflows related to funding loss on debt products	**561**	**561**	119
Credit and liquidity facilities	**20,318**	**2,652**	2,495
Other contractual funding liabilities	**3,958**	**2,286**	1,692
Other contingent funding liabilities	**91,911**	**2,456**	2,452
Total cash outflows	**N/A**	**$ 34,281**	$ 34,857
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 11,182**	**$ 351**	$ 404
Inflows related to completely effective exposures	**3,344**	**1,672**	1,656
Other cash inflows	**23**	**23**	9
Total cash inflows	**$ 14,549**	**$ 2,046**	$ 2,069
		Total adjusted value[5]	Total adjusted value[5]
Total high-quality liquid assets		**$ 45,914**	$ 45,794
Total net cash outflows		**32,235**	32,788
Liquidity coverage ratio		**143%**	140%

(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 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.

Desjardins Group's average LCR was 143% for the quarter ended June 30, 2023, slightly higher than the previous quarter. The LCR remains well above regulatory requirements. As at June 30, 2023, the high quality liquid asset average was approximately $45.9 billion ($45.8 billion as at March 31, 2023), of which 93% (93% as at March 31, 2023) was comprised of Level 1 assets, which include, in particular, coin and banknotes, deposits with central banks, and securities issued or secured by sovereign borrowers.

Net stable funding ratio

The net stable funding ratio (NSFR) was developed by the BCBS to promote the medium- and long-term resilience of the liquidity risk profile of financial institutions, and was incorporated into the AMF's *Liquidity Adequacy Guideline*. The NSFR requires financial institutions to maintain a stable funding and capitalization profile in relation to the composition of their assets and off-balance sheet activities. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk for all on- and off-balance sheet items, and promotes funding stability.

This ratio presents the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The amount of ASF designates the portion of capital and liabilities considered stable over a one-year horizon. Liabilities with the longest contractual maturities are the most significant contributors to the increase in the ratio. The ASF is composed mainly of capital, retail and business deposits, as well as wholesale funding liabilities. The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of assets and off-balance sheet exposures. The RSF is composed mainly of mortgages, other institutional loans and, to a lesser extent, other assets and off-balance-sheet items. The amounts of ASF and RSF are weighted to reflect the degree of stability of liabilities and the liquidity of assets. According to the AMF's *Liquidity Adequacy Guideline*, this ratio should be equal to at least 100% on an on-going basis.

The table below presents quantitative information regarding the NSFR, based on the template recommended in the AMF's *Liquidity Adequacy Guideline* for disclosure requirements.

Net Stable Funding Ratio[1]

(in millions of dollars and as a percentage)	As at June 30, 2023					As at March 31, 2023
	Unweighted value by residual maturity					
	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value	Weighted value
Available Stable Funding (ASF) item						
Capital	$ 31,980	$ —	$ —	$ 3,000	$ 34,980	$ 35,240
Regulatory capital	31,980	—	—	3,000	34,980	35,240
Other capital instruments	—	—	—	—	—	—
Retail deposits and deposits from small business customers	81,060	39,833	26,111	32,096	166,216	165,213
Stable deposits	47,598	7,438	6,482	10,204	68,646	67,556
Less stable deposits	33,462	32,395	19,629	21,892	97,570	97,657
Wholesale funding	25,684	39,299	4,991	20,235	37,061	35,796
Operational deposits	13,226	—	—	—	6,613	5,824
Other wholesale funding	12,458	39,299	4,991	20,235	30,448	29,972
Liabilities with matching interdependent assets	—	1,313	964	11,168	—	—
Other liabilities	22,664			12,255	—	—
NSFR derivative liabilities[2]	N/A			4,065	N/A	N/A
All other liabilities and equity not included in the above categories	22,664	8,190	—	—	—	—
Total ASF	N/A	N/A	N/A	N/A	$ 238,257	$ 236,249
Required Stable Funding (RSF) item						
Total NSFR high-quality liquid assets (HQLA)	N/A	N/A	N/A	N/A	$ 765	$ 767
Deposits held by other financial institutions for operational purposes	$ —	$ —	$ —	$ —	—	—
Performing loans and securities	19,892	47,703	20,918	171,054	169,591	166,181
Performing loans to financial institutions secured by Level 1 HQLA	—	12,820	—	—	641	444
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	—	1,349	300	500	788	723
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities (PSEs), of which:	14,071	25,160	8,856	64,786	81,315	79,360
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	—	8,320	4,667	13,609	8,846	8,677
Performing residential mortgages, of which:	5,814	6,824	11,487	103,071	83,636	82,438
Loans with a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	5,814	6,824	11,487	103,071	83,636	82,438
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	7	1,550	275	2,697	3,211	3,216
Assets with matching interdependent liabilities	—	1,313	964	11,168	—	—
Other assets[2]	—			29,106	17,154	16,307
Physical traded commodities, including gold	—	N/A	N/A	N/A	—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties[2]	N/A			348	296	253
NSFR derivative assets[2]	N/A			5,494	337	322
NSFR derivative liabilities before deduction of variation margin posted[2]	N/A			6,743	—	—
All other assets not included in the above categories	—	—	—	16,521	16,521	15,732
Off-balance sheet items[2]	N/A			112,709	2,880	2,794
Total RSF	N/A	N/A	N/A	N/A	$ 190,390	$ 186,049
Net Stable Funding Ratio	N/A	N/A	N/A	N/A	125%	127%

(1) Excluding the insurance subsidiaries.
(2) The amounts in these lines include the categories of residual maturities of less than 6 months, 6 months to less than 1 year and 1 year or more.

The NSFR was 125% for the quarter ended June 30, 2023, compared to 127% as at March 31, 2023. The decrease in NSFR was due to the increase in Required Stable Funding on account of growth in loans, which exceeded the increase in Available Stable Funding, which was itself connected mainly with growth in deposits.

Sources of funding

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 $265.5 billion as at June 30, 2023, up $5.7 billion since December 31, 2022. Additional information on deposits is presented in the "Balance sheet management" section of this MD&A.

Funding 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 2023, the Federation maintained a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional funding and the contribution of the caisse network. Short-term wholesale funding is used to finance very liquid assets while long-term wholesale funding is mainly used to finance less liquid assets and to support reserves of liquid assets.

In order to secure long-term funding 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 funding, it diversifies its sources from institutional markets. It therefore resorts to the capital markets when conditions are favourable, and makes public and private issues of term notes on Canadian, U.S. and international markets, as required.

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

Main funding programs
As at June 30, 2023

	Maximum authorized amount
Medium-term notes (Canadian)[1]	**$10 billion**
Covered bonds (multi-currency)[1]	**$26 billion**
Short-term notes (European)	**€5 billion**
Short-term notes (U.S.)	**US$20 billion**
Medium-term and subordinated notes (multi-currency)[1]	**€10 billion**
NVCC subordinated notes (Canadian)[1]	**$5 billion**
Medium-term notes (Australian)[1]	**AU$3 billion**

(1) Sustainable bonds may be issued under these funding programs in compliance with the Desjardins Sustainable Bond Framework.

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

Remaining contractual term to maturity of wholesale funding

	As at June 30, 2023								As at December 31, 2022
(in millions of dollars)	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	$ 2,585	$ 670	$ 45	$ 21	$ 3,321	$ —	$ —	$ 3,321	$ 3,005
Commercial paper	4,178	6,370	787	513	11,848	—	—	11,848	15,042
Medium-term notes	—	799	—	1,655	2,454	3,115	6,447	12,016	9,979
Mortgage loan securitization	—	782	531	967	2,280	1,963	9,126	13,369	13,075
Covered bonds	—	—	993	1,084	2,077	1,082	8,208	11,367	10,984
Subordinated notes	—	—	—	—	—	—	2,913	2,913	2,928
Total	$ 6,763	$ 8,621	$ 2,356	$ 4,240	$ 21,980	$ 6,160	$ 26,694	$ 54,834	$ 55,013
Including:									
Secured	$ —	$ 782	$ 1,524	$ 2,050	$ 4,356	$ 3,045	$ 20,247	$ 27,648	$ 26,988
Unsecured	6,763	7,839	832	2,190	17,624	3,115	6,447	27,186	28,025

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation. Total wholesale funding decreased by $0.2 billion, or 0.3%, compared to December 31, 2022. Desjardins Group does not foresee any event, commitment or requirement that could have a major impact on its ability to raise funds through wholesale funding or its members' deposits.

In addition, Desjardins Group diversifies its funding sources in order to limit its reliance 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, 2023			As at December 31, 2022	
Canadian dollars	**$**	**24,178**	**44.1%**	$	23,785	43.2%
U.S. dollars		**21,421**	**39.1**		21,651	39.4
Other		**9,235**	**16.8**		9,577	17.4
Total	**$**	**54,834**	**100.0%**	$	55,013	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 2023. The Federation also made the following issues:

- On January 23, 2023, an issue totalling US$600 million, subject to the bail-in regime, under its multi-currency medium-term note program.
- On January 31, 2023, an issue totalling 325 million Swiss francs under its legislative covered bond program.
- On March 14, 2023, an issue totalling US$750 million, subject to the bail-in regime, under its multi-currency medium-term note program.
- On April 18, 2023, an issue totalling €750 million under its legislative covered bond program.
- On April 24, 2023, an issue totalling $34.3 billion Japanese yen, subject to the bail-in regime, under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term funding programs amounted to $36.8 billion as at June 30, 2023, compared to $34.0 billion as at December 31, 2022. The outstanding notes for these issues are presented under "Deposits – Business and government" on the Combined Balance Sheets.

Overall, these transactions made it possible to adequately meet the liquidity needs of Desjardins Group, to better diversify its sources of funding and to further extend the 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 on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Québec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, are backed by Desjardins Group's financial strength.

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

Highlights of decisions by the rating agencies concerning Desjardins Group's instruments:

- On June 20, 2023, Fitch affirmed the ratings of the instruments issued by the Federation while maintaining their outlook as stable.
- On July 13, 2023, DBRS affirmed the ratings of the instruments issued by the Federation while maintaining their outlook as stable. This assessment reflects the strength of Desjardins Group in Québec, where it has a leading market shares.

The following table shows the different credit ratings assigned to the *Fédération des caisses Desjardins du Québec*'s financial instruments.

Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Counterparty/Deposits[(1)]	**AA**	**AA**	**Aa1**	**A+**
Short-term debt	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term debt, existing senior[(2)]	**AA**	**AA**	**Aa2**	**A+**
Medium- and long-term debt, senior[(3)]	**AA (low)**	**AA-**	**A1**	**A-**
NVCC subordinated notes	**A (low)**	**A**	**A2**	**BBB+**
Covered bonds	**—**	**AAA**	**Aaa**	**—**
Outlook	**Stable**	**Stable**	**Stable**	**Stable**

(1) Represents Moody's long-term deposit rating and counterparty risk rating, S&P's issuer credit rating, DBRS's long-term deposit rating, and Fitch's long-term issuer default rating, long-term deposit rating and derivative counterparty rating.
(2) 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 internal recapitalization (bail-in) regime applicable to Desjardins Group.
(3) Includes senior medium- and long-term debt issued on or after March 31, 2019, which qualifies for the internal recapitalization (bail-in) 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. 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 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 funding 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.

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

As at June 30, 2023

(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	$ 7,407	$ 759	$ 1	$ —	$ —	$ —	$ —	$ —	$ 51	$ 8,218
Securities										
Securities at fair value through profit or loss[1]	177	823	954	558	982	2,051	5,858	16,418	4,487	32,308
Securities at fair value through other comprehensive income[1]	1,220	1,059	998	982	2,712	7,289	22,809	12,749	1,435	51,253
Securities at amortized cost	—	—	1	1	—	1	6	40	—	49
Securities borrowed or purchased under reverse repurchase agreements	11,393	737	1,481	—	—	—	—	—	—	13,611
Loans										
Residential mortgages[2]	2,896	3,851	8,078	7,385	7,934	22,523	98,852	3,763	7,014	162,296
Consumer, credit card and other personal loans[2]	70	98	160	186	256	1,089	4,732	8,299	9,336	24,226
Business and government[2]	19,878	6,697	5,791	4,804	5,328	7,792	11,892	2,191	7,881	72,254
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,040)	(1,040)
Segregated fund net assets	—	—	—	—	—	—	—	—	23,251	23,251
Client's liability under acceptances	—	—	7	—	—	—	—	—	—	7
Derivative financial instruments	115	320	631	281	531	1,401	2,092	183	—	5,554
Amounts receivable from clients, brokers and financial institutions	3,148	13	—	—	—	—	—	—	814	3,975
Reinsurance contract assets	11	71	68	52	53	160	321	773	162	1,671
Right-of-use assets	—	—	—	—	—	—	—	—	529	529
Investment property	—	—	—	—	—	—	—	—	945	945
Property, plant and equipment	—	—	—	—	—	—	—	—	1,566	1,566
Goodwill	—	—	—	—	—	—	—	—	564	564
Intangible assets	—	—	—	—	—	—	—	—	1,136	1,136
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,546	1,546
Net defined benefits plan assets	—	—	—	—	—	—	—	—	534	534
Deferred tax assets	—	—	—	—	—	—	—	—	1,341	1,341
Other assets – Other	1,227	631	168	186	38	14	32	—	1,468	3,764
Total assets	$ 47,542	$ 15,059	$ 18,338	$ 14,435	$ 17,834	$ 42,320	$146,594	$ 44,416	$ 63,020	$ 409,558

See page 54 for footnotes.

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

As at June 30, 2023

(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[3]	$ 3,625	$ 5,544	$ 9,193	$ 8,126	$ 17,321	$ 15,925	$ 14,656	$ 210	$ 72,689	$ 147,289
Business and government[3]	9,923	9,684	3,900	3,579	3,654	7,892	21,106	4,246	53,600	117,584
Deposit-taking institutions[3]	55	5	1	251	5	6	2	—	341	666
Insurance contract liabilities	877	738	986	840	789	2,215	4,723	16,230	3,890	31,288
Acceptances	—	—	7	—	—	—	—	—	—	7
Commitments related to securities sold short[4]	496	218	816	318	469	2,171	2,273	3,881	15	10,657
Commitments related to securities lent or sold under repurchase agreements	20,356	146	—	—	—	—	—	—	—	20,502
Derivative financial instruments	178	404	680	520	603	1,598	2,710	369	—	7,062
Amounts payable to clients, brokers and financial institutions	4,623	6	—	—	—	—	—	—	3,916	8,545
Lease liabilities	7	13	19	20	18	71	188	268	—	604
Reinsurance contract liabilities	—	1	1	1	1	2	4	28	—	38
Net liabilities of investment contract segregated funds	—	—	—	—	—	—	—	—	19,721	19,721
Net defined benefit plan assets	—	—	—	—	—	—	—	—	678	678
Deferred tax liabilities	—	—	—	—	—	—	—	—	267	267
Other liabilities – Other	2,906	712	563	656	620	422	724	165	2,026	8,794
Subordinated notes	—	—	—	—	—	—	—	2,913	—	2,913
Total equity	—	—	—	—	—	—	—	—	32,943	32,943
Total liabilities and equity	$ 43,046	$ 17,471	$ 16,166	$ 14,311	$ 23,480	$ 30,302	$ 46,386	$ 28,310	$ 190,086	$ 409,558
Off-balance sheet commitments										
Credit commitments[5]	$ 1,298	$ 633	$ 810	$ 1,084	$ 1,743	$ 4,880	$ 12,424	$ 972	$ 104,927	$ 128,771
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	3,002	3,002
Documentary letters of credit	5	19	3	3	1	—	—	—	—	31
Guarantees and standby letters of credit	268	274	360	195	385	45	30	38	3	1,598

See page 54 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2022 Restated

(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	$ 7,900	$ 974	$ —	$ —	$ —	$ —	$ —	$ —	$ 39	$ 8,913
Securities										
Securities at fair value through profit or loss[1]	108	866	1,064	902	788	2,252	5,931	16,563	5,513	33,987
Securities at fair value through other comprehensive income[1]	554	1,646	1,613	1,640	869	5,792	24,093	14,986	65	51,258
Securities at amortized cost	—	—	—	—	1	1	6	42	—	50
Securities borrowed or purchased under reverse repurchase agreements	13,766	970	2,288	—	—	—	—	—	—	17,024
Loans										
Residential mortgages[2]	2,438	3,102	6,683	6,622	8,303	18,951	99,544	7,015	7,024	159,682
Consumer, credit card and other personal loans[2]	55	84	168	199	241	1,156	4,841	8,222	9,245	24,211
Business and government[2]	17,166	5,922	5,697	5,028	5,668	6,042	11,878	2,335	7,076	66,812
Allowance for credit losses	—	—	—	—	—	—	—	—	(1,035)	(1,035)
Segregated fund net assets	—	—	—	—	—	—	—	—	21,356	21,356
Clients' liability under acceptances	25	—	—	—	—	—	—	—	—	25
Derivative financial instruments	274	539	758	300	493	1,259	1,894	206	—	5,723
Amounts receivable from clients, brokers and financial institutions	2,771	5	—	—	—	—	—	—	710	3,486
Reinsurance contract assets	19	65	71	61	60	167	346	751	82	1,622
Right-of-use assets	—	—	—	—	—	—	—	—	543	543
Investment property	—	—	—	—	—	—	—	—	929	929
Property, plant and equipment	—	—	—	—	—	—	—	—	1,587	1,587
Goodwill	—	—	—	—	—	—	—	—	157	157
Intangible assets	—	—	—	—	—	—	—	—	663	663
Investments in companies accounted for using the equity method	—	—	—	—	—	—	—	—	1,465	1,465
Net defined benefits plan assets	—	—	—	—	—	—	—	—	679	679
Deferred tax assets	—	—	—	—	—	—	—	—	1,267	1,267
Other assets	836	772	239	14	16	12	31	—	1,620	3,540
Total assets	$ 45,912	$ 14,945	$ 18,581	$ 14,766	$ 16,439	$ 35,632	$ 148,564	$ 50,120	$ 58,985	$ 403,944

See page 54 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at December 31, 2022 Restated

(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[3]	$ 3,627	$ 3,817	$ 8,936	$ 6,750	$ 9,148	$ 19,852	$ 15,422	$ 260	$ 77,565	$ 145,377
Business and government[3]	11,216	8,919	4,938	2,447	2,845	8,220	19,852	3,963	51,772	114,172
Deposit-taking institutions[3]	61	12	7	4	3	6	2	—	192	287
Insurance contract liabilities	830	831	910	827	814	2,111	4,634	15,498	3,747	30,202
Acceptances	25	—	—	—	—	—	—	—	—	25
Commitments related to securities sold short[4]	146	1,009	331	54	45	1,114	2,944	4,208	8	9,859
Commitments related to securities lent or sold under repurchase agreements	23,994	571	—	—	—	—	—	—	—	24,565
Derivative financial instruments	131	387	753	311	579	1,672	2,428	430	—	6,691
Amounts payable to clients, brokers and financial institutions	4,846	4	—	—	—	—	—	—	4,128	8,978
Lease liabilities	6	12	18	21	19	69	189	288	—	622
Reinsurance contract liabilities	—	1	1	1	1	2	4	26	—	36
Net liabilities of investment contract segregated funds	—	—	—	—	—	—	—	—	17,826	17,826
Net defined benefit plan liabilities	—	—	—	—	—	—	—	—	654	654
Deferred tax liabilities	—	—	—	—	—	—	—	—	223	223
Other liabilities – Other	3,074	947	857	324	268	393	674	333	2,222	9,092
Subordinated notes	—	—	—	—	—	—	—	2,928	—	2,928
Total equity	—	—	—	—	—	—	—	—	32,407	32,407
Total liabilities and equity	$ 47,956	$ 16,510	$ 16,751	$ 10,739	$ 13,722	$ 33,439	$ 46,149	$ 27,934	$ 190,744	$ 403,944
Off-balance sheet commitments										
Credit commitments[5]	$ 1,223	$ 93	$ 574	$ 866	$ 885	$ 6,053	$ 10,994	$ 773	$ 103,072	$ 124,533
Indemnification commitments related to securities lending	—	—	—	—	—	—	—	—	3,385	3,385
Documentary letters of credit	5	1	3	4	5	—	—	—	—	18
Guarantees and standby letters of credit	267	263	393	217	235	43	42	1	49	1,510

(1) Equity securities are classified under “No stated maturity”.
(2) Amounts repayable on demand are classified under “No stated maturity”.
(3) Deposits payable on demand or after notice are considered as having “No stated maturity”.
(4) Amounts are presented by remaining contractual maturity of the underlying security.
(5) 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. These are classified under “No stated maturity”.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

Change in internal control over financial reporting

On January 1, 2023, the adoption of IFRS 17, “Insurance Contracts”, materially affected Desjardins Group’s internal control over financial reporting. Additions and changes have been made to controls related to actuarial and financial processes to comply with the requirements of this new standard. These processes also use new applications and technological tools.

For the opening balances as at January 1, 2022, we performed the following procedures to obtain the necessary assurance on the reliability of the financial reporting:

- Validate the completeness of internal controls to cover the significant risks of errors in the financial statements and the MD&A,
- Assess the implementation of the technological tools necessary to process IFRS 17 requirements,
- Analyze the supplier's report (SOC 1) to obtain assurance on the proper functioning of the controls operated by the supplier,
- Reconcile the opening balances as at January 1, 2022 before and after the adoption of IFRS 17.

We also reviewed the design and implementation of the financial and technological controls in place in 2022 used to validate the activities producing the 2022 comparative data in the 2023 documents.

For 2023, we plan to design and modify new controls over financial reporting, and:

- Monitor the progress on certain controls that must be modified or implemented since January 1, 2023 to validate their design,
- Perform effectiveness testing on all controls used for financial reporting in 2023, including those implemented in 2022 and 2023.

With the exception of the changes described above, Desjardins Group did not make any other significant changes to processes that had materially affected, or may materially affect, its internal control over financial reporting.

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, 2022.

Additional information on related party transactions is provided in Note 32, “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, “Significant accounting policies”, to Desjardins Group’s Annual Combined Financial Statements on pages 134 to 152 of the 2022 Annual Report, except for the changes resulting from the adoption of IFRS 17, “Insurance Contracts”, on January 1, 2023, which are described in Note 2, "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 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 100 to 106 of the 2022 annual MD&A. The economic environment continues to generate sources of uncertainty that have an impact on judgments as well as significant estimates and assumptions made by management in applying accounting policies. For more information about the significant judgments made to estimate the allowance for expected credit losses and assess insurance contract liabilities, please refer to Note 5, “Loans and allowance for credit losses” and Note 7, “Insurance and reinsurance contracts”, respectively, of the Interim Combined Financial Statements. Note 2, “Significant accounting policies” to the Interim Combined Financial Statements presents the significant judgments made on adoption of IFRS 17, “Insurance Contracts”.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2022 are described in Note 2, “Significant accounting policies”, to Desjardins Group's Annual Combined Financial Statements, on page 152 of the 2022 Annual Report. The IASB did not issue any new accounting standards or any new amendments to any existing standards during the six-month period ended June 30, 2023 that would have a significant impact on Desjardins Group’s financial statements.

ADDITIONAL INFORMATION REQUIRED PURSUANT TO THE AMF’S DECISION NO. 2021-FS-0091

In addition to the entities comprising the Desjardins Cooperative Group (as defined under “Desjardins Group profile”) and the subsidiaries of such entities, Desjardins Group’s Combined Financial Statements include Caisse Desjardins Ontario Credit Union Inc. (CDO). The CDO’s financial information compared to that of Desjardins Group is presented in the table below.

CDO financial information

	As at June 30, 2023			As at December 31, 2022 Restated		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Balance Sheets**	**% proportion**	CDO	Desjardins Group Combined Balance Sheets	% proportion
Total assets	**$ 11,180**	**$ 409,558**	**2.7%**	$ 10,756	$ 403,944	2.7%
Total liabilities	**10,361**	**376,615**	**2.8**	9,936	371,537	2.7
Total equity	**819**	**32,943**	**2.5**	820	32,407	2.5

	For the three-month periods ended									For the three-month periods ended					
	June 30, 2023			March 31, 2023			June 30, 2022 Restated			**June 30, 2023**			June 30, 2022 Restated		
(in millions of dollars and as a percentage)	**CDO**	**Desjardins Group Combined Statements of Income**	**% proportion**	CDO	Desjardins Group Combined Statements of Income	% proportion	CDO	Desjardins Group Combined Statements of Income	% proportion	**CDO**	**Desjardins Group Combined Statements of Income**	**% proportion**	CDO	Desjardins Group Combined Statements of Income	% proportion
Total net income	**$ 51**	**$ 3,239**	**1.6%**	$ 44	$ 2,667	1.6%	$ 69	$ 2,310	3.0%	**$ 95**	**$ 5,906**	**1.6%**	$ 171	$ 4,926	3.5%
Surplus earnings (deficit) before member dividends	**7**	**553**	**1.3**	(2)	342	(0.6)	22	38	57.9	**5**	**895**	**0.6**	70	489	14.3
Net surplus earnings (deficit) for the period after member dividends	**5**	**473**	**1.1**	(4)	264	(1.5)	19	(42)	(45.2)	**1**	**737**	**0.1**	65	334	19.5

GLOSSARY

Acceptance
Short-term debt security traded on the money market, guaranteed by a financial institution for a borrower in exchange for a stamping fee.

Advanced Internal Ratings-Based Approach
Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, loss given default, applicable maturity and exposure at default.

Allowance for credit losses
The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Amortized cost
For a financial asset or a financial liability, represents the historical cost at initial recognition, decreased or increased by amortization and any differences that made it fluctuate from initial recognition to maturity.

Annuity premium
Amount invested by a policyholder in order to receive annuity payments, immediately or after an accumulation period.

Assets under administration
Assets administered by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of such assets are administrative in nature, such as custodial services, collection of investment income and settlement of buy and sell transactions.

Assets under management
Assets managed by a financial institution that are beneficially owned by its members or clients and are therefore not recognized on its Combined Balance Sheet. Services provided in respect of assets under management include selecting investments and offering investment advice. Assets under management may also be administered by the financial institution. In such case, they are included in assets under administration.

***Autorité des marchés financiers* (AMF)**
Organization whose mission is to enforce the laws governing the financial industry in Québec, particularly in the areas of insurance, securities, deposit-taking institutions and financial product and service distribution.

Average assets
Average of assets presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average deposits
Average of deposits presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average equity before non-controlling interests
Average of equity before non-controlling interests presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average gross loans and acceptances
Average of loans, including clients' liability under acceptances, presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Average interest-bearing assets
Include securities, cash and deposits with financial institutions, as well as loans, and exclude insurance assets as well as all other assets not generating net interest income. The average is calculated based on month-end balances for the year.

Average net loans and acceptances
Average of loans, including clients' liability under acceptances, net of the allowance for credit losses presented in the Combined Financial Statements at the end of the quarters calculated from the quarter preceding the relevant period.

Basis point
Unit of measure equal to one one-hundredth of a percent (0.01%).

Bond
Certificate evidencing a debt under which the issuer promises to pay the holder a specified amount of interest for a specified period of time, and to repay the borrowing at maturity. Generally, assets are pledged as security for the borrowing, except in the case of government or corporate bonds. This term is often used to describe any debt security.

Capital ratios

Ratios determined by dividing regulatory capital by risk-weighted assets. These measures are defined in the *Capital Adequacy Guideline* issued by the AMF.

Capital share

Equity security offered to Desjardins caisse members.

Catastrophe and notable event

– Catastrophe
In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the cost is deemed significant since it reaches a minimum threshold, established annually Desjardins Group's management, for the reinsurance program retention.
  - Natural catastrophes can take many forms and include, but are not limited to, hurricanes, tornados, windstorms, hailstorms, heavy rainfalls, ice storms, floods, extreme weather conditions and wildfires.
  - Catastrophes other than natural catastrophes include, but are not limited to, terrorist acts, riots, explosions, crashes, train wrecks, large-scale cyber attacks.

– Notable event
In property and casualty insurance, group of claims caused by one or multiple close events arising from, among others, natural or other than natural causes, for which the impact on the loss ratio and claims frequency is deemed significant by Desjardins Group's management.

Commitment

– Direct commitment
Any agreement entered into by a Desjardins Group component with a natural or legal person creating an on- or off-balance sheet exposure, either disbursed or non-disbursed, revocable or irrevocable, with or without condition, that may lead to losses for the component if the debtor is unable to meet its obligations.

– Indirect commitment
Any financial receivable creating a credit exposure that is acquired by a Desjardins Group component in connection with a purchase on the market or the delivery of a financial asset pledged as collateral by a client or a counterparty, whose value may change in particular as a result of the deterioration of the creditworthiness of the counterparty associated to this receivable or changes in market prices.

Contractual service margin (CSM)

Unearned profit that will be recognized under "Insurance revenue", in the Combined Statements of Income, as insurance contract services are provided.

Countercyclical buffer

The countercyclical buffer aims to ensure that capital requirements take account of the macro-financial environment in which Desjardins Group operates. The AMF could deploy this buffer when it judges that excessive credit growth is associated with a build-up of system-wide risks and, as such, would provide a buffer of capital to absorb potential losses.

Covered bond

Full recourse on-balance sheet bond issued by a financial institution and secured by assets, comprised mainly of mortgage loans, over which investors enjoy a priority claim in the event of an issuer's insolvency or bankruptcy. These assets are separated from the issuer's assets in the event of the issuer's insolvency or bankruptcy and belong to a bankruptcy remote structured entity that guarantees the bond.

Credit commitment

Unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit, whose primary purpose is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Credit instrument

Credit facility offered in the form of a loan or other financing vehicle recognized in the Combined Balance Sheets or in the form of an off-balance sheet product. Credit instruments include credit commitments, documentary letters of credit as well as guarantees and standby letters of credit.

Credit loss provisioning rate

Provision for credit losses on loans and off-balance sheet items expressed as a percentage of average gross loans and acceptances.

Credit risk

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.

Credit valuation adjustment

Adjustment representing the market value of a potential loss on over-the-counter derivatives due to counterparty and issuer risk.

Defined benefit pension plan

Pension plan guaranteeing each participant a defined level of retirement income that is often based on a formula set by the plan in terms of the participant's salary and years of service.

Derivative financial instrument, or derivative

Financial contract whose value fluctuates based on an underlying asset, but that does not require holding or delivering the underlying asset itself. Derivatives are used to transfer, modify or reduce current or expected risks, including risks related to interest and exchange rates and financial indexes.

Desjardins Group (Desjardins) component
Cooperative or subsidiary that is part of Desjardins Group.

Direct Written Premiums
In property and casualty insurance, the premiums stipulated in insurance policies issued during the year. In life and health insurance, insurance or annuity premiums for the policies or certificates issued during the year.

Documentary letter of credit
Instrument issued for a member or a client that represents Desjardins Group's agreement to honour drafts presented by a third party upon completion of certain activities, up to a set maximum amount. Desjardins Group is exposed to the risk that the client does not ultimately pay the amount of the drafts. However, the amounts used are secured by the related goods.

Economic capital
Amount of capital that an institution must maintain, in addition to anticipated losses, to ensure its solvency over a certain horizon and at a high confidence level.

Effective interest rate
Rate determined by discounting total future cash flows, including those related to commissions paid or received, premiums or discounts and transaction costs.

Effective tax rate
Income tax expense on surplus earnings expressed as a percentage of operating surplus earnings.

Environmental or social risk
Risk that the impact of an environmental or social event or issue in connection with Desjardins Group’s operations or its financing, investing or insurance activities, which could result in financial losses or harm its reputation. This risk may also materialize indirectly through business relations with other entities whose operations could involve Environmental, Social or Governance (ESG) issues.

Exposure at default (EAD)
Estimate of the amount of a given exposure at time of default. For balance sheet exposures, it corresponds to the balance as at observation time. For off-balance sheet exposures, it includes an estimate of additional draws that may be made between observation time and default.

Exposures related to residential mortgage loans
In accordance with the regulatory capital framework, risk category that includes mortgage loans and credit margins secured by real property granted to individuals.

Fair value
Price that would be received to sell an asset or paid to transfer a liability in an orderly transaction at the measurement date.

Fair value measurement
Measurement to determine the approximate value at which financial instruments could be traded in a current transaction between willing parties.

Forward contract
Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are tailored and traded over the counter.

Forward exchange contract
Contractual commitment to sell or purchase a fixed amount of foreign currency on a specified future date and at a predetermined exchange rate.

Foundation Internal Ratings-Based Approach
Approach under which risk weighing is based on the type of counterparty (individuals, small or medium-sized business, large corporation, etc.) and risk-weighting factors determined using internal parameters: the borrower's probability of default, applicable maturity and exposure at default. The regulator prescribes the loss given default parameters.

Fraud and financial crime risk
Risk associated with acts conducted illegally by internal or external parties with the intent to cause harm, benefit from them or misappropriate assets belonging to Desjardins Group, members or clients, or risk associated with non-compliance by Desjardins Group with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision regarding financial crimes.

Futures contract
Contractual commitment to sell or purchase a determined quantity of a specified underlying asset on a future specified date and at a predetermined price. These contracts, which are derivatives, are standardized and exchange-traded.

Gross credit-impaired loan
A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated cash flows of that financial asset have occurred. A financial asset is therefore considered credit-impaired when it is in default, unless the detrimental impact on the estimated future cash flows is considered insignificant. The definition of default is associated with an instrument for which contractual payments are 90 days past due, or certain other criteria.

Gross credit-impaired loans/gross loans and acceptances
Gross credit-impaired loans expressed as a percentage to total gross loans and acceptances.

Group insurance premium
Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance. The premium is directly proportional to the number of insured persons and the coverage chosen by the policyholder.

Guarantee and standby letter of credit
Irrevocable commitment by a financial institution to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group’s policy with respect to collateral received for these instruments is generally the same as for loans.

Hedge fund
Investment fund offered to accredited investors. A hedge fund manager enjoys great latitude with respect to the investment strategies to be used, which may include selling short, leverage, program trading, swaps, arbitrage and derivatives.

Hedging
Transaction designed to reduce or offset Desjardins Group's exposure to one or more financial risks that involves taking a position exposed to effects that are equivalent, but of opposite direction, to the effects of market fluctuations on an existing or forecasted position.

Incremental risk charge (IRC)
Additional capital charge related to default and migration risks of positions with issuer risk in trading portfolios.

Indemnification commitment related to securities lending
Commitment made to members and clients with whom Desjardins Group entered into securities lending agreements and intended to ensure that the fair value of the securities lent will be reimbursed if the borrower does not return the borrowed securities or if the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

Individual insurance premium
Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The cost of insurance portion of the premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance contract
Contract that transfers a significant insurance risk to an insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate a contract holder if a specified uncertain future event adversely affects the contract holder. In certain situations, an insurance contract may also transfer a financial risk.

Insurance contract liabilities
Obligation representing the amount of an insurance company’s commitments toward all insureds and beneficiaries, including an amount to cover the payment of benefits.

Insurance premium
Payment that the insurance policyholder is required to make to maintain the contract in force. This payment represents the cost of insurance and can sometimes include a savings component. The premium is directly proportional to the amount of risk underwritten by the insurer.

Insurance risk
- Life and health insurance risk is the risk that the amount and timing of benefits and expenses payable on life insurance, health insurance or annuity contract products differ from those expected.
- Property and casualty insurance risk is the risk that benefits payable on property and casualty insurance products differ from the amounts estimated when designing, pricing or measuring actuarial reserves.

Insurance sales
Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to annualized gross new premiums under group and individual insurance policies.

Internal Models Method
Approach used to calculate, with internal models, risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on different risk measures, such as Value at Risk, stressed Value at Risk and the incremental risk charge (IRC).

Large loss
In property and casualty insurance, single claim having a significant cost.

Legal and regulatory risk
Risk associated with the non-compliance by Desjardins Group with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision or a contractual commitment, which could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Leverage ratio

Ratio calculated as the capital measure, which is Tier 1 capital, divided by the exposure measure. The exposure measure includes:

- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

Liquidity coverage ratio

Ratio determined by dividing the stock of unencumbered HQLA by the amount of net cash outflows for the next 30 days assuming an acute liquidity stress scenario.

Liquidity risk

Risk related 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.

Loss given default (LGD)

Economic loss that may be incurred should the borrower default, expressed as a percentage of exposure at default.

Loss on onerous contracts

When a group of insurance contracts is onerous on initial recognition or subsequently becomes onerous, a loss on onerous contracts is recognized as insurance service expenses and a loss component is added to the liability for remaining coverage. Subsequent changes in the loss component related to future service are recognized as losses and reversals of losses on onerous contracts under "Insurance service expenses" in the Combined Statements of Income.

Market risk

Risk of loss arising from changes in the fair value of financial instruments as a result of fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.

Master netting agreement

Standard agreement developed to reduce the credit risk of multiple derivative transactions by creating a legal right to set off the obligations of a counterparty in the event of default.

Matching

Process of adjusting asset, liability and off-balance sheet item maturities in order to reduce risks related to interest or exchange rates and financial indexes. Matching is used in asset/liability management.

Member dividend

As a cooperative financial group, Desjardins Group distributes to its members a portion of its surplus earnings for a given year, taking into account its financial capacity. This distribution, called member dividend, is paid by the caisses and tailored to each member based on the use they make of their cooperative's financial services.

Morbidity rate

Probability that a person of a given age will suffer an illness or disability. The accident/health insurance premium paid by a person belonging to a particular age group is based on this group's morbidity rate.

Mortality rate

Rate of death in a particular group of persons. The life insurance premium paid by a person belonging to a particular age group is based on this group's mortality rate.

Mortgage-backed security

Security created through the securitization of a pool of residential mortgage loans under the *National Housing Act*.

Net interest income

Difference between what a financial institution receives on assets such as loans and securities and what it pays out on liabilities such as deposits and subordinated bonds.

Net interest margin

Net interest income expressed as a percentage of average interest-bearing assets.

Net sales of savings products

Metric used to measure growth in Wealth Management and Life and Health Insurance segment operations. It is equal to sales of group and individual savings products manufactured and distributed by segment entities, and is comprised of on- or off-balance sheet deposits, less redemptions.

Net stable funding ratio (NSFR)

Ratio determined by dividing available stable funding, designated by capital and liabilities, by required stable funding, designated by assets.

Notional amount

Reference amount used to calculate payments for instruments such as forward rate agreements and interest rate swaps. This amount is called "notional" because it does not change hands.

NVCC subordinated notes
Securities that meet the non-viability contingent capital (NVCC) requirements set out in the *Capital Adequacy Guideline* issued by the AMF, in particular securities issued by the Federation with a clause providing for their automatic conversion into capital shares of the Federation upon the occurrence of a trigger event as defined in the guideline.

Off-balance sheet exposure
Includes guarantees, commitments, derivatives and other contractual agreements whose total notional amount may not be recognized on the balance sheet.

Office of the Superintendent of Financial Institutions (OSFI)
Organization whose mission is to enforce all laws governing the financial industry in Canada, particularly as concerns banks, insurance companies, trust companies, loan companies, cooperative credit associations, fraternal companies and private pension plans subject to federal oversight.

Operational risk
Risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses or failure to achieve objectives and takes into account the impact of failures on the achievement of the strategic objectives of the relevant component or Desjardins Group, as the case may be.

Option
Contractual agreement that grants the right, but not the obligation, to sell (put option) or to buy (call option) a specified amount of a financial instrument at a predetermined price (the exercise or strike price) on or before a specified date.

Other retail client exposures
In accordance with the regulatory capital framework, risk category that includes all loans granted to individuals except for exposures related to residential mortgage loans and qualifying revolving retail client exposures.

Pension plan
Contract under which participants receive retirement benefits under certain terms starting at a given age. A pension plan is funded through contributions made either by the employer alone or by both the employer and the participants.

Privacy risk
Risk associated with inadequate handling of personal information (theft or breach, loss, collection, consent management, use, disclosure, retention, destruction or infringement of the rights of individuals related to their personal information) through intentional or unintentional actions (internal threat, error, negligence or omission). The key consequences of privacy risk deal with Desjardins Group’s reputation, compliance and potential financial losses.

Probability of default (PD)
Probability that a borrower defaults on his obligations over a period of one year.

Productivity index – Personal and Business Services
Gross non-interest expense for the Personal and Business Services segment expressed as a percentage of total net income for the Personal and Business Services segment.

Provision for credit losses
Amount recognized in profit or loss to bring the allowance for credit losses to a level determined appropriate by management. It includes provisions for credit losses on unimpaired and impaired financial assets.

Qualifying revolving retail client exposures
In accordance with the regulatory capital framework, risk category that includes credit card loans and unsecured credit margins granted to individuals.

Ratio of employee benefits to total base compensation
Employee benefits expressed as a percentage of salaries.

Regulatory capital
In accordance with the definition set out in the *Capital Adequacy Guideline* issued by the AMF, the regulatory capital under Basel III comprises Tier 1A capital, Tier 1 capital and Tier 2 capital. The composition of these various tiers is presented in the “Capital management” section of the Management's Discussion and Analysis.

Regulatory funds
Funds needed to cover unexpected losses, calculated according to parameters and methods prescribed by regulatory authorities.

Reinsurance contract
Contract whereby one insurer assumes all or part of a risk undertaken by another insurer. Despite the contract, the original insurer remains fully liable to its policyholders for the insurance obligations.

Repurchase agreement
Agreement involving both the sale of securities for cash and the repurchase of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Reputation risk

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

Return on equity

Return on equity is equal to surplus earnings before member dividends, excluding the non-controlling interests' share, expressed as a percentage of average equity before non-controlling interests.

Reverse repurchase agreement

Agreement involving both the purchase of securities for cash and the sale of these securities for value at a later date. This type of agreement represents a form of short-term financing.

Risk adjustment for non-financial risk

Compensation that the insurance subsidiaries require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks when they fulfil insurance contracts.

Risk-weighted assets

Assets adjusted based on a risk-weighting factor prescribed by regulations to reflect the level of risk associated with items presented in the combined balance sheets. Some assets are not weighted, but rather deducted from capital. The calculation method is defined in the guidelines issued by the AMF. For more details, see the "Capital management" section of the Management's Discussion and Analysis.

Scaling factor

Adjustment representing 6.0% of risk assets measured using the Internal Ratings-Based Approach, applied to credit exposures in compliance with section 1.3 of the *Capital Adequacy Guideline* issued by the AMF.

Securitization

Process by which financial assets, such as mortgage loans, are converted into asset-backed securities.

Security borrowed or purchased

Security typically borrowed or purchased to cover a short position. The borrowing or purchase usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security lent or sold

Security typically lent or sold to cover a short position of the borrower. The loan or sale usually requires that an asset, taking the form or cash or highly rated securities, be pledged as collateral by the borrower.

Security sold short

Commitment by a seller to sell a security it does not own. Typically, the seller initially borrows the security to deliver it to the purchaser. At a later date, the seller buys an identical security to replace the borrowed security.

Segregated fund

Type of fund offered by insurance companies through a variable contract that provides the contract holder with a number of guarantees, such as principal repayment upon death. Segregated funds encompass a range of categories of securities and are designed to meet a variety of investment objectives. Segregated fund deposits represent amounts invested by clients. Segregated funds are comprised of investment funds with capital guaranteed upon death or at maturity.

Segregated fund deposits

Amounts paid by annuity contract holders in order to invest in segregated funds. Individual annuity contracts provide for a guarantee of the principal on death or at maturity.

Standardized Approach

- Credit risk
  Default approach used to calculate risk-weighted assets. Under this method, the entity uses valuations performed by external credit assessment institutions recognized by the AMF to determine the risk-weighting factors related to the various exposure categories.
- Market risk
  Default approach used to calculate risk-weighted assets for the four areas of market risk: interest rate risk, equity price risk, foreign exchange risk and commodity risk. The calculation is based on predefined rules such as those on the size and nature of the financial instruments held.
- Operational risk
  Risk measurement approach used to assess the capital charge for operational risk. For this measurement, activities are divided into predefined business lines for a financial institution. The capital charge is calculated by multiplying each business line's gross income by a specific factor. The total capital charge represents the three-year average of the summation of the capital charges across each of the business lines in each year.

Strategic risk

Risk of loss of value attributable to the occurrence of external and internal events or the implementation of inadequate strategies that might prevent the relevant component or Desjardins Group from achieving its strategic objectives.

Stressed Value at Risk

Value calculated in the same way as the Value at Risk, except for the historical data used, which are for a one-year stress period.

Structural interest rate risk
Risk related to the potential impact of interest rate fluctuations on net interest income and the economic value of equity.

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

Subordinated note
Unsecured note whose repayment in the event of liquidation is subordinated to the prior repayment of certain other creditors.

Subsidiary
Company controlled by the Federation.

Swap
Derivative financial instrument under which two parties agree to exchange interest rates or currencies for a specified period according to predetermined rules.

TLAC leverage ratio
Ratio determined by dividing the total loss absorbing capacity by the exposure measure. The exposure measure is independent from risk and includes:
- on-balance sheet exposures;
- securities financing transaction exposures;
- derivative exposures; and
- off-balance sheet items.

TLAC ratio
Ratio determined by dividing the total loss absorbing capacity (TLAC) by risk-weighted assets.

Total loss absorbing capacity – TLAC
Regulatory capital and instruments that meet the eligibility criteria set out in the Total Loss Absorbing Capacity Guideline issued by the AMF.

Unused exposure
Amount of credit authorizations offered in the form of margins or loans that is not yet used.

Used exposure
Amount of funds invested in or advanced to a member or client.

Value at Risk (VaR)
Potential loss that could occur by the next business day in normal market conditions and at a confidence level of 99% (approximate loss that could occur once every 100 days).

COMBINED FINANCIAL STATEMENTS

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Combined Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at June 30, 2023	As at December 31, 2022 Restated (Note 2)	As at January 1, 2022 Restated (Note 2)
ASSETS				
Cash and deposits with financial institutions		**$ 8,218**	$ 8,913	$ 16,328
Securities				
Securities at fair value through profit or loss		**32,308**	33,987	39,730
Securities at fair value through other comprehensive income		**51,253**	51,258	53,286
Securities at amortized cost		**49**	50	41
		83,610	85,295	93,057
Securities borrowed or purchased under reverse repurchase agreements		**13,611**	17,024	12,019
Loans	5			
Residential mortgages		**162,296**	159,682	149,695
Consumer, credit card and other personal loans		**24,226**	24,211	24,214
Business and government		**72,254**	66,812	57,400
		258,776	250,705	231,309
Allowance for credit losses	5	**(1,040)**	(1,035)	(970)
		257,736	249,670	230,339
Segregated fund net assets		**23,251**	21,356	22,846
Other assets				
Clients' liability under acceptances		**7**	25	268
Derivative financial instruments		**5,554**	5,723	5,828
Amounts receivable from clients, brokers and financial institutions		**3,975**	3,486	2,557
Reinsurance contract assets	7	**1,671**	1,622	1,848
Right-of-use assets		**529**	543	530
Investment property		**945**	929	926
Property, plant and equipment		**1,566**	1,587	1,531
Goodwill		**564**	157	157
Intangible assets		**1,136**	663	466
Investments in companies accounted for using the equity method		**1,546**	1,465	1,380
Net defined benefits plan assets		**534**	679	62
Deferred tax assets		**1,341**	1,267	593
Other		**3,764**	3,540	2,934
		23,132	21,686	19,080
TOTAL ASSETS		**$ 409,558**	$ 403,944	$ 393,669
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits	6			
Individuals		**$ 147,289**	$ 145,377	$ 136,332
Business and government		**117,584**	114,172	101,644
Deposit-taking institutions		**666**	287	379
		265,539	259,836	238,355
Insurance contract liabilities	7	**31,288**	30,202	33,847
Other liabilities				
Acceptances		**7**	25	268
Commitments related to securities sold short		**10,657**	9,859	11,342
Commitments related to securities lent or sold under repurchase agreements		**20,502**	24,565	31,177
Derivative financial instruments		**7,062**	6,691	5,680
Amounts payable to clients, brokers and financial institutions		**8,545**	8,978	7,938
Lease liabilities		**604**	622	596
Reinsurance contract liabilities	7	**38**	36	45
Segregated fund net liabilities for investment contracts		**19,721**	17,826	18,628
Net defined benefit plan liabilities		**678**	654	1,048
Deferred tax liabilities		**267**	223	163
Other		**8,794**	9,092	8,924
		76,875	78,571	85,809
Subordinated notes		**2,913**	2,928	1,960
TOTAL LIABILITIES		**376,615**	371,537	359,971
EQUITY				
Capital stock		**4,794**	4,786	4,982
Undistributed surplus earnings		**3,487**	8,982	1,559
Accumulated other comprehensive income	8	**(1,855)**	(2,058)	317
Reserves		**25,636**	19,802	25,870
Equity – Group's share		**32,062**	31,512	32,728
Non-controlling interests		**881**	895	970
TOTAL EQUITY		**32,943**	32,407	33,698
TOTAL LIABILITIES AND EQUITY		**$ 409,558**	$ 403,944	$ 393,669

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 2023	2022 Restated (Note 2)	For the six-month periods ended June 30 2023	2022 Restated (Note 2)
INTEREST INCOME					
Loans		**$ 2,873**	$ 1,879	**$ 5,519**	$ 3,608
Securities		**504**	205	**996**	348
		3,377	2,084	**6,515**	3,956
INTEREST EXPENSE					
Deposits		**1,468**	451	**2,844**	793
Subordinated notes		**42**	13	**67**	25
Other		**98**	24	**178**	36
		1,608	488	**3,089**	854
NET INTEREST INCOME	10	**1,769**	1,596	**3,426**	3,102
INSURANCE SERVICE RESULT					
Insurance revenue		**2,562**	2,406	**5,055**	4,783
Insurance service expenses		**(2,238)**	(2,221)	**(4,596)**	(4,277)
Net reinsurance service income (expenses)		**(36)**	25	**(62)**	12
		288	210	**397**	518
NET INSURANCE FINANCE RESULT					
Net insurance investment income (loss)	7	**249**	(2,404)	**1,329**	(4,776)
Net insurance finance income (expenses)		**(83)**	2,250	**(1,082)**	4,838
Net reinsurance finance income (expenses)		**11**	(93)	**53**	(209)
		177	(247)	**300**	(147)
NET INSURANCE SERVICE INCOME (LOSS)	7	**465**	(37)	**697**	371
OTHER INCOME					
Deposit and payment service charges		**117**	114	**230**	218
Lending fees and card service revenues		**242**	218	**508**	440
Brokerage and investment fund services		**400**	251	**653**	519
Management and custodial service fees		**189**	170	**352**	329
Net other investment income (loss)	10	**(86)**	(120)	**(196)**	(281)
Foreign exchange income		**47**	27	**86**	58
Other		**96**	91	**150**	170
		1,005	751	**1,783**	1,453
TOTAL NET INCOME		**3,239**	2,310	**5,906**	4,926
PROVISION FOR CREDIT LOSSES	5	**66**	66	**171**	72
NON-INTEREST EXPENSE					
Salaries and employee benefits		**1,410**	1,319	**2,732**	2,545
Professional fees		**233**	340	**450**	580
Technology		**259**	222	**520**	438
Commissions		**231**	76	**329**	149
Occupancy costs		**99**	95	**202**	197
Communications		**95**	91	**183**	170
Business and capital taxes		**29**	33	**67**	72
Other		**324**	251	**542**	532
Gross non-interest expense		**2,680**	2,427	**5,025**	4,683
Non-interest expense included in insurance service expenses		**(246)**	(253)	**(495)**	(505)
NET NON-INTEREST EXPENSE		**2,434**	2,174	**4,530**	4,178
OPERATING SURPLUS EARNINGS		**739**	70	**1,205**	676
Income taxes on surplus earnings		**186**	32	**310**	187
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS		**553**	38	**895**	489
Member dividends		**109**	109	**215**	211
Tax recovery on member dividends		**(29)**	(29)	**(57)**	(56)
NET SURPLUS EARNINGS (DEFICIT) FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 473**	$ (42)	**$ 737**	$ 334
of which:					
Group's share		**$ 462**	$ (31)	**$ 723**	$ 334
Non-controlling interests' share		**11**	(11)	**14**	—

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 2023	2022 Restated (Note 2)	For the six-month periods ended June 30 2023	2022 Restated (Note 2)
Net surplus earnings (deficit) for the period after member dividends	**$ 473**	$ (42)	**$ 737**	$ 334
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 assets and liabilities	**(199)**	322	**(220)**	986
Share of associates and joint ventures accounted for using the equity method	**—**	(4)	**—**	—
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(3)**	2	**40**	2
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**(6)**	3	**(5)**	6
	(208)	323	**(185)**	994
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)	**(195)**	(585)	**76**	(1,564)
Reclassification of net (gains) losses to the Combined Statements of Income	**74**	33	**132**	67
	(121)	(552)	**208**	(1,497)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(427)**	(211)	**(167)**	(534)
Reclassification to the Combined Statements of Income of net (gains) losses on derivative financial instruments designated as cash flow hedges	**24**	(5)	**45**	(19)
	(403)	(216)	**(122)**	(553)
Share of associates and joint ventures accounted for using the equity method	**1**	—	**1**	—
	(523)	(768)	**87**	(2,050)
Total other comprehensive income, net of income taxes	**(731)**	(445)	**(98)**	(1,056)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ (258)**	$ (487)	**$ 639**	$ (722)
of which:				
Group's share	**$ (264)**	$ (471)	**$ 626**	$ (715)
Non-controlling interests' share	**6**	(16)	**13**	(7)

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 2023	2022 Restated (Note 2)	For the six-month periods ended June 30 2023	2022 Restated (Note 2)
Items that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan assets and liabilities	**$ (73)**	$ 118	**$ (80)**	$ 355
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(6)**	1	**1**	1
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**(3)**	1	**(2)**	3
	(82)	120	**(81)**	359
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)	**(67)**	(205)	**26**	(551)
Reclassification of net (gains) losses to the Combined Statements of Income	**26**	12	**45**	24
	(41)	(193)	**71**	(527)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(153)**	(79)	**(60)**	(193)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	**8**	(2)	**16**	(7)
	(145)	(81)	**(44)**	(200)
	(186)	(274)	**27**	(727)
Total income tax expense (recovery)	**$ (268)**	$ (154)	**$ (54)**	$ (368)

Combined Statements of Changes in Equity

(unaudited)

For the six-month periods ended June 30

(in millions of Canadian dollars)	Capital stock	Undistributed surplus earnings	Accumulated other comprehensive income (Note 8)	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
RESTATED BALANCE AS AT DECEMBER 31, 2022	**$ 4,786**	**$ 8,982**	**$ (2,058)**	**$ 343**	**$ 1,704**	**$ 17,755**	**$ 19,802**	**$ 31,512**	**$ 895**	**$ 32,407**
New financial asset designation (Note 2)	**—**	**(199)**	**119**	**—**	**—**	**—**	**—**	**(80)**	**—**	**(80)**
RESTATED BALANCE AS AT JANUARY 1, 2023	**$ 4,786**	**$ 8,783**	**$ (1,939)**	**$ 343**	**$ 1,704**	**$ 17,755**	**$ 19,802**	**$ 31,432**	**$ 895**	**$ 32,327**
Net surplus earnings (deficit) for the period after member dividends	**—**	**723**	**—**	**—**	**—**	**—**	**—**	**723**	**14**	**737**
Other comprehensive income for the period	**—**	**(181)**	**84**	**—**	**—**	**—**	**—**	**(97)**	**(1)**	**(98)**
Comprehensive income for the period	**—**	**542**	**84**	**—**	**—**	**—**	**—**	**626**	**13**	**639**
Other changes to capital stock	**8**	**—**	**—**	**—**	**—**	**—**	**—**	**8**	**—**	**8**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(27)**	**(27)**
Transfer from undistributed surplus earnings (to reserves)	**—**	**(5,834)**	**—**	**273**	**1,824**	**3,737**	**5,834**	**—**	**—**	**—**
Other	**—**	**(4)**	**—**	**—**	**—**	**—**	**—**	**(4)**	**—**	**(4)**
BALANCE AS AT JUNE 30, 2023	**$ 4,794**	**$ 3,487**	**$ (1,855)**	**$ 616**	**$ 3,528**	**$ 21,492**	**$ 25,636**	**$ 32,062**	**$ 881**	**$ 32,943**
BALANCE AS AT DECEMBER 31, 2021, as reported	$ 4,982	$ 1,546	$ 765	$ 795	$ 1,212	$ 23,314	$ 25,321	$ 32,614	$ 912	$ 33,526
Adoption of IFRS 17 (Note 2)	—	13	(448)	—	—	549	549	114	58	172
RESTATED BALANCE AS AT JANUARY 1, 2022	$ 4,982	$ 1,559	$ 317	$ 795	$ 1,212	$ 23,863	$ 25,870	$ 32,728	$ 970	$ 33,698
Net surplus earnings (deficit) for the period after member dividends (restated)	—	334	—	—	—	—	—	334	—	334
Other comprehensive income for the period (restated)	—	988	(2,037)	—	—	—	—	(1,049)	(7)	(1,056)
Comprehensive income for the period (restated)	—	1,322	(2,037)	—	—	—	—	(715)	(7)	(722)
Other changes to capital stock	(38)	—	—	—	—	—	—	(38)	—	(38)
Transactions related to non-controlling interests	—	—	—	—	—	—	—	—	(9)	(9)
Dividends	—	—	—	—	—	—	—	—	(40)	(40)
Transfer from undistributed surplus earnings (to reserves) (restated)	—	(2,116)	—	77	493	1,546	2,116	—	—	—
Equity transactions (restated)[1]	—	7,896	—	—	—	(7,896)	(7,896)	—	—	—
RESTATED BALANCE AS AT JUNE 30, 2022	$ 4,944	$ 8,661	$ (1,720)	$ 872	$ 1,705	$ 17,513	$ 20,090	$ 31,975	$ 914	$ 32,889

[1] The increase in undistributed surplus earnings as at June 30, 2022 results from equity transactions between Desjardins Group entities. Undistributed surplus earnings arising from such transactions were included in the surplus earnings distribution plans for 2023. These transactions had no impact on Desjardins Group's equity.

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 2023	2022 Restated (Note 2)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 1,205**	$ 676
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**228**	193
Amortization of premiums and discounts	**79**	191
Provision for credit losses	**171**	72
Net realized (gains) losses on securities classified as at fair value through other comprehensive income	**88**	73
Net (gains) losses on disposal of property, plant and equipment, intangible assets and investment property	**(2)**	(5)
Other	**(24)**	(47)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**1,679**	4,229
Securities borrowed or purchased under reverse repurchase agreements	**3,413**	(3,806)
Loans	**(8,237)**	(11,542)
Insurance and reinsurance contract assets and liabilities	**1,039**	(4,622)
Derivative financial instruments, net amount	**366**	2,538
Net amounts receivable from and payable to clients, brokers and financial institutions	**(922)**	(1,138)
Deposits	**5,703**	14,316
Commitments related to securities sold short	**798**	2,041
Commitments related to securities lent or sold under repurchase agreements	**(4,063)**	(3,435)
Other	**(1,372)**	799
Payment of the contingent consideration	**(60)**	(87)
Income taxes paid on surplus earnings	**(211)**	(599)
Payment of member dividends	**(398)**	(386)
	(520)	(539)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Sale (purchase) of debt securities and subordinated notes from third parties on the market	**(3)**	11
Repayment of lease liabilities	**(41)**	(49)
Other changes to capital stock	**8**	(38)
Remuneration on capital stock	**(262)**	(208)
Dividends paid	**(27)**	(40)
Transactions related to non-controlling interests	**—**	(9)
	(325)	(333)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(18,152)**	(18,435)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**10,761**	10,005
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**8,576**	5,549
Business acquisition, net of cash and cash equivalents acquired	**(743)**	—
Acquisitions of property, plant and equipment, intangible assets and investment property	**(226)**	(191)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	**4**	18
Acquisitions of joint ventures and associates accounted for using the equity method	**(70)**	(52)
	150	(3,106)
Net increase (decrease) in cash and cash equivalents	**(695)**	(3,978)
Cash and cash equivalents at beginning of period	**8,913**	16,328
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 8,218**	$ 12,350
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,615**	$ 961
Interest received	**6,819**	4,247
Dividends received	**145**	136

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 – BASIS OF PRESENTATION

Nature of operations

Desjardins Group is made up of the Desjardins caisses in Québec, Caisse Desjardins Ontario Credit Union Inc. (CDO), the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, 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, Québec, Canada.

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 Québec, the Federation, CDO 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 CDO.

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 Québec, which do not differ from IFRS. The impact of adopting IFRS 17, “Insurance Contracts”, on Desjardins Group’s Combined Financial Statements is presented in Note 2, “Significant accounting policies”. Certain comparative figures for the three-month and six-month periods ended June 30, 2022 and the year ended December 31, 2022 have been restated, and a restated opening Balance Sheet as at January 1, 2022 is presented to reflect this new standard. In addition, 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, 2022, 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.

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 10, 2023.

Significant judgments, estimates and assumptions

The economic environment continues to give rise to sources of uncertainty having an impact on judgments as well as significant estimates and assumptions made by management in preparing the Interim Combined Financial Statements. Desjardins Group closely monitors the development of the pandemic and its impact on significant judgments, estimates and assumptions, which are described in Note 1, “Basis of presentation”, to the Annual Combined Financial Statements. For more information on significant judgments made to estimate the allowance for expected credit losses and measure insurance contract liabilities, see Note 5, “Loans and allowance for credit losses”, and Note 7, “Insurance and reinsurance contracts”, respectively, to the Interim Combined Financial Statements. Note 2, “Significant accounting policies”, to the Interim Combined Financial Statements presents the significant judgments made in adopting IFRS 17, “Insurance Contracts”.

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 – SIGNIFICANT ACCOUNTING POLICIES

All accounting policies were applied as described in Note 2, "Significant accounting policies", to the Annual Combined Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

CHANGES IN ACCOUNTING POLICIES

Adoption of IFRS 17, "Insurance Contracts"

On January 1, 2023, Desjardins Group adopted IFRS 17, "Insurance Contracts", which replaced IFRS 4, "Insurance Contracts". IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of all insurance and reinsurance contracts.

The adoption of this standard resulted in major changes to Desjardins Group's Combined Financial Statements. Certain comparative figures for the three-month and six-month periods ended June 30, 2022 and for the year ended December 31, 2022 have been restated, and a restated opening Balance Sheet as at January 1, 2022 is presented to reflect this new standard. The significant accounting policies applied subsequent to adopting IFRS 17 are described below.

Insurance and reinsurance contracts

Classification

Insurance contracts are contracts that transfer a significant insurance risk to an insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate a contract holder if a specified uncertain future event adversely affects the contract holder. In certain situations, an insurance contract may also transfer a financial risk.

Certain contracts issued by the insurance subsidiaries do not transfer a significant insurance risk. These contracts are classified as investment contracts in accordance with IFRS 9, "Financial Instruments", or as service contracts in accordance with IFRS 15, "Revenues from Contracts with Customers".

Insurance contracts issued are classified as insurance contracts without direct participation features or as insurance contracts with direct participation features.

The life and health insurance subsidiary classifies individual segregated fund contracts and life insurance contracts with participation features as insurance contracts with direct participation features. All other insurance contracts are insurance contracts without direct participation features.

Insurance contracts with direct participation features are contracts that are essentially contracts for investment-related services under which a return on clearly defined underlying items is promised. The underlying items include specific investment portfolios that determine the amounts that are payable to the insured persons. The policy of the life and health insurance subsidiary is to hold such specific investments.

Significant judgments are made by management when analyzing the conditions that have to be met to classify insurance contracts as insurance contracts with direct participation features. These contracts must be measured using the variable fee approach, of which the specific features compared to the general measurement model are described in subsequent sections.

The insurance subsidiaries use reinsurance contracts to mitigate their exposure to insurance risk. These reinsurance contracts transfer significant insurance risks in the underlying insurance contracts and are classified as reinsurance contracts held in accordance with IFRS 17.

Investment component

Certain insurance contracts include an investment component that does not have to be presented separately as the component and the insurance contract are highly interrelated. These components are therefore recognized with insurance contract liabilities. An investment component is an amount that the insurance subsidiaries are required to repay to the insurance contract holder in all circumstances, regardless of whether the insured event occurs.

Aggregation of insurance contracts and reinsurance contracts held

Insurance contracts are aggregated by portfolios, which comprise contracts that, based on management's judgment, are subject to similar risks and are managed together.

The portfolios of insurance contracts are then divided into three groups based on the expected profitability of the contracts, if any:
- contracts that are onerous at initial recognition;
- contracts that, at initial recognition, have no significant possibility of becoming onerous;
- other contracts in the portfolio.

If contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the practical ability to set a different price for policyholders with different characteristics, the property and casualty insurance subsidiaries elected to include those contracts in the same group.

The portfolios of reinsurance contracts held are determined separately from the portfolios of insurance contracts. The reinsurance contracts held are divided into the following groups, if any:
- contracts on which there is a net gain at initial recognition;
- contracts that, at initial recognition, have no significant possibility of becoming profitable;
- other contracts in the portfolio.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The groups of insurance contracts and reinsurance contracts held are determined at initial recognition, and the composition of such groups in not reassessed subsequently. Management exercised its judgment to determine the insurance contracts that could be aggregated to assess the expected profitability of the contracts for purposes of identifying onerous contracts at initial recognition.

Each of the groups only include contracts issued or signed less than one year apart and are determined based on the calendar year.

Desjardins Group presents separately in the Combined Balance Sheets the carrying amount of portfolios of insurance contracts that are assets, portfolios of insurance contracts that are liabilities, portfolios of reinsurance contracts that are assets and portfolios of reinsurance contracts that are liabilities.

Recognition and derecognition

Groups of insurance contracts must be recognized at the earliest of the following:
- the beginning of the coverage period;
- the date when the first payment from an insurance contract holder of the group becomes due, or when the first payment is received if there is no contractual due date;
- for a group of onerous contracts, when the facts and circumstances indicate that the group of contracts is onerous.

Groups of reinsurance contracts must be recognized at the earliest of the following:
- the beginning of the coverage period;
- the date an onerous group of underlying insurance contracts is recognized, to the extent that a reinsurance contract applying to these contracts is entered into at that date.

Insurance contract liabilities are derecognized when the obligation specified in the contract expires or is discharged or cancelled.

Contracts to which the general measurement model is applied

Initial measurement

On initial recognition, the liability for a group of insurance contracts corresponds to the liability for remaining coverage, which is the total of the fulfilment cash flows and the contractual service margin (CSM).

Fulfilment cash flows

Fulfilment cash flows comprise the following items:

- Estimates of future cash flows

  Estimates of future cash flows are based on a probability-weighted mean of the full range of possible outcomes and reflect the perspective of the insurance subsidiaries, to the extent that they are consistent with observable market variables.

  The measurement of a group of contracts includes all the future cash flows within the boundary of each contract of the group. Cash flows are within the boundary of a contract if they arise from substantive rights and obligations that exist during the reporting period in which the insurance subsidiaries can compel the contract holder to pay the premiums or in which they have a substantive obligation to provide the contract holder with insurance contract services. A substantive obligation to provide insurance contract services ends when the insurance subsidiaries have the practical ability to reassess the risks of the particular insurance contract holder or the risks of the portfolio of insurance contracts that contains the contract.

  Cash flows within the boundary of a contract are those that relate directly to the fulfilment of the contract, such as premiums, commissions, benefits and other obligations to contract holders. Costs directly attributable to portfolios of insurance contracts include claim handling costs, contract administration costs and insurance acquisition cash flows.

- Adjustment to reflect the time value of money

  Estimates of future cash flows are adjusted, using discount rates that are current at measurement date, to reflect the time value of money and the financial risks related to those cash flows.

- Risk adjustment for non-financial risk

  The risk adjustment for non-financial risk is determined separately from estimates of future cash flows and the adjustment to reflect the time value of money. The risk adjustment for non-financial risk reflects the compensation required for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

Certain fulfilment cash flows are measured at the level of the portfolios of insurance contracts and then allocated to each of the groups using systematic and rational methods, applied in a consistent manner in each reporting period.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contractual service margin

The CSM represents the unearned profit that will be recognized under "Insurance revenue", in the Combined Statements of Income, as insurance contract services are provided. On initial recognition, no amounts are recognized in profit or loss as the CSM is measured at an amount corresponding to the net expected inflow of fulfilment cash flows.

If the sum of fulfilment cash flows is a net outflow, the group of insurance contracts is onerous, and the CSM amounts to nil. A loss on onerous contracts is immediately recognized under "Insurance service expenses", in the Combined Statements of Income, and a loss component is added to the liability for remaining coverage.

Subsequent measurement

At each reporting date, the carrying amount of a group of insurance contracts corresponds to the sum of the following two amounts:
- the liability for remaining coverage, comprising the fulfilment cash flows related to services to be provided in future periods, and the CSM;
- the liability for incurred claims, comprising the fulfilment cash flows related to past service, such as incurred claims and other incurred insurance service expenses.

Fulfilment cash flows

At each reporting date, the fulfilment cash flows of groups of insurance contracts are revised to reflect any changes in underlying assumptions and current market conditions.

Contractual service margin

The carrying amount of the CSM of a group is obtained by adjusting the opening balance to reflect new contracts, the interest accreted for insurance contracts without direct participation features, the amount recognized as revenue, the changes in fulfilment cash flows relating to future service and the change in the insurer's share of the fair value of the underlying items for contracts with direct participation features.

Changes in fulfilment cash flows relating to future service adjust the CSM, while those relating to current or past service are directly recognized in the Combined Statements of Income. The effect of the time value of money and its changes as well as the effect of the financial risk and its changes on estimates of future cash flows are recognized in the Combined Statements of Income when they relate to insurance contracts without direct participation features, while they adjust the CSM for the insurance contracts with direct participation features.

For insurance contracts with direct participation features, changes in the amount corresponding to the life and health insurance subsidiary's share of the fair value of the underlying items are related to future service and adjust the CSM, while the changes in the fair value of the underlying items, which represent the adjustment of the obligations to policyholders, are not related to future services and do not adjust the CSM. These changes are instead recognized under "Net insurance finance income (expenses)" in the Combined Statements of Income.

For its segregated funds, the life and health insurance subsidiary applies a financial risk mitigation strategy using derivatives and other financial instruments measured at fair value through profit or loss, which allows for an economic offset between the insurance contracts and these instruments that mitigates the effect of financial risks. Consistent with what IFRS 17 allows, the subsidiary chose not to adjust the CSM for changes reflecting some or all of the changes in the effect of the time value of money and financial risk for its segregated fund contracts. These changes are instead recognized under "Net insurance finance income (expenses)" in the Combined Statements of Income, which permits a natural offset of gains and losses resulting from changes in the fair value of financial instruments recognized under IFRS 9.

Reinsurance contracts held

The reinsurance contracts held are all contracts without direct participation features. They are measured in the same way as insurance contracts, except for certain items explained in the following paragraphs.

Fulfilment cash flows

The fulfilment cash flows of reinsurance contracts held comprise the same items as those of insurance contracts without direct participation features, except that:
- the future cash flows of a group of reinsurance contracts held must include an adjustment to reflect the risk of non-performance, which is the risk that the reinsurer fails to perform its obligation;
- the risk adjustment for non-financial risk represents the risk transferred to the reinsurer.

Contractual service margin

The groups of reinsurance contracts held cannot be onerous and do not have unearned profit; the CSM corresponds instead to the net cost or net gain related to using reinsurance.

On initial measurement, the CSM of a group of reinsurance contracts held is adjusted, if needed, to reflect any revenue recognized in the Combined Statements of Income related to the recognition of a loss on onerous contracts associated with the underlying insurance contracts. A loss-recovery component is thus added to the asset for remaining coverage of the reinsurance contracts held.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

On subsequent measurements, the carrying amount of the CSM of a group is obtained by adjusting the opening balance to reflect new reinsurance contracts, the interest accreted, the amount recognized as expenses for services received, the changes in fulfilment cash flows relating to future service and the change in the loss-recovery component.

An onerous group of insurance contracts may include both contracts that are eligible for a recovery under a reinsurance contract held and contracts that are not eligible for such recovery. To calculate the loss-recovery component, the life and health insurance subsidiary uses a systematic and rational basis of allocation to determine the portion of the losses recognized for the group of insurance contracts that relates to insurance contracts eligible for a recovery under a reinsurance contract held.

The carrying amount of the loss-recovery component must not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the life and health insurance subsidiary expects to recover from the group of reinsurance contracts held.

Contracts to which the premium allocation approach is applied

The life and health insurance subsidiary uses the premium allocation approach to measure its groups of group insurance, the vast majority of which having a duration of one year or less, as well as for some groups of short-term insurance contracts. The property and casualty insurance subsidiaries use this method to measure all of their contracts, substantially all of which having a duration of one year or less.

Using this simplified measurement method is allowed if the coverage period of each contract in a group is one year or less, or if it is determined that the measurement using the premium allocation approach would not differ materially from the measurement produced applying the general model described above.

Initial measurement

On initial recognition, the carrying amount of the liability for remaining coverage of a group of insurance contracts is equal to the premiums received, minus the insurance acquisition cash flows allocated to that group on such date and adjusted, as the case may be, by the amount arising from the derecognition of an asset for insurance acquisition cash flows and any other asset or liability previously recognized and related to this group.

The insurance acquisition cash flows of insurance contracts are deferred and included in the liability for remaining coverage when they are incurred. Subsequently, they are expensed over the coverage period of the contracts comprising the group.

Subsequent measurement

The liability for remaining coverage of a group on insurance contracts is equal to its carrying amount at the beginning of the year, plus the premiums received and amounts relating to the amortization of insurance acquisition cash flows, less the amount of insurance acquisition cash flows allocated and the amount recognized as revenue.

The carrying amount of the liability for remaining coverage of the contracts of one year or less is not adjusted to reflect the time value of money and the effect of financial risk.

If, at any time, facts and circumstances indicate that a group of insurance contracts is onerous, the insurance subsidiaries must determine whether the value of the fulfilment cash flows related to the remaining coverage of the group measured in the same way as the groups of contracts to which the general model is applied exceeds the carrying amount of the liability for remaining coverage measured using the premium allocation approach. The excess is recognized as a loss on onerous contracts and presented under “Insurance service expenses” in the Combined Statements of Income, and a loss component is added to the liability for remaining coverage. This loss item is remeasured at each reporting date.

Reinsurance contracts held

The premium allocation approach is used to measure the groups of reinsurance contracts held when that method is used to measure the underlying groups of insurance contracts.

When a loss on onerous contracts is recognized for a group of insurance contracts in which there are one or more contracts underlying a reinsurance contract held, the insurance subsidiaries calculate a loss-recovery component and adjust the amount of the asset for remaining coverage of the group of reinsurance contracts held.

An onerous group of insurance contracts may include both contracts that are eligible for a recovery under a reinsurance contract held and contracts that are not eligible for such recovery. To calculate the loss-recovery component, the insurance subsidiaries use a systematic and rational basis of allocation to determine the portion of the losses recognized for the group of insurance contracts that relates to insurance contracts eligible for a recovery under a reinsurance contract held.

Liability for incurred claims

The liability for incurred claims comprises the fulfilment cash flows related to past service such as incurred claims and other expenses related to claims settlement. The liability for incurred claims is measured using all reasonable and supportable information available without undue cost or effort to determine the amount, timing and uncertainty of future cash flows.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets for insurance acquisition cash flows

Insurance acquisition cash flows are incurred to sell, underwrite and start a group of insurance contracts. They include cash flows that are directly attributable to a group of insurance contracts or a portfolio, as well as cash flows that are not directly attributable, which are allocated to the various groups using a systematic and rational method.

When these cash flows are incurred before the recognition of the related groups of insurance contracts, an asset for insurance acquisition cash flows is recognized and presented against the insurance contract liabilities in the Combined Balance Sheets. Subsequently, the insurance subsidiaries derecognize the portion of this asset that is related to the insurance contracts recognized in the group during the year.

In some cases, insurance acquisition cash flows are partly attributable to the expected renewal of the insurance contracts in these groups. A systematic and rational method is used to allocate these cash flows to the group and the various groups for which renewals are expected.

At each reporting date, management determines whether there are facts and circumstances indicating that the asset for insurance acquisition cash flows might be impaired. An impairment loss is recognized when the carrying amount of that asset exceeds the expected net cash inflows from the related group of insurance contracts. In addition, when the asset for insurance acquisition cash flows is relating to expected renewals for a group of contracts, the carrying amount of the asset must not exceed the expected net cash inflows arising specifically from renewals.

Impairment losses of an asset for insurance acquisition cash flows are recognized under “Insurance service expenses” in the Combined Statements of Income in the year when they occur. These impairment losses may be subsequently reversed, in whole or in part, to the extent that the impairment conditions no longer exist or have improved. In such case, the insurance subsidiaries recognize an impairment loss reversal under “Insurance service expenses”.

Insurance revenue

For contracts other than those to which the premium allocation approach is applied, insurance revenue represents changes in the liability for remaining coverage that relate to services for which the insurance subsidiaries expect to receive consideration.

These changes are:
- incurred claims and other insurance service expenses expected every quarter, measured at the amounts expected at the beginning of each quarter;
- the change in the risk adjustment for non-financial risk relating to expired risks;
- the amount of CSM for services provided.

Insurance revenue also includes an amount relating to insurance acquisition cash flows. This amount represents a portion of the premiums that relate to recovering the insurance acquisition cash flows, allocated to each reporting period in a systematic way on the basis of the passage of time.

The amount of CSM recognized under “Insurance revenue” in the Combined Statements of Income is based on coverage units allocated to services provided. Management makes significant judgments to determine the coverage units in groups of insurance contracts. Additional information on judgments made are presented in Note 7, “Insurance and reinsurance contracts”.

For insurance contracts to which the premium allocation approach is applied, insurance revenue is the amount of expected premium receipts, which is allocated to each period of insurance contract services on the basis of the passage of time.

Insurance service expenses

Insurance service expenses comprise:
- incurred claims and other incurred insurance service expenses;
- amortization of insurance acquisition cash flows;
- changes related to incurred claims;
- losses and reversals of losses on onerous contracts.

For groups of contracts other than those to which the premium allocation approach is applied, the amount of amortization of insurance acquisition cash flows is identical to the amount of recovery of the insurance acquisition cash flows presented in insurance revenue.

For groups of contracts to which the premium allocation approach is applied, the amount of amortization of insurance acquisition cash flows is allocated to each period on the basis of the passage of time.

Loss on onerous contracts

When a group of insurance contracts is onerous on initial recognition or subsequently becomes onerous, a loss on onerous contracts is recognized as insurance service expenses and a loss component is added to the liability for remaining coverage. Subsequent changes in the loss component related to future service are recognized as losses and reversals of losses on onerous contracts under “Insurance service expenses” in the Combined Statements of Income.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

After a loss on an onerous group of insurance contracts is recognized, certain changes in fulfilment cash flows for insurance contracts other than those to which the premium allocation approach is applied are allocated on a systematic basis between the loss component and the liability for remaining coverage, excluding the loss component. The changes allocated to the loss component are recognized as a reduction in expected revenue and corresponding expenses for the year. These fulfilment cash flows are systematically allocated based on the loss component balance, and this balance is therefore reduced to zero at the end of the coverage period. If the changes in fulfilment cash flows reduce the loss component to zero before the end of the coverage period, the excess in recognized in the CSM.

For insurance contracts to which the premium allocation approach is applied, the decreases in the loss component related to past service are recognized against the insurance expenses incurred during the year.

Net reinsurance service income (expenses)

Income and expenses from reinsurance contracts held are presented separately from revenues and expenses from insurance contracts. Income and expenses from reinsurance contracts held, excluding reinsurance finance income (expenses), are presented on a net basis as net reinsurance service income (expenses) in the Combined Statements of Income.

Income comprises the amounts recoverable from reinsurers for incurred claims and other incurred insurance service expenses and changes in the loss-recovery component.

For contracts other than those to which the premium allocation approach is applied, expenses comprise the following amounts related to changes in the asset for remaining coverage:
- expected recoveries of incurred claims and other incurred insurance service expenses, measured at the amounts expected at the beginning of each quarter;
- changes in the risk adjustment for non-financial risk for expired risks;
- the amount of CSM for services received.

For contracts to which the premium allocation approach is applied, expenses correspond to the amount of expected ceded premiums allocated to the year. The amount of expected ceded premiums is allocated to the periods of reinsurance contract services on the basis of the passage of time.

Insurance and reinsurance finance income (expenses)

Insurance finance income and expenses for groups of insurance contracts without direct participation features and reinsurance contracts held comprise the change in the carrying amount of the group arising from the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

Insurance finance income and expenses for groups of insurance contracts with direct participation features comprise the change in the carrying amount of the group arising from the change in the fair value of the underlying items as well as the effect of financial risk mitigation.

The risk adjustment for non-financial risk is disaggregated between the insurance service result and the insurance and reinsurance finance income and expenses.

Net insurance investment income (loss)

Net insurance investment income (loss) comprises investment income and loss from assets held in respect of Desjardins Group's insurance activities that are within the scope of IFRS 17.

IMPACT OF CHANGES IN ACCOUNTING POLICIES

Adoption of IFRS 17, "Insurance Contracts"

On January 1, 2022, the transition date, the insurance subsidiaries applied IFRS 17 retrospectively unless it was impracticable to do so, in which case the modified retrospective approach or the fair value approach was applied. In all cases, the net difference related to the transition was recognized in equity.

The insurance subsidiaries applied the retrospective approach to all insurance contracts and reinsurance contracts held to which the premium allocation approach has been applied as if IFRS 17 had always been applied.

Impracticable retrospective approach

Management exercised its judgment and considered that the retrospective approach was impracticable, without undue cost or effort, for the groups of long-term insurance contracts and long-term reinsurance contracts held as well as claims assumed in acquisitions, notably for the following reasons:
- since the initial recognition of the contracts, the judgments and assumptions required to measure insurance contracts in accordance with IFRS 17 were not available in the actuarial valuation systems with reasonable effort;
- the effort required to aggregate the information at the level of the groups that should have been established under IFRS 17 was too significant;
- the information available to allocate acquisition costs and other attributable costs for each of the groups under IFRS 17 was limited or inexistent, as this level of detail was not required and did not exist.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Modified retrospective approach

IFRS 17 requires that insurance contracts acquired in a business combination be recognized as if the entity issued these contracts at the acquisition date. However, the property and casualty insurance companies have chosen to apply the modified retrospective approach to claims assumed in the acquisition of the Canadian property and casualty insurance operations of State Farm as applying retrospectively the standard was impracticable. Under the modified retrospective approach, assumed claims incurred before the acquisition of the contracts in a business combination have to be recognized and measured as a liability for incurred claims. In applying the modified retrospective approach, the property and casualty insurance subsidiaries used reasonable and supportable information that was available at the transition date.

Fair value approach

At the transition date, the life and health insurance subsidiary applied the fair value approach to all its groups of insurance contracts and reinsurance contracts held other than those to which the premium allocation approach has been applied.

In accordance with the fair value approach, the life and health insurance subsidiary determined the contractual service margin of the liability for remaining coverage at the transition date as the difference between the fair value of the groups of insurance contracts and the fulfilment cash flows measured at that date. To determine fair value, the requirements in IFRS 13, “Fair Value Measurement”, were applied. In the absence of an observable market, a valuation technique based on the present value of expected cash flows was used to measure the fair value of insurance contracts and reinsurance contracts held.

As permitted when the fair value approach is used, the life and health insurance subsidiary did not limit the composition of groups to contracts issued less than one year apart. Upon transition, each portfolio comprises only one group.

In applying the fair value approach, the life and health insurance subsidiary:
- used only reasonable and supportable information that was available at the transition date;
- adjusted the assumptions relating to expected future cash flows and the risk adjustment for non-financial risk from the perspective of market participants;
- included profit margins beyond the risk adjustment for non-financial risk to reflect what a market participant would require to assume insurance contract obligations;
- excluded future renewals and new business that would be outside the contractual boundary of contracts under IFRS 17.

Judgments made in applying the fair value approach

Applying the fair value approach also required management to make certain judgments. The following judgments are key items in establishing the fair value of insurance contracts and reinsurance contracts held at the transition date:
- the adjustments required to reflect the perspective of market participants are not different from the vision of the life and health insurance subsidiary;
- the weighted average cost of capital of the life and health insurance subsidiary was used as discount rate;
- the capital to remunerate was determined based on the internal target regulatory capital ratio defined by the life and health insurance subsidiary;
- the required rate of return on capital is based on the required rate of return required by management on the various products of the life and health insurance subsidiary.

Impact

As at January 1, 2022 – Transition date

Overall, adopting IFRS 17 increased equity by $172 million as at January 1, 2022. Undistributed surplus earnings and reserves increased by an aggregate amount of $562 million, while accumulated other comprehensive income decreased by $448 million as a result of discontinuing the overlay approach. The non-controlling interests’ share increased by $58 million.

In addition, adopting IFRS 17 led to the reclassification of assets and liabilities resulting from changes in the aggregation of certain assets and liabilities, the reclassification of certain insurance contract liabilities amounting to $1,444 million as investment contracts recognized under “Other assets” and the separate presentation of an amount of $18,628 million in segregated fund net liabilities for investment contracts.

As at January 1, 2023

The requirements in IFRS 17 permit revising the designation or classification of financial assets recognized in accordance with IFRS 9 held in respect of insurance activities at the date of initial application of IFRS 17. Desjardins Group chose to not restate the comparative figures in its Combined Financial Statements to reflect the changes in designations or classifications for these financial assets that were made as at January 1, 2023. These changes had a net unfavourable impact of $80 million on equity. These changes are detailed below.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES *(continued)*

New financial asset designations

The insurance subsidiaries chose to revise, on an instrument-by-instrument basis at the date of adoption of IFRS 17 as at January 1, 2023, the classification of certain financial assets recognized under IFRS 9, including certain financial assets that were not held in respect of insurance activities. However, only financial assets held in respect of insurance activities as at such date were eligible for a reassessment of their business model. The following table presents the changes in measurement categories that were made.

	Measurement categories under IFRS 9		Carrying amount	
	Before adopting IFRS 17	After adopting IFRS 17	Before adopting IFRS 17	After adopting IFRS 17
Financial assets				
Cash and deposit with financial institutions	Designated as at fair value through profit or loss[1]	Classified as at fair value through profit or loss[2]	$ 420	$ 420
	Designated as at fair value through profit or loss[1]	Classified as at fair value through other comprehensive income	868	868
Securities	Designated as at fair value through profit or loss[1]	Classified as at fair value through profit or loss[2]	$ 54	$ 54
	Designated as at fair value through profit or loss[1]	Classified as at fair value through other comprehensive income	1,119	1,119
	Classified as at fair value through other comprehensive income	Designated as at fair value through profit or loss[3]	953	953
	Classified as at fair value through profit or loss	Designated as at fair value through other comprehensive income[4]	979	979
Loans	Amortized cost	Designated as at fair value through profit or loss[3]	$ 1,782	$ 1,671

(1) The designation of certain financial assets as at fair value through profit or loss was cancelled as the condition for such designation was no longer met.
(2) The assessment of the business model of certain financial assets held in respect of insurance activities was revised, as collecting contractual cash flows was no longer integral to achieving the objective of the business model.
(3) Certain financial assets held in respect of insurance activities were designated as at fair value through profit or loss to eliminate or significantly reduce an accounting inconsistency with insurance contract liabilities.
(4) Certain equity instruments were designated as at fair value through other comprehensive income to mitigate volatility in the Combined Statements of Income.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not effective as at December 31, 2022, are described in Note 2, “Significant accounting policies”, to the Annual Combined Financial Statements. During the six-month period ended June 30, 2023, the IASB has not issued new accounting standards or new amendments to existing standards having a significant impact on Desjardins Group’s financial statements.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

As at June 30, 2023	At fair value through profit or loss		At fair value through other comprehensive income			
	Classified as at fair value through profit or loss	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income[1]	Designated as at fair value through other comprehensive income	Amortized cost[1]	Total
Financial assets						
Cash and deposits with financial institutions	$ 583	$ —	$ 1,777	$ —	$ 5,858	$ 8,218
Securities	14,832	17,476	49,818	1,435	49	83,610
Securities borrowed or purchased under reverse repurchase agreements	—	—	—	—	13,611	13,611
Loans	—	1,678	—	—	256,058	257,736
Segregated fund net assets	23,405	—	—	—	(154)	23,251
Other financial assets						
Clients' liability under acceptances	—	—	—	—	7	7
Derivative financial instruments[2]	5,554	—	—	—	—	5,554
Amounts receivable from clients, brokers and financial institutions	—	—	—	—	3,975	3,975
Other	—	—	—	—	2,261	2,261
Total financial assets	**$ 44,374**	**$ 19,154**	**$ 51,595**	**$ 1,435**	**$ 281,665**	**$ 398,223**
Financial liabilities						
Deposits	$ —	$ 977	$ —	$ —	$ 264,562	$ 265,539
Other financial liabilities						
Acceptances	—	—	—	—	7	7
Commitments related to securities sold short	10,657	—	—	—	—	10,657
Commitments related to securities lent or sold under repurchase agreements	—	—	—	—	20,502	20,502
Derivative financial instruments[2]	7,062	—	—	—	—	7,062
Amounts payable to clients, brokers and financial institutions	—	—	—	—	8,545	8,545
Segregated fund net liabilities for investment contracts	—	—	—	—	19,721	19,721
Other	52	—	—	—	5,597	5,649
Subordinated notes	—	—	—	—	2,913	2,913
Total financial liabilities	**$ 17,771**	**$ 977**	**$ —**	**$ —**	**$ 321,847**	**$ 340,595**

(1) As at June 30, 2023, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $6 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".

(2) Include derivative financial instruments designated as hedging instruments amounting to $165 million in assets and $988 million in liabilities.

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

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

	At fair value through profit or loss				At fair value through other comprehensive income							
As at December 31, 2022 Restated (Note 2)		Classified as at fair value through profit or loss		Designated as at fair value through profit or loss		Classified as at fair value through other comprehensive income[1]		Designated as at fair value through other comprehensive income		Amortized cost[1]		Total
Financial assets												
Cash and deposits with financial institutions	$	—	$	949	$	258	$	—	$	7,706	$	8,913
Securities		16,025		17,962		51,193		65		50		85,295
Securities borrowed or purchased under reverse repurchase agreements		—		—		—		—		17,024		17,024
Loans		—		—		—		—		249,670		249,670
Segregated fund net assets		21,374		—		—		—		(18)		21,356
Other financial assets												
Clients' liability under acceptances		—		—		—		—		25		25
Derivative financial instruments[2]		5,723		—		—		—		—		5,723
Amounts receivable from clients, brokers and financial institutions		—		—		—		—		3,486		3,486
Other		—		—		—		—		1,894		1,894
Total financial assets	$	43,122	$	18,911	$	51,451	$	65	$	279,837	$	393,386
Financial liabilities												
Deposits	$	—	$	745	$	—	$	—	$	259,091	$	259,836
Other financial liabilities												
Acceptances		—		—		—		—		25		25
Commitments related to securities sold short		9,859		—		—		—		—		9,859
Commitments related to securities lent or sold under repurchase agreements		—		—		—		—		24,565		24,565
Derivative financial instruments[2]		6,691		—		—		—		—		6,691
Amounts payable to clients, brokers and financial institutions		—		—		—		—		8,978		8,978
Segregated fund net liabilities for investment contracts		—		—		—		—		17,826		17,826
Other		95		—		—		—		5,472		5,567
Subordinated notes		—		—		—		—		2,928		2,928
Total financial liabilities	$	16,645	$	745	$	—	$	—	$	318,885	$	336,275

(1) As at December 31, 2022, the allowance for credit losses on securities at "Amortized cost" was insignificant, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $10 million. Detailed information on the allowance for credit losses on loans is presented in Note 5 "Loans and allowance for credit losses".

(2) Include derivative financial instruments designated as hedging instruments amounting to $198 million in assets and $967 million in liabilities.

The insurance subsidiaries chose to revise the accounting classification under IFRS 9 of certain financial assets as at January 1, 2023, the date of adoption of IFRS 17. For more information, refer to Note 2, "Significant accounting policies". During the six-month period ended June 30, 2023 and the year ended December 31, 2022, there were no other material reclassifications of financial instruments.

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

DESIGNATION

Desjardins Group designated certain equity instruments, presented in the table below, as at fair value through comprehensive income. Equity securities held in respect of insurance activities were designated in that category to mitigate volatility in the Combined Statements of Income.

	Fair value As at June 30, 2023	Dividends recognized For the three-month period ended June 30, 2023	Dividends recognized For the six-month period ended June 30, 2023
Securities held in respect of insurance activities			
Equity securities			
Common shares	$ 801	$ 7	$ 12
Preferred shares	560	9	17
	1,361	16	29
Other securities			
Equity securities	74	—	—
Total securities designated as at fair value through other comprehensive income	$ 1,435	$ 16	$ 29

During the three-month and six-month periods ended June 30, 2023, Desjardins Group disposed of, in accordance with its investment strategy, certain securities designated as at fair value through other comprehensive income having a fair value of $80 million and $189 million, respectively. At the date of derecognition, for the three-month and six-month periods ended June 30, 2023, the cumulative loss was $2 million and $6 million, respectively, and dividend income related to these securities recognized in net surplus earnings was insignificant.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

For a description of the valuation techniques and data used to determine the fair value of the main financial instruments, refer to Note 2, "Significant accounting policies", to the Annual Combined Financial Statements. No significant changes were made to our fair value valuation techniques during the quarter. Desjardins Group has implemented controls and procedures to ensure that financial instruments are appropriately and reliably measured.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at June 30, 2023		As at December 31, 2022 Restated (Note 2)	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Securities	$ 49	$ 42	$ 50	$ 44
Loans	256,058	249,055	249,670	241,159
Financial liabilities				
Deposits	264,562	262,256	259,091	255,831
Subordinated notes	2,913	2,765	2,928	2,859
Other liabilities – Other	1,661	1,584	1,564	1,499

FAIR VALUE HIERARCHY

Fair value measurement is determined using a three-level fair value hierarchy. Refer to Note 5, "Fair value of financial instruments", to the Annual Combined Financial Statements, which contains a description of these three levels.

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, 2023	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 78	$ 505	$ —	$ 583
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	5,505	—	—	5,505
Provincial governmental entities and municipal corporations in Canada	13,323	917	—	14,240
School or public corporations in Canada	12	69	—	81
Foreign public administrations	348	—	—	348
Other debt securities	1	7,152	450	7,603
Equity securities	2,241	210	2,080	4,531
	21,430	8,348	2,530	32,308
Loans				
Residential mortgages	—	—	1,083	1,083
Business and government	—	—	595	595
	—	—	1,678	1,678
Segregated fund net assets	7,657	15,114	634	23,405
Derivative financial instruments				
Interest rate contracts	—	602	—	602
Foreign exchange contracts	—	424	—	424
Other contracts	—	4,528	—	4,528
	—	5,554	—	5,554
Total financial assets at fair value through profit or loss	29,165	29,521	4,842	63,528
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	155	1,622	—	1,777
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	6,050	6,231	—	12,281
Provincial governmental entities and municipal corporations in Canada	25,279	3,527	—	28,806
Foreign public administrations	27	—	—	27
Other debt securities	—	8,704	—	8,704
Equity securities	1,361	—	74	1,435
	32,717	18,462	74	51,253
Total financial assets at fair value through other comprehensive income	32,872	20,084	74	53,030
Total financial assets	$ 62,037	$ 49,605	$ 4,916	$ 116,558
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 977	$ —	$ 977
Other liabilities				
Commitments related to securities sold short	9,911	746	—	10,657
Other	—	—	52	52
	9,911	1,723	52	11,686
Derivative financial instruments				
Interest rate contracts	—	1,326	—	1,326
Foreign exchange contracts	—	1,314	—	1,314
Other contracts	—	4,422	—	4,422
	—	7,062	—	7,062
Total financial liabilities	$ 9,911	$ 8,785	$ 52	$ 18,748

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

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

As at December 31, 2022 Restated (Note 2)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 71	$ 878	$ —	$ 949
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,426	—	—	7,426
Provincial governmental entities and municipal corporations in Canada	12,389	595	—	12,984
School or public corporations in Canada	11	69	—	80
Foreign public administrations	629	—	—	629
Other debt securities	1	6,810	504	7,315
Equity securities	3,551	99	1,903	5,553
	24,007	7,573	2,407	33,987
Segregated fund net assets	7,211	13,565	598	21,374
Derivative financial instruments				
Interest rate contracts	—	662	—	662
Foreign exchange contracts	—	924	—	924
Other contracts	—	4,137	—	4,137
	—	5,723	—	5,723
Total financial assets at fair value through profit or loss	31,289	27,739	3,005	62,033
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	249	—	258
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	7,074	6,076	—	13,150
Provincial governmental entities and municipal corporations in Canada	26,753	3,550	—	30,303
Foreign public administrations	25	—	—	25
Other debt securities	—	7,664	51	7,715
Equity securities	—	—	65	65
	33,852	17,290	116	51,258
Total financial assets at fair value through other comprehensive income	33,861	17,539	116	51,516
Total financial assets	$ 65,150	$ 45,278	$ 3,121	$ 113,549
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ —	$ 745	$ —	$ 745
Other liabilities				
Commitments related to securities sold short	8,836	1,023	—	9,859
Other	—	—	95	95
	8,836	1,768	95	10,699
Derivative financial instruments				
Interest rate contracts	—	1,460	—	1,460
Foreign exchange contracts	—	1,192	—	1,192
Other contracts	—	4,039	—	4,039
	—	6,691	—	6,691
Total financial liabilities	$ 8,836	$ 8,459	$ 95	$ 17,390

During the six-month period ended June 30, 2023 and the year ended December 31, 2022, no material transfers attributable to changes in the observability of market data were made between Levels 1 and 2 of the hierarchy for instruments measured at fair value. Transfers of financial instruments into or out of Level 3 reflect changes in the availability of observable inputs as a result of changes in market conditions.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Desjardins Group has implemented various key controls and procedures to ensure that the financial instruments categorized within Level 3 are appropriately and reliably measured. During the six-month period ended June 30, 2023, except for the new designation of certain loans related to adopting IFRS 17 described in Note 2, "Significant accounting policies", no significant changes were made to key controls and procedures, valuation techniques, unobservable inputs and input value ranges used to determine fair value. For a description of the valuation process for financial instruments categorized within Level 3, refer to Note 5, "Fair value of financial instruments", to the Annual Combined Financial Statements.

The following table presents the main valuation technique, the unobservable inputs and the sensitivity of the fair value of loans designated as at fair value through profit or loss as a result of adopting IFRS 17.

As at June 30, 2023	Fair value	Main valuation technique	Unobservable inputs	Input value ranges			Sensitivity[(C)]
Financial assets							
Loans	**$ 1,678**	Discounted cash flows	Comparable inputs[(A,B)]	**10 bp**	**to**	**121 bp**	**$10**

[(A)] An increase (decrease) in this unobservable input, take individually, generally results in a decrease (increase) in fair value.
[(B)] There is no predictable relationship between this input and other material unobservable inputs.
[(C)] Represents the increase or decrease in fair value resulting from a reasonably possible change in the unobservable input.

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, 2023	Balance as at December 31, 2022 as reported	Impact of changes in accounting policies (Note 2)	Balance as at January 1, 2023 (restated)	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]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets									
Financial assets at fair value through profit or loss									
Securities									
Other debt securities									
Mortgage bonds	$ 397	$ 51	$ 448	$ —	$ 1	$ —	$ —	$ (105)	$ 344
Other	107	—	107	—	(2)	—	7	(6)	106
Equity securities	1,903	—	1,903	23	43	—	143	(32)	2,080
	2,407	51	2,458	23	42	—	150	(143)	2,530
Loans									
Residential mortgages	—	1,062	1,062	—	(5)	—	49	(23)	1,083
Business and government	—	609	609	—	4	—	—	(18)	595
	—	1,671	1,671	—	(1)	—	49	(41)	1,678
Segregated fund net assets	598	—	598	—	(7)	—	183	(140)	634
Total financial assets at fair value through profit or loss	3,005	1,722	4,727	23	34	—	382	(324)	4,842
Financial assets at fair value through other comprehensive income									
Securities									
Other debt securities									
Mortgage bonds	51	(51)	—	—	—	—	—	—	—
Equity securities	65	—	65	—	—	9	—	—	74
Total financial assets at fair value through other comprehensive income	116	(51)	65	—	—	9	—	—	74
Total financial assets	$ 3,121	$ 1,671	$ 4,792	$ 23	$ 34	$ 9	$ 382	$ (324)	$ 4,916
Financial liabilities									
Financial liabilities at fair value through profit or loss									
Other liabilities – Other									
Financial liability related to the contingent consideration	$ 95	$ —	$ 95	$ —	$ 17	$ —	$ —	$ (60)	$ 52
Total financial liabilities	$ 95	$ —	$ 95	$ —	$ 17	$ —	$ —	$ (60)	$ 52

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net insurance investment income (loss)" and "Net other investment income (loss)" in the Combined Statements of Income.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net insurance investment income (loss)" and "Net other investment income (loss)", while unrealized gains or losses on financial liabilities "Classified as at fair value through profit or loss" are recognized under "Other income – Other" in the Combined Statements of 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, while unrealized gains or losses on financial assets "Designated as at fair value through other comprehensive income" are recognized under "Net change in gains and losses on equity securities designated as at fair value through other comprehensive income" in the Combined Statements of 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, 2022 Restated (Note 2)	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)]	Purchases / Issuances / Other	Sales / Settlements / Other	Balance at end of period
Financial assets							
Financial assets at fair value through profit or loss							
Securities							
Other debt securities							
Mortgage bonds	$ 508	$ —	$ (32)	$ —	$ —	$ (43)	$ 433
Other	92	—	(1)	—	10	(7)	94
Equity securities	1,428	7	11	—	322	(83)	1,685
	2,028	7	(22)	—	332	(133)	2,212
Segregated fund net assets	360	1	4	—	56	(17)	404
Total financial assets at fair value through profit or loss	2,388	8	(18)	—	388	(150)	2,616
Financial assets at fair value through other comprehensive income							
Securities							
Other debt securities							
Mortgage bonds	64	—	—	(2)	—	(2)	60
Equity securities	69	—	—	—	—	—	69
Total financial assets at fair value through other comprehensive income	133	—	—	(2)	—	(2)	129
Total financial assets	$ 2,521	$ 8	$ (18)	$ (2)	$ 388	$ (152)	$ 2,745
Financial liabilities							
Financial liabilities at fair value through profit or loss							
Other liabilities – Other							
Financial liability related to the contingent consideration	$ 147	$ —	$ 13	$ —	$ —	$ (87)	$ 73
Total financial liabilities	$ 147	$ —	$ 13	$ —	$ —	$ (87)	$ 73

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net insurance investment income (loss)" and "Net other investment income (loss)" in the Combined Statements of Income.

(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net insurance investment income (loss)" and "Net other investment income (loss)", while unrealized gains or losses on financial liabilities "Classified at fair value through profit or loss" are recognized under "Other income – Other" in the Combined Statements of 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, while unrealized gains or losses on financial assets "Designated as at fair value through other comprehensive income" are recognized under "Net change in gains and losses on equity securities designated as at fair value through other comprehensive income" in the Combined Statements of 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 an allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on credit quality according to risk levels, see Table 33, "Probabilities of default of retail clients by risk level", and Table 34, "Probabilities of default businesses, financial institutions and sovereign borrowers by risk level", in section 4.0, "Risk Management", of the 2022 Annual Management's Discussion and Analysis.

Loans

	Non-credit impaired		Credit-impaired	
As at June 30, 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 53,111	$ 10	$ —	$ 53,121
Very low	69,084	187	—	69,271
Low	30,993	2,387	—	33,380
Moderate	1,687	2,464	—	4,151
High	4	729	—	733
Default	—	247	310	557
Total residential mortgages subject to expected credit losses	$ 154,879	$ 6,024	$ 310	$ 161,213
Residential mortgages at fair value through profit or loss(1)				1,083
Total gross residential mortgages	$ 154,879	$ 6,024	$ 310	$ 162,296
Allowance for credit losses	(44)	(37)	(22)	(103)
Total net residential mortgages	$ 154,835	$ 5,987	$ 288	$ 162,193
Consumer, credit card and other personal loans				
Excellent	$ 5,403	$ —	$ —	$ 5,403
Very low	6,594	2	—	6,596
Low	7,467	1,457	—	8,924
Moderate	1,053	802	—	1,855
High	10	1,221	—	1,231
Default	—	32	185	217
Total gross consumer, credit card and other personal loans	$ 20,527	$ 3,514	$ 185	$ 24,226
Allowance for credit losses	(128)	(273)	(130)	(531)
Total net consumer, credit card and other personal loans	$ 20,399	$ 3,241	$ 55	$ 23,695
Business and government loans(2)				
Acceptable risk				
Investment grade	$ 23,695	$ 79	$ —	$ 23,774
Other than investment grade	40,208	3,368	—	43,576
Under watch	1,502	1,680	—	3,182
Default	—	153	981	1,134
Total business and government loans subject to expected credit losses	$ 65,405	$ 5,280	$ 981	$ 71,666
Business and government loans at fair value through profit or loss(1)				595
Total gross business and government loans	$ 65,405	$ 5,280	$ 981	$ 72,261
Allowance for credit losses	(92)	(68)	(246)	(406)
Total net business and government loans	$ 65,313	$ 5,212	$ 735	$ 71,855
Total gross loans and acceptations	$ 240,811	$ 14,818	$ 1,476	$ 258,783
Allowance for credit losses	(264)	(378)	(398)	(1,040)
Total net loans and acceptances	$ 240,547	$ 14,440	$ 1,078	$ 257,743

(1) Loans at fair value through profit or loss are not subject to expected credit losses.
(2) Includes 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, 2022 Restated (Note 2)	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 53,229	$ 11	$ —	$ 53,240
Very low	67,594	783	—	68,377
Low	29,688	2,997	—	32,685
Moderate	1,741	2,460	—	4,201
High	1	809	—	810
Default	—	124	245	369
Total gross residential mortgages	$ 152,253	$ 7,184	$ 245	$ 159,682
Allowance for credit losses	(58)	(43)	(16)	(117)
Total net residential mortgages	$ 152,195	$ 7,141	$ 229	$ 159,565
Consumer, credit card and other personal loans				
Excellent	$ 5,547	$ 1	$ —	$ 5,548
Very low	6,576	9	—	6,585
Low	7,544	1,243	—	8,787
Moderate	975	852	—	1,827
High	8	1,218	—	1,226
Default	—	68	170	238
Total gross consumer, credit card and other personal loans	$ 20,650	$ 3,391	$ 170	$ 24,211
Allowance for credit losses	(140)	(302)	(91)	(533)
Total net consumer, credit card and other personal loans	$ 20,510	$ 3,089	$ 79	$ 23,678
Business and government loans[(1)]				
Acceptable risk				
Investment grade	$ 22,624	$ 189	$ —	$ 22,813
Other than investment grade	35,686	4,286	—	39,972
Under watch	1,475	1,700	—	3,175
Default	—	101	776	877
Total gross business and government loans	$ 59,785	$ 6,276	$ 776	$ 66,837
Allowance for credit losses	(114)	(67)	(204)	(385)
Total net business and government loans	$ 59,671	$ 6,209	$ 572	$ 66,452
Total gross loans and acceptances	$ 232,688	$ 16,851	$ 1,191	$ 250,730
Allowance for credit losses	(312)	(412)	(311)	(1,035)
Total net loans and acceptances	$ 232,376	$ 16,439	$ 880	$ 249,695

(1) Includes 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, 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 50,973	$ 3	$ —	$ 50,976
Very low	22,690	10	—	22,700
Low	6,638	863	—	7,501
Moderate	328	468	—	796
High	5	245	—	250
Default	—	8	44	52
Total	$ 80,634	$ 1,597	$ 44	$ 82,275
Allowance for credit losses	(42)	(21)	—	(63)
Total, net of allowance for credit losses	$ 80,592	$ 1,576	$ 44	$ 82,212
Business and government				
Acceptable risk				
Investment grade	$ 32,758	$ 39	$ —	$ 32,797
Other than investment grade	14,021	711	—	14,732
Under watch	274	200	—	474
Default	—	8	114	122
Total	$ 47,053	$ 958	$ 114	$ 48,125
Allowance for credit losses	(20)	(2)	—	(22)
Total, net of allowance for credit losses	$ 47,033	$ 956	$ 114	$ 48,103
Total off-balance sheet items	$ 127,687	$ 2,555	$ 158	$ 130,400
Allowance for credit losses	(62)	(23)	—	(85)
Total off-balance sheet items, net of allowance for credit losses	$ 127,625	$ 2,532	$ 158	$ 130,315

[1] Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates an allowance for expected credit losses comprise guarantees and standby letters of credit.

	Non-credit impaired		Credit-impaired	
As at December 31, 2022	Stage 1	Stage 2	Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 49,665	$ 5	$ —	$ 49,670
Very low	21,946	40	—	21,986
Low	6,511	931	—	7,442
Moderate	315	576	—	891
High	5	262	—	267
Default	—	—	44	44
Total	$ 78,442	$ 1,814	$ 44	$ 80,300
Allowance for credit losses	(31)	(9)	—	(40)
Total, net of allowance for credit losses	$ 78,411	$ 1,805	$ 44	$ 80,260
Business and government				
Acceptable risk				
Investment grade	$ 30,908	$ 150	$ —	$ 31,058
Other than investment grade	12,894	1,134	—	14,028
Under watch	300	248	—	548
Default	—	9	118	127
Total	$ 44,102	$ 1,541	$ 118	$ 45,761
Allowance for credit losses	(11)	(2)	—	(13)
Total, net of allowance for credit losses	$ 44,091	$ 1,539	$ 118	$ 45,748
Total off-balance sheet items	$ 122,544	$ 3,355	$ 162	$ 126,061
Allowance for credit losses	(42)	(11)	—	(53)
Total off-balance sheet items, net of allowance for credit losses	$ 122,502	$ 3,344	$ 162	$ 126,008

[1] Loan commitments for which Desjardins Group estimates an allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates an 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 allowance for expected credit losses on loans and off-balance sheet items.

For the six-month period ended June 30, 2023	Non-credit impaired		Credit-impaired	Allowance for
	Stage 1	Stage 2	Stage 3	credit losses
Residential mortgages				
Balance at beginning of period[1]	**$ 59**	**$ 44**	**$ 16**	**$ 119**
Provision for credit losses				
Transfers to[2]:				
Stage 1	**22**	**(21)**	**(1)**	**—**
Stage 2	**(5)**	**7**	**(2)**	**—**
Stage 3	**—**	**(2)**	**2**	**—**
Net remeasurement due to transfers[3]	**(8)**	**7**	**7**	**6**
Changes in risks, parameters and models[4]	**(26)**	**6**	**4**	**(16)**
New originations or acquisitions[5]	**8**	**—**	**—**	**8**
Derecognitions and maturities[6]	**(3)**	**(3)**	**(4)**	**(10)**
Net drawdowns (repayments)[7]	**—**	**(1)**	**—**	**(1)**
	(12)	**(7)**	**6**	**(13)**
Write-offs and recoveries	**—**	**—**	**—**	**—**
Balance at end of period	**$ 47**	**$ 37**	**$ 22**	**$ 106**
Consumer, credit card and other personal loans				
Balance at beginning of period	**$ 170**	**$ 310**	**$ 91**	**$ 571**
Provision for credit losses				
Transfers to[2]:				
Stage 1	**130**	**(126)**	**(4)**	**—**
Stage 2	**(48)**	**67**	**(19)**	**—**
Stage 3	**—**	**(25)**	**25**	**—**
Net remeasurement due to transfers[3]	**(18)**	**29**	**83**	**94**
Changes in risks, parameters and models[4]	**(96)**	**66**	**128**	**98**
New originations or acquisitions[5]	**42**	**—**	**—**	**42**
Derecognitions and maturities[6]	**(13)**	**(24)**	**(44)**	**(81)**
Net drawdowns (repayments)[7]	**—**	**(3)**	**—**	**(3)**
	(3)	**(16)**	**169**	**150**
Write-offs and recoveries	**—**	**—**	**(130)**	**(130)**
Balance at end of period	**$ 167**	**$ 294**	**$ 130**	**$ 591**
Business and government				
Balance at beginning of period[1]	**$ 125**	**$ 69**	**$ 204**	**$ 398**
Provision for credit losses				
Transfers to[2]:				
Stage 1	**33**	**(32)**	**(1)**	**—**
Stage 2	**(15)**	**19**	**(4)**	**—**
Stage 3	**—**	**(4)**	**4**	**—**
Net remeasurement due to transfers[3]	**(9)**	**10**	**43**	**44**
Changes in risks, parameters and models[4]	**(56)**	**10**	**23**	**(23)**
New originations or acquisitions[5]	**44**	**—**	**—**	**44**
Derecognitions and maturities[6]	**(13)**	**(5)**	**(16)**	**(34)**
Net drawdowns (repayments)[7]	**3**	**3**	**—**	**6**
Other	**—**	**—**	**1**	**1**
	(13)	**1**	**50**	**38**
Write-offs and recoveries	**—**	**—**	**(8)**	**(8)**
Balance at end of period	**$ 112**	**$ 70**	**$ 246**	**$ 428**
Total balances at end of period	**$ 326**	**$ 401**	**$ 398**	**$ 1,125**
Composed of:				
Loans	**$ 264**	**$ 378**	**$ 398**	**$ 1,040**
Off-balance sheet items[8]	**62**	**23**	**—**	**85**

(1) The new designation of certain residential mortgages and business and government loans described in Note 2, “Significant accounting policies” had an insignificant impact on the balance at beginning of period.
(2) Represent transfers between stages before the remeasurement of expected credit losses.
(3) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(4) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.
(5) 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.
(6) 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.
(7) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(8) 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)*

For the six-month period ended June 30, 2022	Non-credit impaired		Credit-impaired	Allowance for
	Stage 1	Stage 2	Stage 3	credit losses
Residential mortgages				
Balance at beginning of period	$ 73	$ 73	$ 20	$ 166
Provision for credit losses				
Transfers to[1]:				
Stage 1	46	(44)	(2)	—
Stage 2	(6)	9	(3)	—
Stage 3	—	(1)	1	—
Net remeasurement due to transfers[2]	(20)	9	4	(7)
Changes in risks, parameters and models[3]	(51)	—	1	(50)
New originations or acquisitions[4]	19	—	—	19
Derecognitions and maturities[5]	(6)	(8)	(3)	(17)
Net drawdowns (repayments)[6]	2	2	—	4
Other	—	—	(1)	(1)
	(16)	(33)	(3)	(52)
Write-offs and recoveries	—	—	2	2
Balance at end of period	$ 57	$ 40	$ 19	$ 116
Consumer, credit card and other personal loans				
Balance at beginning of period	$ 158	$ 265	$ 80	$ 503
Provision for credit losses				
Transfers to[1]:				
Stage 1	142	(137)	(5)	—
Stage 2	(48)	65	(17)	—
Stage 3	—	(18)	18	—
Net remeasurement due to transfers[2]	(21)	21	72	72
Changes in risks, parameters and models[3]	(83)	81	56	54
New originations or acquisitions[4]	53	—	—	53
Derecognitions and maturities[5]	(20)	(27)	(20)	(67)
Net drawdowns (repayments)[6]	(6)	(5)	—	(11)
	17	(20)	104	101
Write-offs and recoveries	—	—	(98)	(98)
Balance at end of period	$ 175	$ 245	$ 86	$ 506
Business and government				
Balance at beginning of period	$ 112	$ 82	$ 179	$ 373
Provision for credit losses				
Transfers to[1]:				
Stage 1	26	(24)	(2)	—
Stage 2	(24)	31	(7)	—
Stage 3	—	(3)	3	—
Net remeasurement due to transfers[2]	—	18	17	35
Changes in risks, parameters and models[3]	(53)	2	25	(26)
New originations or acquisitions[4]	61	—	—	61
Derecognitions and maturities[5]	(18)	(10)	(35)	(63)
Net drawdowns (repayments)[6]	10	5	—	15
	2	19	1	22
Write-offs and recoveries	—	—	(5)	(5)
Balance at end of period	$ 114	$ 101	$ 175	$ 390
Total balances at end of period	$ 346	$ 386	$ 280	$ 1,012
Composed of:				
Loans	$ 304	$ 375	$ 280	$ 959
Off-balance sheet items[7]	42	11	—	53

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance due to changes in risks resulting from changes in forward-looking information, risk levels, parameters and models, after transfers between stages.
(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)*

KEY DATA AND ASSUMPTIONS

The following information is an update, compared to the most recent annual financial statements, of key data and assumptions underlying the measurement of the allowance for expected credit losses. For more information, see Notes 2, "Significant accounting policies", and 8, "Loans and allowance for credit losses", to the Annual Combined Financial Statements.

The macroeconomic environment, which is characterized by persistent inflation, quick interest rate increases, labour shortages, supply chain disruptions and geopolitical tensions, still gives rise to uncertainty. Therefore, management has to continue making particularly complex judgments to estimate the allowance for credit losses in such situation.

To take into account relevant risk factors related to the macroeconomic environment that are not reflected in models, management continues to apply expert credit judgment in measuring the allowance for expected credit losses. Expert adjustments are thus applied to some credit risk measures and some forward-looking information that should not be as representative of an improvement in portfolio credit quality as what historical data used in the models would otherwise suggest.

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

	Base scenario		**Upside scenario**		**Downside scenario**	
As at June 30, 2023	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**
Macroeconomic variables[1]						
Gross domestic product (annualized change)	**0.3 %**	**1.7 %**	**1.4 %**	**2.1 %**	**(2.3) %**	**0.8 %**
Unemployment rate (average)	**5.3 %**	**4.5 %**	**3.9 %**	**3.1 %**	**6.5 %**	**6.9 %**
Consumer Price Index (annualized change)	**2.1 %**	**1.9 %**	**2.9 %**	**2.1 %**	**1.1 %**	**1.7 %**
Housing prices (annualized change)	**(4.1) %**	**3.3 %**	**2.1 %**	**3.9 %**	**(18.4) %**	**2.7 %**
Corporate credit spread[2] (average)	**179 bp**	**145 bp**	**126 bp**	**114 bp**	**259 bp**	**187 bp**
S&P/TSX stock index[2] (annualized change)	**3.9 %**	**5.6 %**	**24.7 %**	**6.4 %**	**(18.2) %**	**8.8 %**

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

	Base scenario		Upside scenario		Downside scenario	
As at December 31, 2022	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period	Next 12 months	Remaining forecast period
Macroeconomic variables[1]						
Gross domestic product (annualized change)	(0.5) %	1.8 %	1.6 %	2.1 %	(3.0) %	1.4 %
Unemployment rate (average)	5.1 %	4.5 %	4.0 %	3.2 %	7.3 %	7.3 %
Consumer Price Index (annualized change)	2.4 %	2.0 %	4.0 %	2.1 %	2.0 %	1.9 %
Housing prices (annualized change)	(8.6) %	2.1 %	(2.3) %	2.9 %	(27.6) %	4.1 %
Corporate credit spread[2] (average)	171 bp	123 bp	121 bp	95 bp	260 bp	161 bp
S&P/TSX stock index[2] (annualized change)	2.4 %	5.1 %	29.0 %	7.0 %	(16.2) %	6.7 %

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

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

KEY DATA AND ASSUMPTIONS *(continued)*

The base scenario forecasts a slight recession in 2023. Due to inflation, central banks sped up monetary tightening, which should soon result in quarterly decreases in real GDP in several economies, including Canada and Québec. Under this scenario, the economic difficulties will push the unemployment rate up, and the housing sector could once again be affected. In Québec, slight real GDP decreases are expected in the third and fourth quarters of 2023. The Québec unemployment rate should increase to up to 6% in early 2024 and housing prices should fall approximately 10% compared to the spring 2022 high. This scenario forecasts that, if inflation comes back down to close to 2% next year, the Bank of Canada will gradually lower its policy interest rates and will continue to do so until early 2025. This would help accelerating economic growth after a difficult year in 2023. The unemployment rate should gradually converge to below 4%, in the mid-term, in Québec.

In the downside scenario, economic growth could surprise once again on the upside in summer 2023, with still persistent inflation requiring higher interest rates. Under this scenario, the discount rate would be increased by an additional 75 basis points in the third quarter of 2023. The economy would then be more hardly affected, with four consecutive quarters of real GDP decrease. The unemployment rate would increase more significantly, possibly to over 8% in Québec. The downside scenario also assumes a more significant correction in average house prices of approximately 30% compared to the previous peak. Stronger interest rate decreases would be announced in 2024 due to the more severe economic difficulties than in the base scenario, which would lower inflation faster.

The upside scenario essentially assumes that the economic recovery will be stronger than in the base scenario, helped by a faster and more sustainable reduction in supply constraints. To achieve this, the war in Ukraine would have to end more quickly. More significant productivity gains could also be experienced, which would help economic growth while limiting inflationary pressures. In this scenario, the unemployment rate could decrease to 3% by 2025. Inflation would still be more persistent than under the base scenario. The return to the 2% inflation target would take more time and incite the Bank of Canada to maintain its policy interest rates at the current level over a longer period. Later decreases would still occur in 2024, with others in early 2025. The discount rate would then be maintained at 3.25% for the remainder of the forecast horizon, which corresponds to the high end of the neutral rate range estimated by the Bank of Canada. Slightly higher interest rates under this scenario would contribute to limiting the rise in house prices, which would still be a little stronger than under the base scenario.

The development of the economic outlook after June 30, 2023 will be considered in estimating the allowance for expected credit losses in future periods.

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

Scenarios

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at June 30, 2023	As at December 31, 2022
Under IFRS 9	**$ 727**	$ 777
Weighting of 100% assigned to the scenario:		
Base	**$ 652**	$ 653
Upside	**522**	523
Downside	**934**	1,122

Transfers between stages

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

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items	
	As at June 30, 2023	As at December 31, 2022
Under IFRS 9	**$ 727**	$ 777
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 627**	$ 714

NOTE 6 – 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, 2023				As at December 31, 2022			
	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	$ 67,511	$ 5,181	$ 74,597	$ 147,289	$ 72,071	$ 5,495	$ 67,811	$ 145,377
Business and government	53,154	434	63,996	117,584	51,422	327	62,423	114,172
Deposit-taking institutions	341	—	325	666	193	—	94	287
	$ 121,006	$ 5,615	$ 138,918	$ 265,539	$ 123,686	$ 5,822	$ 130,328	$ 259,836

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS

COMPOSITION OF BALANCE SHEET BALANCES

Balance sheet summary

The following table presents the composition of insurance contract assets and liabilities as well as reinsurance contract assets and liabilities.

	As at June 30, 2023			As at December 31, 2022		
	Life and health insurance activities	Property and casualty insurance activities	Total	Life and health insurance activities	Property and casualty insurance activities	Total
Insurance contract liabilities						
Insurance contract liabilities, excluding the asset for insurance acquisition cash flows[(1)]	$ 24,058	$ 7,268	$ 31,326	$ 23,233	$ 7,015	$ 30,248
Asset for insurance acquisition cash flows	(38)	—	(38)	(46)	—	(46)
	$ 24,020	$ 7,268	$ 31,288	$ 23,187	$ 7,015	$ 30,202
Reinsurance contract liabilities	$ 38	$ —	$ 38	$ 36	$ —	$ 36
Reinsurance contract assets	$ 900	$ 771	$ 1,671	$ 859	$ 763	$ 1,622

(1) The balance for life and health insurance includes an amount of $3,481 million ($3,458 million as at December 31, 2022) corresponding to the obligation to segregated fund holders and an amount of $591 million ($631 million as at December 31, 2022) related to segregated fund guarantees.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Contracts initially recognized in the period – Life and health insurance activities

The following table presents the effect on issued insurance contract liabilities of the contracts other than those to which the premium allocation approach has been applied that were initially recognized in the six-month periods ended June 30.

	2023			2022		
	Profitable	Onerous	Total	Profitable	Onerous	Total
Estimates of the present value of future cash outflows						
Acquisition cash flows	$ 72	$ 46	$ 118	$ 45	$ 49	$ 94
Claims, other insurance expenses and investment components	269	341	610	181	138	319
	$ 341	$ 387	$ 728	$ 226	$ 187	$ 413
Estimates of the present value of future cash inflows	(380)	(385)	(765)	(256)	(189)	(445)
Risk adjustment for non-financial risk	12	14	26	8	12	20
Contractual service margin	27	—	27	22	—	22
Increase in insurance contract liabilities resulting from onerous contracts	$ —	$ 16	$ 16	$ —	$ 10	$ 10

INSURANCE AND REINSURANCE SERVICE RESULT

Insurance revenue

The following tables present the composition of insurance revenue.

	2023			2022		
For the three-month periods ended June 30	Life and health insurance activities	Property and casualty insurance activities	Total	Life and health insurance activities	Property and casualty insurance activities	Total
Contracts other than those to which the premium allocation approach has been applied						
Amounts relating to the changes in the liability for remaining coverage						
Incurred claims and other expected insurance expenses	$ 225	$ —	$ 225	$ 207	$ —	$ 207
Change in the risk adjustment for non-financial risk for expired risks	11	—	11	10	—	10
Contractual service margin for services provided in the period	55	—	55	60	—	60
Recovery of insurance acquisition cash flows	4	—	4	1	—	1
	$ 295	$ —	$ 295	$ 278	$ —	$ 278
Contracts to which the premium allocation approach has been applied	$ 645	$ 1,622	$ 2,267	$ 596	$ 1,532	$ 2,128
Insurance revenue	$ 940	$ 1,622	$ 2,562	$ 874	$ 1,532	$ 2,406

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Insurance revenue *(continued)*

For the six-month periods ended June 30	2023			2022		
	Life and health insurance activities	Property and casualty insurance activities	Total	Life and health insurance activities	Property and casualty insurance activities	Total
Contracts other than those to which the premium allocation approach has been applied						
Amounts relating to the changes in the liability for remaining coverage						
Incurred claims and other expected insurance expenses	$ 442	$ —	$ 442	$ 416	$ —	$ 416
Change in the risk adjustment for non-financial risk for expired risks	21	—	21	20	—	20
Contractual service margin for services provided in the period	111	—	111	119	—	119
Recovery of insurance acquisition cash flows	8	—	8	2	—	2
	$ 582	$ —	$ 582	$ 557	$ —	$ 557
Contracts to which the premium allocation approach has been applied	$ 1,293	$ 3,180	$ 4,473	$ 1,186	$ 3,040	$ 4,226
Insurance revenue	$ 1,875	$ 3,180	$ 5,055	$ 1,743	$ 3,040	$ 4,783

Recognition in surplus earnings of the contractual service margin

The following tables present when the life and health insurance subsidiary expects to recognize in the Combined Statements of Income the remaining contractual service margin (CSM).

As at June 30, 2023	Terms to maturity							
	Under 1 year	1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 to 10 years	Over 10 years	Total
Contractual service margin								
Insurance contracts	$ 211	$ 197	$ 184	$ 172	$ 159	$ 638	$ 1,334	$ 2,895
Reinsurance contracts	(20)	(18)	(17)	(16)	(15)	(60)	(106)	(252)

As at December 31, 2022	Terms to maturity							
	Under 1 year	1 to 2 years	Over 2 to 3 years	Over 3 to 4 years	Over 4 to 5 years	Over 5 to 10 years	Over 10 years	Total
Contractual service margin								
Insurance contracts	$ 213	$ 198	$ 185	$ 172	$ 159	$ 635	$ 1,322	$ 2,884
Reinsurance contracts	(20)	(19)	(18)	(16)	(15)	(61)	(108)	(257)

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

INSURANCE FINANCE RESULT

Finance expenses and investment income

The following tables present insurance finance income (finance expenses) and the return on assets held in respect of insurance activities.

	2023			2022		
For the three-month periods ended June 30	**Life and health insurance activities**	**Property and casualty insurance activities**	**Total**	Life and health insurance activities	Property and casualty insurance activities	Total
Return on assets held in respect of insurance activities						
Net insurance investment income (loss)						
Insurance contracts	**$ 168**	**$ 24**	**$ 192**	$ (1,763)	$ (283)	$ (2,046)
Segregated fund contracts	**57**	**—**	**57**	(358)	—	(358)
	225	**24**	**249**	(2,121)	(283)	(2,404)
Net change in insurance investment gains and losses recognized in the Combined Statements of Comprehensive Income	**(10)**	**(38)**	**(48)**	(133)	(91)	(224)
	215	**(14)**	**201**	(2,254)	(374)	(2,628)
Net insurance and reinsurance finance income (expenses)						
Net insurance finance income (expenses)						
Capitalized interest	**(194)**	**(85)**	**(279)**	(84)	(12)	(96)
Effect related to changes in discount rates and other financial assumptions	**133**	**95**	**228**	1,723	102	1,825
Change in the fair value of underlying assets of insurance contracts with direct participation features:						
Insurance contracts	**(15)**	**—**	**(15)**	141	—	141
Segregated fund contracts	**(57)**	**—**	**(57)**	358	—	358
Effect of financial risk mitigation	**57**	**—**	**57**	25	—	25
Other	**(17)**	**—**	**(17)**	(3)	—	(3)
	(93)	**10**	**(83)**	2,160	90	2,250
Net reinsurance finance income (expenses)						
Capitalized interest	**4**	**8**	**12**	3	1	4
Effect related to changes in discount rates and other financial assumptions	**4**	**(9)**	**(5)**	(86)	(11)	(97)
Other	**4**	**—**	**4**	—	—	—
	12	**(1)**	**11**	(83)	(10)	(93)
	(81)	**9**	**(72)**	2,077	80	2,157
Total	**$ 134**	**$ (5)**	**$ 129**	$ (177)	$ (294)	$ (471)
Composed of:						
Net insurance finance result in the Combined Statements of Income	**$ 144**	**$ 33**	**$ 177**	$ (44)	$ (203)	$ (247)
Net insurance finance result in the Combined Statements of Comprehensive Income	**(10)**	**(38)**	**(48)**	(133)	(91)	(224)

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Finance expenses and investment income *(continued)*

For the six-month periods ended June 30	2023 Life and health insurance activities	2023 Property and casualty insurance activities	2023 Total	2022 Life and health insurance activities	2022 Property and casualty insurance activities	2022 Total
Return on assets held in respect of insurance activities						
Net insurance investment income (loss)						
Insurance contracts	$ 889	$ 224	$ 1,113	$ (3,798)	$ (435)	$ (4,233)
Segregated fund contracts	216	—	216	(543)	—	(543)
	1,105	224	1,329	(4,341)	(435)	(4,776)
Net change in insurance investment gains and losses recognized in the Combined Statements of Comprehensive Income	55	28	83	(310)	(227)	(537)
	1,160	252	1,412	(4,651)	(662)	(5,313)
Net insurance and reinsurance finance income (expenses)						
Net insurance finance income (expenses)						
Capitalized interest	(381)	(150)	(531)	(123)	(29)	(152)
Effect related to changes in discount rates and other financial assumptions	(323)	42	(281)	3,727	288	4,015
Change in the fair value of underlying assets of insurance contracts with direct participation features:						
Insurance contracts	(68)	—	(68)	253	—	253
Segregated fund contracts	(216)	—	(216)	543	—	543
Effect of financial risk mitigation	47	—	47	183	—	183
Other	(33)	—	(33)	(4)	—	(4)
	(974)	(108)	(1,082)	4,579	259	4,838
Net reinsurance finance income (expenses)						
Capitalized interest	13	15	28	5	4	9
Effect related to changes in discount rates and other financial assumptions	24	(4)	20	(187)	(31)	(218)
Other	5	—	5	—	—	—
	42	11	53	(182)	(27)	(209)
	(932)	(97)	(1,029)	4,397	232	4,629
Total	$ 228	$ 155	$ 383	$ (254)	$ (430)	$ (684)
Composed of:						
Net insurance finance result in the Combined Statements of Income	$ 173	$ 127	$ 300	$ 56	$ (203)	$ (147)
Net insurance finance result in the Combined Statements of Comprehensive Income	55	28	83	(310)	(227)	(537)

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Net insurance investment income (loss)

The following tables present the breakdown of insurance investment income (loss), excluding those for segregated fund holders, in accordance with the classification of financial assets and liabilities.

For the three-month periods ended June 30	**2023**			2022 Restated (Note 2)		
	Net interest and dividend income	**Change in fair value and other**	**Total**	Net interest and dividend income	Change in fair value and other	Total
Net insurance investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 47**	**$ (1)**	**$ 46**	$ 72	$ (486)	$ (414)
Designated as at fair value through profit or loss	**198**	**(102)**	**96**	139	(1,838)	(1,699)
Classified as at fair value through other comprehensive income	**55**	**(33)**	**22**	35	(14)	21
Designated as at fair value through other comprehensive income	**16**	**—**	**16**	—	—	—
At amortized cost and other	**(3)**	**15**	**12**	24	22	46
	$ 313	**$ (121)**	**$ 192**	$ 270	$ (2,316)	$ (2,046)

For the six-month periods ended June 30	**2023**			2022 Restated (Note 2)		
	Net interest and dividend income	**Change in fair value and other**	**Total**	Net interest and dividend income	Change in fair value and other	Total
Net insurance investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 83**	**$ 104**	**$ 187**	$ 131	$ (737)	$ (606)
Designated as at fair value through profit or loss	**372**	**420**	**792**	270	(4,013)	(3,743)
Classified as at fair value through other comprehensive income	**110**	**(55)**	**55**	67	(28)	39
Designated as at fair value through other comprehensive income	**29**	**—**	**29**	—	—	—
At amortized cost and other	**12**	**38**	**50**	47	30	77
	$ 606	**$ 507**	**$ 1,113**	$ 515	$ (4,748)	$ (4,233)

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

RECONCILIATIONS OF INSURANCE CONTRACT ASSETS AND LIABILITIES

Reconciliations of insurance contract liabilities

The following tables present the reconciliation from the opening balance to the closing balance for the liability for remaining coverage and the liability for incurred claims.

Life and health insurance activities

For the six-month period ended June 30, 2023	Remaining coverage		Incurred claims			
				Contracts		
				To which the premium allocation approach has been applied		
	Excluding the loss component	Loss component	Other than those to which the premium allocation approach has been applied	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Liability balance at beginning of period	$ 18,655	$ 94	$ 344	$ 4,032	$ 108	$ 23,233
Insurance revenue						
Contracts to which the fair value approach has been applied	(548)	—	—	—	—	(548)
Other contracts	(1,327)	—	—	—	—	(1,327)
	(1,875)	—	—	—	—	(1,875)
Insurance service expenses						
Incurred claims and other incurred insurance service expenses	—	(21)	441	953	(2)	1,371
Amortization of acquisition cash flows	164	—	—	—	—	164
Losses and reversals of losses on onerous contracts	—	32	—	—	—	32
	164	11	441	953	(2)	1,567
Insurance service result	(1,711)	11	441	953	(2)	(308)
Net insurance finance expenses (income)	885	1	6	79	3	974
Total items recognized in the Combined Statements of Income	$ (826)	$ 12	$ 447	$ 1,032	$ 1	$ 666
Investment components	$ (864)	$ —	$ 325	$ 539	$ —	$ —
Cash flows						
Premiums and other amounts received	2,751	—	—	—	—	2,751
Acquisition cash outflows	(267)	—	—	—	—	(267)
Claims and other insurance service expenses paid (including investment components)	—	—	(791)	(1,521)	—	(2,312)
Total cash flows	$ 2,484	$ —	$ (791)	$ (1,521)	$ —	$ 172
Other changes	(8)	—	—	(5)	—	(13)
Liability balance at end of period	$ 19,441	$ 106	$ 325	$ 4,077	$ 109	$ 24,058

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Life and health insurance activities *(continued)*

For the six-month period ended June 30, 2022	Remaining coverage		Incurred claims Contracts			
				To which the premium allocation approach has been applied		
	Excluding the loss component	Loss component	Other than those to which the premium allocation approach has been applied	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Liability balance at beginning of period	$ 22,162	$ 66	$ 342	$ 4,375	$ 161	$ 27,106
Insurance revenue						
Contracts to which the fair value approach has been applied	(551)	—	—	—	—	(551)
Other contracts	(1,192)	—	—	—	—	(1,192)
	(1,743)	—	—	—	—	(1,743)
Insurance service expenses						
Incurred claims and other incurred insurance service expenses	—	(34)	421	857	(4)	1,240
Amortization of acquisition cash flows	146	—	—	—	—	146
Losses and reversal of losses on onerous contracts	—	40	—	—	—	40
	146	6	421	857	(4)	1,426
Insurance service result	(1,597)	6	421	857	(4)	(317)
Net insurance finance expenses (income)	(4,206)	—	1	(354)	(20)	(4,579)
Total items recognized in the Combined Statements of Income	$ (5,803)	$ 6	$ 422	$ 503	$ (24)	$ (4,896)
Investment components	$ (833)	$ —	$ 320	$ 513	$ —	$ —
Cash flows						
Premiums and other amounts received	2,351	—	—	—	—	2,351
Acquisition cash outflows	(260)	—	—	—	—	(260)
Claims and other insurance service expenses paid (including investment components)	—	—	(752)	(1,391)	—	(2,143)
Total cash flows	$ 2,091	$ —	$ (752)	$ (1,391)	$ —	$ (52)
Liability balance at end of period	$ 17,617	$ 72	$ 332	$ 4,000	$ 137	$ 22,158

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Property and casualty insurance activities

For the six-month period ended June 30, 2023	Remaining coverage		Incurred claims[1]		
	Excluding the loss component	Loss component	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Total
Liability balance at beginning of period	$ 66	$ 277	$ 6,192	$ 480	$ 7,015
Insurance revenue	$ (3,180)	$ —	$ —	$ —	$ (3,180)
Insurance service expenses					
Incurred claims and other incurred insurance service expenses	—	(238)	2,515	93	2,370
Amortization of acquisition cash flows	531	—	—	—	531
Changes related to incurred claims[2]	—	—	(141)	(94)	(235)
Losses and reversals of losses on onerous contracts	—	363	—	—	363
	531	125	2,374	(1)	3,029
Insurance service result	(2,649)	125	2,374	(1)	(151)
Net insurance finance expenses (income)	—	—	100	8	108
Total items recognized in the Combined Statements of Income	$ (2,649)	$ 125	$ 2,474	$ 7	$ (43)
Cash flows					
Premiums and other amounts received	3,223	—	—	—	3,223
Acquisition cash outflows	(534)	—	—	—	(534)
Claims and other insurance service expenses paid (including investment components)	—	—	(2,393)	—	(2,393)
Total cash flows	$ 2,689	$ —	$ (2,393)	$ —	$ 296
Liability balance at end of period	$ 106	$ 402	$ 6,273	$ 487	$ 7,268

(1) Contracts assumed in the acquisition of the Canadian property and casualty insurance operations of State Farm are recognized and measured as liability for incurred claims.
(2) Represents changes related to claims incurred in prior years.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Property and casualty insurance activities *(continued)*

For the six-month period ended June 30, 2022	Remaining coverage: Excluding the loss component	Remaining coverage: Loss component	Incurred claims[1]: Estimates of the present value of future cash flows	Incurred claims[1]: Risk adjustment for non-financial risk	Total
Liability balance at beginning of period	$ 89	$ 62	$ 6,167	$ 465	$ 6,783
Insurance revenue	$ (3,040)	$ —	$ —	$ —	$ (3,040)
Insurance service expenses					
Incurred claims and other incurred insurance service expenses	—	(53)	2,290	91	2,328
Amortization of acquisition cash flows	505	—	—	—	505
Changes related to incurred claims[2]	—	—	(88)	(55)	(143)
Losses and reversals of losses on onerous contracts	—	161	—	—	161
	505	108	2,202	36	2,851
Insurance service result	(2,535)	108	2,202	36	(189)
Net insurance finance expenses (income)	—	—	(240)	(19)	(259)
Total items recognized in the Combined Statements of Income	$ (2,535)	$ 108	$ 1,962	$ 17	$ (448)
Cash flows					
Premiums and other amounts received	3,056	—	—	—	3,056
Acquisition cash outflows	(545)	—	—	—	(545)
Claims and other insurance service expenses paid (including investment components)	—	—	(1,925)	—	(1,925)
Total cash flows	$ 2,511	$ —	$ (1,925)	$ —	$ 586
Liability balance at end of period	$ 65	$ 170	$ 6,204	$ 482	$ 6,921

(1) Contracts assumed in the acquisition of the Canadian property and casualty insurance operations of State Farm are recognized and measured as liability for incurred claims.
(2) Represents changes related to claims incurred in prior years.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

The following tables present the reconciliation from the opening balance to the closing balance for the measurement components of the insurance contract liabilities for contracts to which the premium allocation approach has not been applied.

Life and health insurance activities

For the six-month period ended June 30, 2023	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin – Contracts to which the fair value approach has been applied	Contractual service margin – Other contracts	Total
Liability balance at beginning of period	$ 15,658	$ 720	$ 2,847	$ 37	$ 19,262
Changes that relate to current service					
Amount of the contractual service margin	$ —	$ —	$ (110)	$ (1)	$ (111)
Change in the risk adjustment for non-financial risk for expired risks	—	(21)	—	—	(21)
Experience adjustments	(15)	—	—	—	(15)
	(15)	(21)	(110)	(1)	(147)
Changes that relate to future service					
Changes in estimates that adjust the contractual service margin	(65)	(8)	72	1	—
Changes in estimates that result in losses or reversal of losses on onerous contracts	(5)	—	—	—	(5)
Contracts initially recognized in the period	(37)	26	—	27	16
	(107)	18	72	28	11
Insurance service result	(122)	(3)	(38)	27	(136)
Net insurance finance expenses (income)	837	33	21	1	892
Total items recognized in the Combined Statements of Income	$ 715	$ 30	$ (17)	$ 28	$ 756
Cash flows					
Premiums and other amounts received	944	—	—	—	944
Acquisition cash outflows	(100)	—	—	—	(100)
Claims and other insurance service expenses paid (including investment components)	(791)	—	—	—	(791)
Total cash flows	$ 53	$ —	$ —	$ —	$ 53
Other changes	(13)	—	—	—	(13)
Liability balance at end of period	$ 16,413	$ 750	$ 2,830	$ 65	$ 20,058

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Life and health insurance activities *(continued)*

For the six-month period ended June 30, 2022	Estimates of the present value of future cash flows	Risk adjustment for non-financial risk	Contractual service margin: Contracts to which the fair value approach has been applied	Contractual service margin: Other contracts	Total
Liability balance at beginning of period	$ 19,002	$ 855	$ 2,895	$ —	$ 22,752
Changes that relate to current service					
Amount of the contractual service margin	$ —	$ —	$ (119)	$ —	$ (119)
Change in the risk adjustment for non-financial risk for expired risks	—	(20)	—	—	(20)
Experience adjustments	(2)	—	—	—	(2)
	(2)	(20)	(119)	—	(141)
Changes that relate to future service					
Changes in estimates that adjust the contractual service margin	(315)	(15)	335	(5)	—
Changes in estimates that result in losses or reversal of losses on onerous contracts	5	—	—	—	5
Contracts initially recognized in the period	(32)	20	—	22	10
	(342)	5	335	17	15
Insurance service result	(344)	(15)	216	17	(126)
Net insurance finance expenses (income)	(4,045)	(170)	11	—	(4,204)
Total items recognized in the Combined Statements of Income	$ (4,389)	$ (185)	$ 227	$ 17	$ (4,330)
Cash flows					
Premiums and other amounts received	696	—	—	—	696
Acquisition cash outflows	(752)	—	—	—	(752)
Claims and other insurance service expenses paid (including investment components)	(108)	—	—	—	(108)
Total cash flows	$ (164)	$ —	$ —	$ —	$ (164)
Liability balance at end of period	$ 14,449	$ 670	$ 3,122	$ 17	$ 18,258

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

SIGNIFICANT JUDGMENTS, ASSUMPTIONS AND ESTIMATES

The measurement of insurance contract liabilities is based on estimates and assumptions. The main assumptions used are described in the following paragraphs.

Estimates of future cash flows – Life and health insurance activities

The assumptions used to determine the estimates of future cash flows are those that are the most likely in management's judgment. The model used considers that best estimate future cash flows give the same result as the probability-weighted mean of the full range of possible outcomes. Assumptions are determined from the perspective of the life and health insurance subsidiary based on situations existing at the reporting date.

The risks associated with the accuracy of the assumptions used to determine the estimates of future cash flows arise from the non-materialization of expected assumptions. The appointed actuary periodically carries out studies on the underwriting experience related to each assumption and modifies it, if appropriate, to take into account the current and future expected situation.

Mortality

The mortality assumptions are determined based on the result of annual studies and recent underwriting experience. When the results cannot serve as the sole source of reference due to their insufficient credibility, the mortality assumptions also take into account industry studies. For annuities, the life and health insurance subsidiary also carries out an annual study of its underwriting experience, which is sufficiently credible to be the main basis for establishing assumptions. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with the standards of the Canadian Institute of Actuaries (CIA).

Morbidity

For morbidity assumptions, which relate to the occurrence of accidents and illnesses, the life and health insurance subsidiary uses industry-developed morbidity tables modified based on current data provided by its studies of its underwriting experience and those of the industry. These assumptions are mainly used for disability, critical illness and long-term care insurance products.

Contract cancellation rates

The life and health insurance subsidiary carries out an annual study of its underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their contract before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the recent underwriting experience of the life and health insurance subsidiary. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the life and health insurance subsidiary are not sufficiently credible. For some types of products, such as term-to-100 life insurance or universal life insurance with level mortality costs, lower than expected cancellation rates could have an adverse impact on the underwriting experience of the life and health insurance subsidiary. The cancellation rate assumptions may vary based on the type of product, the duration of the contract, the age upon issuance and the premium payment method.

Expenses and taxes

The expense assumptions reflect the projected costs for managing and processing contracts in force, including indirect overhead expenses. The life and health insurance subsidiary carries out an annual study of expenses by major product family, and these expenses are projected using the expected rate of inflation and the expected development of blocks of business, when relevant.

Taxes reflect the assumptions relating to future premium taxes and taxes other than taxes on surplus earnings. The estimates of future cash flows do not take into account taxes on surplus earnings.

Contract holder dividends

The estimates of future cash flows for life insurance contracts with participation features includes estimated amounts representing future contract holder dividends. These estimated amounts are determined using the expected insurance results for this block of business, the expected returns on the underlying assets and the reasonable expectations of contract holders. Changes to the most likely assumptions would result in corresponding changes to contract holder dividends and an immaterial net change in the estimates for future cash flows related to individual life insurance contracts with participation features.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Estimates of future cash flows – Property and casualty insurance activities

Facts and circumstances indicating a group is onerous

For each portfolio and each geographic area, the facts and circumstances indicating that a group of insurance contracts is or becomes onerous are determined quantitatively and qualitatively. The quantitative analysis is based on estimated combined ratios, which represent the sum of the loss ratio and the other insurance service expense ratio. When these ratios exceed a predetermined threshold, this signals that there are facts and circumstances indicating that a group of insurance contracts might be onerous. Loss experience monitoring reports are also used to identify facts and circumstances when there are significant variances from budget. The qualitative analysis is based on the judgments made by the members of a committee coming from various sectors (pricing, actuarial services, finances) who meet quarterly to discuss observed trends.

Liability for remaining coverage

Expected claims are based on historical ratios by portfolio and geographic area, adjusted to reflect expected future conditions. Selecting adjustment factors for historical ratios is based on the items mentioned in the “Liability for incurred claims” below as well as other items also requiring judgment, such as considering catastrophes and seasonality. Some insurance service expenses that the property and casualty insurance subsidiaries will have to incur to settle claims are not included in expected claims. These costs are allocated between groups of insurance contracts based on the efforts required to settle claims.

Future premium receipts and expected other insurance service expenses, including acquisition cash flows, if any, are also calculated by group of insurance contracts.

Liability for incurred claims

The liability for incurred claims includes the individual estimates of loss for each reported claim as well as a provision for claims incurred but not reported by the insured persons, for other insurance service expenses that will have to be incurred to settle those claims and for shortfalls in the estimates of losses for claims reported. The liability for incurred claims is estimated using appropriate actuarial techniques for loss prospective valuation in accordance with the CIA standards.

The main assumption underlying these methods is that past claims development can be used to project future claims development. An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments or changes to adequately determine the liability for incurred claims that represents the probability-weighted mean of the possible outcomes for future claim payments. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various quantitative and qualitative factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends, and other factors like inflation and changes in market factors, such as public behaviour towards claims and economic conditions, as well as internal factors, such as the composition of the portfolio of insurance contracts, the terms of those contracts and the claim handling procedures. A degree of judgment is also involved in assessing the extent to which external factors, such as court decisions and government legislation, can influence this estimate.

Adjustments to reflect the time value of money

The estimates of future cash flows have to be adjusted to reflect the time value of money and financial risks. The discount rates used to adjust future cash flows should be consistent with observable current market prices in active markets and reflect the characteristics of the cash flows of the insurance contract liabilities, in particular in terms of duration and liquidity. The discount rates used by the insurance subsidiaries for all their insurance contracts and reinsurance contracts held are determined using a top-down approach. Under that approach, the appropriate discount rates are determined based on a yield curve that reflects the expected returns of a reference portfolio of assets, adjusted to eliminate the factors that are not relevant to the insurance contract liabilities.

The insurance subsidiaries use various reference portfolios of assets for their various families of products. The reference portfolios of assets comprise a combination of government and corporate bonds consistent with the proportions held by the insurance subsidiaries. These assets have been selected to appropriately reflect the characteristics of the insurance contract liabilities. The yield curves have been adjusted to eliminate the factors that are not relevant to insurance contracts, such as credit risk. Adjustments are also made to reflect the differences between the liquidity characteristics of the insurance contract liabilities and those of the reference portfolio of assets.

Judgment is required in determining the yield curves to be used, as a result of the determination of the assets held in the reference portfolios, the risk-free rates, the adjustments for credit risk and the adjustments for liquidity. The insurance subsidiaries have determined that information observable on the market to establish yield curves are available for up to 30 years. Beyond that point, yield curves are established using a linear interpolation technique between the final observable point and the ultimate rate, which was set at 70 years.

For its insurance contracts with direct participation features, the life and health insurance subsidiary uses the same yield curves to discount all the cash flows of these contracts and uses stochastic modelling to take into account the variability of the cash flows that fluctuate based on the return of the underlying items.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk represents the compensation that the insurance subsidiaries require for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks when they fulfil insurance contracts. The risks to which the risk adjustment for non-financial risk relate are insurance risk and other non-financial risks, such as forfeiture risk and expense risk, which is the risk of an unexpected increase in administration expenses related to managing the contract. This adjustment also reflects the degree of risk aversion of the insurance subsidiaries and a benefit to reflect the degree of diversification the insurance subsidiaries consider when determining this compensation.

The risk adjustment for non-financial risk is determined at the consolidated level for each insurance subsidiary, net of reinsurance, and then allocated to each group of insurance contracts and each group of reinsurance contracts held based of their risk profile.

The risk adjustment for non-financial risk is discounted using the discount rates described in the “Adjustments to reflect the time value of money” section.

Life and health insurance activities

The risk adjustment for non-financial risk for life and health insurance contracts is determined using the quantile technique. This technique determines the risk adjustment for non-financial risk in such a way that the probability that the fulfilment cash flows are sufficient to meet the obligations relating to the fulfilment of insurance contracts is in an acceptable confidence interval for bearing the uncertainty. This approach requires the use of a model to generate a distribution of cash flow risks. The model used assumes that the uncertainty about future cash flows arising from insurance risks has a normal probability distribution and that the mean of the distribution represents to best estimate future cash flows. The overall solvency buffer calculated in accordance with regulatory capital requirements is used in the model as a point of reference for benchmarking the confidence level corresponding to the risk adjustment for non-financial risk. The intra-risk diversification and inter-risk diversification based on the risk characteristics associated with products are considered in applying the model. The life and health insurance subsidiary uses a confidence level of 80% (80% as at December 31, 2022).

Property and casualty insurance activities

The risk adjustment for non-financial risk is determined using the cost of capital method. Under this method, the materialization of the liability, the allocated capital and the cost of capital are individually projected by line of business. The capital allocated to lines of business to bear the risk corresponds to the aggregate of the operational target level of capital and the capital excluded from available capital by regulatory authorities. For a line of business, the risk adjustment for non-financial risk is calculated as the present value of the cost of capital of such line. The inter-line of business diversification and inter-insurance risk diversification for the property and casualty insurance subsidiaries is considered in applying the cost of capital method. It is estimated that the result of the cost of capital method is equivalent to a confidence level of 90% (90% as at December 31, 2022) for all insurance contracts and reinsurance contracts held.

Contractual service margin

At the end of the period, the CSM at the reporting date is allocated equally to each remaining coverage unit remaining before the allocation to services provided. The life and health insurance subsidiary recognizes in the Combined Statements of Income an amount of the CSM based on coverage units allocated to services provided.

Management has to make judgments to determine the appropriate coverage units that adequately reflect the quantity of insurance contract services provided over the insurance contract coverage period. The quantity of insurance contract services should consider the services arising from the insurance coverage as well as any investment-return services for insurance contracts without direct participation features and any investment-related services for insurance contracts with direct participation features. To determine the quantity of insurance contract services for the insurance coverage, the life and health insurance subsidiary uses the amount it expects the contract holder could claim if an insured event occurs.

The quantity of insurance contract services is determined based on:
- insured capital for individual insurance contracts;
- annuity payments for annuity contracts;
- guaranteed amounts for segregated fund contracts.

For investment-return services and investment-related services, the value of the holders’ funds is used to determine the quantity of services provided.

The coverage period of an insurance contract is defined as the period in which services are provided to the insurance contract holder. The life and health insurance subsidiary considers the likelihood of occurrence of events only to the extent that they affect the expected coverage duration for the contracts. The coverage period is determined based on the expiration date of the contract adjusted for the likelihood of survival of a contract.

The life and health insurance subsidiary recognizes the CSM of reinsurance contracts held related to its individual insurance contracts in the Combined Statements of Income as services are received from the reinsurer. The quantity of services received is determined based on the insured capital of the insurance contracts ceded to the reinsurer and the duration of the reinsurance contract. The coverage units for proportional reinsurance contracts are based on the insurance coverage provided by the reinsurer. The life and health insurance subsidiary determines the quantity of services received using the nominal value of the insurance contracts ceded. The coverage period of these contracts is determined based on the coverage period of the underlying insurance contracts whose cash flows are within the boundary of the reinsurance contracts held.

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

RISK MANAGEMENT

Interest rate risk

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. This risk arises from the net insurance and reinsurance contract liabilities of these subsidiaries and the portfolios of fixed-income assets they hold. The interest rate risk to which the insurance subsidiaries are exposed is mainly explained by fluctuations in the risk-free rate and gaps in asset-liability matching. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The interest rate risk management policy describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the impact on surplus earnings of a change in interest rates. Management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. If needed, it may apply rebalancing techniques to correct of improve the matching status.

In addition, a hedging program was implemented by the life and health insurance subsidiary to minimize the impact of interest rate fluctuations on guarantees under segregated fund contracts and minimum interest rate guarantees offered for some universal life insurance contracts.

The following tables present the impact of a change in interest rates on net insurance and reinsurance contract liabilities and financial assets held in respect of the insurance activities of the life and health subsidiary.

As at June 30, 2023	**CSM**	**Net surplus earnings (deficit) after member dividends**	**Equity**
Impact of a 1% increase in interest rates			
Net insurance and reinsurance contract liabilities	**$ 13**	**$ 1,504**	**$ 1,504**
Financial assets held in respect of insurance activities	**—**	**(1,518)**	**(1,555)**
Impact of a 1% decrease in interest rates			
Net insurance and reinsurance contract liabilities	**(34)**	**(1,574)**	**(1,574)**
Financial assets held in respect of insurance activities	**—**	**1,570**	**1,608**

As at December 31, 2022	CSM	Net surplus earnings (deficit) after member dividends	Equity
Impact of a 1% increase in interest rates			
Net insurance and reinsurance contract liabilities	$ 7	$ 1,319	$ 1,319
Financial assets held in respect of insurance activities	—	(1,196)	(1,308)
Impact of a 1% decrease in interest rates			
Net insurance and reinsurance contract liabilities	(28)	(1,641)	(1,641)
Financial assets held in respect of insurance activities	—	1,484	1,615

NOTE 7 – INSURANCE AND REINSURANCE CONTRACTS *(continued)*

RISK MANAGEMENT *(continued)*

Interest rate risk *(continued)*

The following tables present the impact of a change in interest rates on net insurance and reinsurance contract liabilities and financial assets held in respect of the insurance activities of the property and casualty insurance subsidiaries.

As at June 30, 2023	**Net surplus earnings (deficit) after member dividends**	**Equity**
Impact of a 1% increase in interest rates		
Net insurance and reinsurance contract liabilities	**$ 139**	**$ 139**
Financial assets held in respect of insurance activities	**(113)**	**(185)**
Impact of a 1% decrease in interest rates		
Net insurance and reinsurance contract liabilities	**(148)**	**(148)**
Financial assets held in respect of insurance activities	**121**	**199**

As at December 31, 2022	Net surplus earnings (deficit) after member dividends	Equity
Impact of a 1% increase in interest rates		
Net insurance and reinsurance contract liabilities	$ 132	$ 132
Financial assets held in respect of insurance activities	(127)	(196)
Impact of a 1% decrease in interest rates		
Net insurance and reinsurance contract liabilities	(141)	(141)
Financial assets held in respect of insurance activities	135	210

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 2023		As at December 31, 2022 Restated (Note 2)	
	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)]	**$ (913)**	**$ (10)**	$ (1,237)	$ (13)
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(937)**	**—**	(815)	—
Share of associates and joint ventures accounted for using the equity method	**(5)**	**—**	(6)	—
Accumulated other comprehensive income	**$ (1,855)**	**$ (10)**	$ (2,058)	$ (13)

(1) Take into account an allowance for credit losses of $6 million as at June 30, 2023 ($10 million as at December 31, 2022) on securities classified as at fair value through other comprehensive income.

NOTE 9 – CAPITAL MANAGEMENT

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

Desjardins Group's capital ratios are calculated according to the Capital Adequacy Guideline applicable to financial services cooperatives. In February 2023, the AMF issued an updated version of this guideline to reflect the Basel III regulatory reforms approved by the Basel Committee on Banking Supervision in 2017. The objectives of these reforms were essentially to reduce excessive variability of risk-weighted assets and improve the comparability and transparency of capital ratios reported by financial institutions. The updated version became effective in the first quarter of 2023.

As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group is subject to an additional capital surcharge of 1.0% and must maintain a minimum Tier 1A capital ratio of 8.0%. Its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. These ratios include a 2.5% capital conversation buffer. In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.5%.

Since April 1, 2022, Desjardins Group has to meet the requirements of the Total Loss Absorbing Capacity (TLAC) Guideline issued by the AMF. The TLAC ratio and TLAC leverage ratio are calculated in accordance with this guideline. The guideline applies to a resolution group deemed to be Desjardins Group excluding CDO. Desjardins Group is required to maintain a TLAC ratio of at least 21.5% and a TLAC leverage ratio of at least 6.75%.

As at June 30, 2023, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents the regulatory capital and available total loss absorbing capital (TLAC) balances, risk-weighted assets and regulatory ratios.[(1)]

(in millions of dollars and as a percentage)	As at June 30, 2023	As at December 31, 2022
Capital and other TLAC instruments		
Tier 1A capital	**$ 28,332**	$ 28,156
Tier 1 capital	**28,332**	28,156
Total capital	**30,339**	30,445
Available total loss absorbing capacity (TLAC)[(2)]	**39,003**	38,722
Risk-weighted assets		
Credit risk	**111,051**	118,783
Market risk	**3,283**	3,959
Operational risk	**21,165**	15,114
Total risk-weighted assets before the capital floor	**135,499**	137,856
Transitional capital floor adjustment	**—**	1,455
Total risk-weighted assets	**$ 135,499**	$ 139,311
Total risk-weighted assets for TLAC ratio purposes[(2)]	**131,342**	134,880
Leverage ratio exposure	**373,309**	371,598
TLAC leverage ratio exposure[(2)]	**366,286**	364,519
Ratios		
Tier 1A capital	**20.9 %**	20.2 %
Tier 1 capital	**20.9**	20.2
Total capital	**22.4**	21.9
TLAC[(2)]	**29.7**	28.7
Leverage[(3)]	**7.6**	7.6
TLAC leverage[(2)(3)]	**10.6**	10.6

(1) Comparative data are in accordance with the requirements of the Capital Adequacy Guideline in effect as at December 31, 2022.
(2) Data calculated at the resolution group level that is deemed to be Desjardins Group excluding Caisse Desjardins Ontario Credit Union Inc.
(3) As part of the temporary relief measures issued by the AMF since March 31, 2020, reserves with central banks are excluded from the leverage ratio exposure measure until further notice.

NOTE 10 – NET INTEREST INCOME AND NET OTHER INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2023	2022	**2023**	2022
Interest income on financial assets				
At amortized cost	**$ 2,940**	$ 1,901	**$ 5,655**	$ 3,639
At fair value through other comprehensive income	**432**	180	**852**	312
At fair value through profit or loss	**5**	3	**8**	5
	3,377	2,084	**6,515**	3,956
Interest expense on financial liabilities				
At amortized cost	**1,601**	482	**3,076**	845
At fair value through profit or loss	**7**	6	**13**	9
	1,608	488	**3,089**	854
	$ 1,769	$ 1,596	**$ 3,426**	$ 3,102

NET OTHER INVESTMENT INCOME (LOSS)

The following tables present the breakdown of investment income and loss excluding those for segregated funds – Investment contracts according to the classification of financial assets and liabilities.

For the three-month periods ended June 30	**2023**			2022 Restated (Note 2)		
	Net interest and dividend income	**Change in fair value and other**	**Total**	Net interest and dividend income	Change in fair value and other	Total
Net other investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 102**	**$ 59**	**$ 161**	$ 30	$ (160)	$ (130)
Designated as at fair value through profit or loss	**—**	**15**	**15**	5	21	26
Classified as at fair value through other comprehensive income	**7**	**(9)**	**(2)**	—	(10)	(10)
At amortized cost and other	**(262)**	**2**	**(260)**	(7)	1	(6)
	$ (153)	**$ 67**	**$ (86)**	$ 28	$ (148)	$ (120)

For the six-month periods ended June 30	**2023**			2022 Restated (Note 2)		
	Net interest and dividend income	**Change in fair value and other**	**Total**	Net interest and dividend income	Change in fair value and other	Total
Net other investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ (38)**	**$ 128**	**$ 90**	$ 48	$ (290)	$ (242)
Designated as at fair value through profit or loss	**—**	**(1)**	**(1)**	7	15	22
Classified as at fair value through other comprehensive income	**17**	**(33)**	**(16)**	—	(45)	(45)
At amortized cost and other	**(271)**	**2**	**(269)**	(17)	1	(16)
	$ (292)	**$ 96**	**$ (196)**	$ 38	$ (319)	$ (281)

The following table presents net other investment income (loss) for segregated funds – Investment contracts.

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2023	2022	**2023**	2022
Net other investment income (loss) for segregated fund net assets	**$ 303**	$ (1,700)	**$ 1,130**	$ (2,692)
Net other investment income (loss) for segregated fund net liabilities	**(303)**	1,700	**(1,130)**	2,692
	$ —	$ —	**$ —**	$ —

NOTE 11 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the three-month periods ended June 30	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)
Net interest income	**$ 1,638**	$ 1,399	**$ 6**	$ 2	**$ —**	$ —	**$ 125**	$ 195	**$ 1,769**	$ 1,596
Net insurance service income (loss)	**—**	—	**251**	80	**188**	(148)	**26**	31	**465**	(37)
Other income	**720**	726	**519**	325	**(7)**	(8)	**(227)**	(292)	**1,005**	751
Total net income	**2,358**	2,125	**776**	407	**181**	(156)	**(76)**	(66)	**3,239**	2,310
Provision for credit losses	**66**	65	**—**	—	**—**	—	**—**	1	**66**	66
Net non-interest expense	**1,836**	1,743	**552**	373	**101**	81	**(55)**	(23)	**2,434**	2,174
Operating surplus earnings	**456**	317	**224**	34	**80**	(237)	**(21)**	(44)	**739**	70
Income taxes on surplus earnings	**115**	83	**54**	35	**24**	(70)	**(7)**	(16)	**186**	32
Surplus earnings before member dividends	**341**	234	**170**	(1)	**56**	(167)	**(14)**	(28)	**553**	38
Member dividends, net of income tax recovery	**80**	80	**—**	—	**—**	—	**—**	—	**80**	80
Net surplus earnings (deficit) for the period after member dividends	**$ 261**	$ 154	**$ 170**	$ (1)	**$ 56**	$ (167)	**$ (14)**	$ (28)	**$ 473**	$ (42)
of which:										
Group's share	**$ 261**	$ 154	**$ 170**	$ (1)	**$ 45**	$ (156)	**$ (14)**	$ (28)	**$ 462**	$ (31)
Non-controlling interests' share	**—**	—	**—**	—	**11**	(11)	**—**	—	**11**	(11)

NOTE 11 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT *(continued)*

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the six-month periods ended June 30	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)	**2023**	2022 Restated (Note 2)
Net interest income	**$ 3,170**	$ 2,683	**$ 10**	$ 2	**$ —**	$ —	**$ 246**	$ 417	**$ 3,426**	$ 3,102
Net insurance service income (loss)	**—**	—	**464**	359	**250**	—	**(17)**	12	**697**	371
Other income	**1,420**	1,375	**881**	647	**(15)**	(13)	**(503)**	(556)	**1,783**	1,453
Total net income	**4,590**	4,058	**1,355**	1,008	**235**	(13)	**(274)**	(127)	**5,906**	4,926
Provision for credit losses	**175**	71	**(1)**	—	**(2)**	—	**(1)**	1	**171**	72
Net non-interest expense	**3,659**	3,375	**980**	758	**194**	154	**(303)**	(109)	**4,530**	4,178
Operating surplus earnings	**756**	612	**376**	250	**43**	(167)	**30**	(19)	**1,205**	676
Income taxes on surplus earnings	**192**	160	**97**	89	**12**	(53)	**9**	(9)	**310**	187
Surplus earnings before member dividends	**564**	452	**279**	161	**31**	(114)	**21**	(10)	**895**	489
Member dividends, net of income tax recovery	**158**	155	**—**	—	**—**	—	**—**	—	**158**	155
Net surplus earnings (deficit) for the period after member dividends	**$ 406**	$ 297	**$ 279**	$ 161	**$ 31**	$ (114)	**$ 21**	$ (10)	**$ 737**	$ 334
of which:										
Group's share	**$ 406**	$ 297	**$ 279**	$ 161	**$ 17**	$ (114)	**$ 21**	$ (10)	**$ 723**	$ 334
Non-controlling interests' share	**—**	—	**—**	—	**14**	—	**—**	—	**14**	—

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at June 30, 2023	**$ 334,640**	**$ 55,652**	**$ 13,157**	**$ 6,109**	**$ 409,558**
As at December 31, 2022 Restated (Note 2)	$ 321,357	$ 51,180	$ 12,846	$ 18,561	$ 403,944

NOTE 12 – SIGNIFICANT ACQUISITION

On March 1, 2023, through 9479-5176 Québec Inc., a wholly-owned indirect subsidiary of the Federation, Desjardins Group acquired, among others, all the outstanding shares of Worldsource Insurance network Inc., Worldsource Financial Management Inc. and Worldsource Securities Inc. (collectively designated as "Worldsource" hereinafter). Worldsource specializes in independent insurance, mutual fund and securities distribution operations. This acquisition enabled Desjardins Group to consolidate its independent distribution position across Canada and strengthen its growth strategy in the entire Canadian market.

The determination of the fair value of identifiable assets acquired and liabilities assumed as well as the transferred consideration was substantially completed during the period ended June 30, 2023. Should new information on facts and circumstances prevailing at the acquisition date become available by December 31, 2023, these fair values could however be revised.

The fair value of identifiable assets acquired and liabilities assumed at the acquisition date is presented below.

	As at March 1, 2023
Identifiable net assets acquired	
Cash and deposits with financial institutions	**$ 6**
Amounts receivable from clients, brokers and financial institutions	**254**
Right-of-use assets	**4**
Property, plant and equipment	**1**
Intangible assets	**442**
Investments in companies accounted for using the equity method	**2**
Other assets – Other	**30**
Amounts payable to clients, brokers and financial institutions	**(254)**
Lease liabilities	**(5)**
Deferred tax liabilities	**(104)**
Other liabilities – Other	**(34)**
	342
Consideration	
Cash and cash equivalents acquired	**6**
Net cash used for the acquisition	**743**
Total consideration	**749**
Goodwill resulting from the acquisition	**$ 407**

Goodwill is attributable to the synergies that should result from the acquisition of Worldsource by Desjardins Group. Goodwill is not tax deductible.

Since the acquisition, the contribution of the Worldsource operations to Desjardins Group's "Total net income" has been $179 million. If the acquisition had occurred at the beginning of the year, the contribution of Worldsource would have increased "Total net income" by $270 million for the six-month period ended June 30, 2023.

During the six-month period ended June 30, 2023, closing fees of $1 million ($3 million during fiscal 2022) directly attributable to the acquisition have been recognized under "Non-interest expense – Other" in the Combined Statements of Income.

GENERAL INFORMATION

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