

**Financial Report**  
**Second quarter of 2017**

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

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

**FINANCIAL HIGHLIGHTS**
**FINANCIAL RESULTS AND INDICATORS**

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
Net interest income	\$ 344	\$ 339	\$ 321	\$ 683	\$ 640
Net premiums	2,099	2,006	1,764	4,105	3,509
Other operating income <sup>(2)</sup>	924	902	883	1,826	1,767
Operating income <sup>(2)</sup>	3,367	3,247	2,968	6,614	5,916
Investment income <sup>(2)</sup>	734	425	1,005	1,159	1,632
<b>Total income</b>	<b>4,101</b>	<b>3,672</b>	<b>3,973</b>	<b>7,773</b>	<b>7,548</b>
Provision for credit losses	59	73	58	132	130
Claims, benefits, annuities and changes in insurance contract liabilities	1,922	1,753	2,065	3,675	3,823
Non-interest expense	1,605	1,550	1,536	3,155	3,004
Income taxes on surplus earnings	100	67	43	167	88
<b>Surplus earnings before dividends to member caisses</b>	<b>\$ 415</b>	<b>\$ 229</b>	<b>\$ 271</b>	<b>\$ 644</b>	<b>\$ 503</b>
Return on equity <sup>(2)</sup>	11.2%	6.5%	7.8%	8.9%	7.3%
Provisioning rate <sup>(2)</sup>	0.44	0.56	0.46	0.50	0.51

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

<sup>(2)</sup> See "Basis of presentation of financial information".

**BALANCE SHEET**

(in millions of dollars)	As at June 30, 2017	As at December 31, 2016
Assets	\$ 144,206	\$ 134,658
Net loans and acceptances	54,431	52,441
Deposits	54,728	46,902
Equity	15,337	14,680

## MESSAGE FROM SENIOR MANAGEMENT

Lévis, August 11, 2017 — For the second quarter ended June 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of \$415 million, compared to \$271 million for the corresponding quarter of 2016, an increase of \$144 million, or 53.1%. This increase is due, in part, to good investment performance and a reduction in actuarial liabilities stemming from changes in the ratings of the securities matched with these liabilities in the Wealth Management and Life and Health Insurance segment. The Property and Casualty Insurance segment benefited from favourable developments in prior-year claims.

This result reflects the contribution of \$85 million made by the Personal and Business Services segment, or 20.5% of surplus earnings. The Wealth Management and Life and Health Insurance segment contributed \$189 million to surplus earnings, while the Property and Casualty Insurance segment contributed \$98 million, representing 45.5% and 23.6%, respectively, of surplus earnings. A \$43 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 10.4% of surplus earnings.

“Our cooperative financial group’s performance over the last quarter is a great achievement, and reflects strong business growth,” said Guy Cormier, Chair of the Board, President and Chief Executive Officer. “When Desjardins succeeds, all its members and clients succeed as well. This allows us to play an even larger role as a socioeconomic leader and to give back even more to our members and the community.”

The Federation complies with Basel III rules and maintains very good capitalization. As at June 30, 2017, its Tier 1A and total capital ratios were 15.8%, compared to 15.9%, as at December 31, 2016.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated August 11, 2017 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended June 30, 2017, in comparison to previous periods. The Federation reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) as at June 30, 2017, including the notes thereto, and the Federation's 2016 Annual Report (the 2016 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

Additional information about the Federation is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) (under the *Fédération des caisses Desjardins du Québec* profile), where its Annual Information Form can be found as well. The name "Federation" also designates *Caisse centrale Desjardins*, a cooperative entity that merged with the Federation by absorption on January 1, 2017. Further information is also available on the Desjardins website at [www.desjardins.com/ca/about-us/investor-relations](http://www.desjardins.com/ca/about-us/investor-relations); however, none of the information presented on these sites is incorporated by reference into this MD&A.

### CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, these predictions, forecasts or other forward-looking statements as well as the Federation's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. The Federation cautions readers against placing undue reliance on these forward-looking statements since actual results, conditions, actions and future events could differ significantly from the targets, expectations, estimates or intents in the forward-looking statements, either explicitly or implicitly.

A number of factors, many of which are beyond the Federation's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0, "Risk management", of the 2016 MD&A, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include regulatory and legal environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance, liquidity regulatory guidance and capital guidelines, or interpretations thereof. There is also environmental risk, which is the risk of financial, operational or reputational loss for the Federation as a result of environmental impacts or issues, whether they are a result of the Federation's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by the Federation for the benefit of its employees arising essentially from interest rate, price, foreign exchange and longevity risks.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to technological advancement and regulatory developments, cybersecurity, household indebtedness and real estate market trends, geopolitical risks and communication and information. Furthermore, there are factors related to general economic and business conditions in regions in which the Federation operates; changes in the economic and financial environment in Quebec, Canada and globally, including short- and long-term interest rates, inflation, debt market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by the Federation in a given region; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by the Federation; new products and services to maintain or increase the Federation's market share; the ability to recruit and retain key management personnel, including senior management; geographic concentration; acquisitions and joint arrangements; and credit ratings.

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

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on the Federation's results. Additional information about these and other factors is found in section 4.0, "Risk management" of the 2016 MD&A. Although the Federation believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. The Federation cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

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

## THE FEDERATION'S PROFILE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group, and acts as a financial agent on Canadian and international capital markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services.

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

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

## SIGNIFICANT EVENTS IN 2017

### Sale of subsidiaries

On February 15, 2017, Desjardins Group reached an agreement to sell two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company. On July 1, 2017, Desjardins Group completed this transaction for a total consideration of approximately \$775 million. The transaction will be reflected during the third quarter. As at June 30, 2017, the results of these subsidiaries were presented in the Property and Casualty Insurance segment. These subsidiaries contributed \$19 million to net surplus earnings, after member dividends, for the first six months of 2017.

### British Columbia wildfires

Like its peers in the insurance industry, Desjardins Group is monitoring the wildfire situation in British Columbia. According to information available to date, the financial impact on Desjardins's results is not considered to be significant, since there are only a very small number of disaster victims among its clients.

## BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. These Interim Consolidated Financial Statements of the Federation have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". For further information about the accounting policies applied, see the Annual and Interim Consolidated Financial Statements.

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

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

### Adjusted net surplus earnings – Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment (P&C) are adjusted to exclude the expenses, net of income taxes, incurred as part of the sale of Western Financial Group Inc. and Western Life Assurance Company as well as those incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), completed on January 1, 2015. These expenses include the costs related to the transaction, the integration of operations and processing expenses.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Presentation of the net surplus earnings (deficit) of the Property and Casualty Insurance segment in the Consolidated Financial Statements	\$ 98	\$ (18)	\$ 49	\$ 80	\$ 88
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, net of income taxes	1	13	-	14	-
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes	8	8	10	16	17
<b>Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&amp;A</b>	<b>\$ 107</b>	<b>\$ 3</b>	<b>\$ 59</b>	<b>\$ 110</b>	<b>\$ 105</b>

Gross impaired loans/gross loans and acceptances ratio

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

The table "Gross impaired loans by borrower category" of the Federation's MD&A provides more detailed information on this indicator.

Average loans and acceptances – Average deposits – Average equity

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

Loss ratio – Expense ratio – Combined ratio

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

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

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

The combined ratio is equal to the sum of the above two ratios.

The following table presents the calculation of these ratios as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net premiums	\$ 981	\$ 965	\$ 797	\$ 1,946	\$ 1,580
Premiums excluded from the loss ratio <sup>(1)</sup>	(30)	(32)	(36)	(62)	(72)
<b>Net premiums considered in the ratio denominators</b>	<b>\$ 951</b>	<b>\$ 933</b>	<b>\$ 761</b>	<b>\$ 1,884</b>	<b>\$ 1,508</b>
Claims, benefits, annuities and changes in insurance contract liabilities	\$ 594	\$ 719	\$ 569	\$ 1,313	\$ 1,153
Market yield adjustment (MYA)	25	(16)	(39)	9	(56)
Other items excluded from the loss ratio <sup>(1)</sup>	(12)	(8)	(17)	(20)	(31)
<b>Claims, benefits, annuities and insurance contract liabilities excluding the MYA</b>	<b>\$ 607</b>	<b>\$ 695</b>	<b>\$ 513</b>	<b>\$ 1,302</b>	<b>\$ 1,066</b>
<b>Loss ratio as presented in the MD&amp;A</b>	<b>63.8%</b>	<b>74.5%</b>	<b>67.4%</b>	<b>69.1%</b>	<b>70.7%</b>
Non-interest expense	\$ 319	\$ 326	\$ 326	\$ 645	\$ 595
Other expenses excluded from the expense ratio <sup>(2)</sup>	(80)	(85)	(99)	(165)	(173)
<b>Operating expenses</b>	<b>\$ 239</b>	<b>\$ 241</b>	<b>\$ 227</b>	<b>\$ 480</b>	<b>\$ 422</b>
<b>Expense ratio as presented in the MD&amp;A</b>	<b>25.1%</b>	<b>25.8%</b>	<b>29.8%</b>	<b>25.5%</b>	<b>28.0%</b>
<b>Combined ratio as presented in the MD&amp;A</b>	<b>88.9%</b>	<b>100.3%</b>	<b>97.2%</b>	<b>94.6%</b>	<b>98.7%</b>

<sup>(1)</sup> Comes mainly from the life insurance activities of Western Life Assurance Company.

<sup>(2)</sup> Comes mainly from the life insurance and insurance product distribution activities of Western Life Assurance Company and Western Financial Group Inc., including expenses related to the sale of these two entities and expenses related to the acquisition of State Farm's Canadian operations.

Return on equity

Return on equity is used to measure profitability. Expressed as a percentage, it is equal to surplus earnings before dividends to member caisses, excluding the non-controlling interests' share and interest paid to holders of PL and PL-2 investment shares (which are not eligible for the distribution of surplus earnings), divided by average equity before non-controlling interests and PL and PL-2 investment shares.

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Surplus earnings before member dividends	\$ 415	\$ 229	\$ 271	\$ 644	\$ 503
Non-controlling interests' share	(14)	(5)	(23)	(19)	(46)
<b>Group's share</b>	<b>401</b>	<b>224</b>	<b>248</b>	<b>625</b>	<b>457</b>
Average equity before non-controlling interests' share	14,323	13,943	12,809	14,136	12,624
<b>Return on equity presented in the MD&amp;A<sup>(1)</sup></b>	<b>11.2%</b>	<b>6.5%</b>	<b>7.8%</b>	<b>8.9%</b>	<b>7.3%</b>

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

Income*Operating income*

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

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

*Investment income*

Investment income includes net income on securities at fair value through profit or loss, net income on available-for-sale securities and net other investment income. These items, taken individually, correspond to those presented in the Consolidated Financial Statements. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, for which results are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Consolidated Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
<b>Presentation of income in the Consolidated Financial Statements</b>					
Net interest income	\$ 344	\$ 339	\$ 321	\$ 683	\$ 640
Net premiums	2,099	2,006	1,764	4,105	3,509
Other income					
Assessments	91	99	114	190	196
Service agreements	194	167	158	361	350
Lending fees and credit card service revenues	153	171	135	324	286
Brokerage and investment fund services	307	278	286	585	546
Management and custodial service fees	111	106	97	217	190
Net income on securities at fair value through profit or loss	497	295	870	792	1,380
Net income on available-for-sale securities	183	76	84	259	151
Net other investment income	54	54	51	108	101
Foreign exchange income	21	18	17	39	29
Other	47	63	76	110	170
<b>Total income</b>	<b>\$ 4,101</b>	<b>\$ 3,672</b>	<b>\$ 3,973</b>	<b>\$ 7,773</b>	<b>\$ 7,548</b>
<b>Presentation of income in the MD&amp;A</b>					
Net interest income	\$ 344	\$ 339	\$ 321	\$ 683	\$ 640
Net premiums	2,099	2,006	1,764	4,105	3,509
Other operating income					
Assessments	91	99	114	190	196
Service agreements	194	167	158	361	350
Lending fees and credit card service revenues	153	171	135	324	286
Brokerage and investment fund services	307	278	286	585	546
Management and custodial service fees	111	106	97	217	190
Foreign exchange income	21	18	17	39	29
Other	47	63	76	110	170
<b>Operating income</b>	<b>3,367</b>	<b>3,247</b>	<b>2,968</b>	<b>6,614</b>	<b>5,916</b>
Investment income					
Net income on securities at fair value through profit or loss	497	295	870	792	1,380
Net income on available-for-sale securities	183	76	84	259	151
Net other investment income	54	54	51	108	101
	734	425	1,005	1,159	1,632
<b>Total income</b>	<b>\$ 4,101</b>	<b>\$ 3,672</b>	<b>\$ 3,973</b>	<b>\$ 7,773</b>	<b>\$ 7,548</b>

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

Provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
<b>Provision for credit losses</b>	<b>\$ 59</b>	<b>\$ 73</b>	<b>\$ 58</b>	<b>\$ 132</b>	<b>\$ 130</b>
Average gross loans	53,822	52,853	50,799	53,422	50,828
Average gross acceptances	82	58	66	58	169
<b>Average gross loans and acceptances</b>	<b>\$ 53,904</b>	<b>\$ 52,911</b>	<b>\$ 50,865</b>	<b>\$ 53,480</b>	<b>\$ 50,998</b>
<b>Provisioning rate as presented in the MD&amp;A<sup>(2)</sup></b>	<b>0.44%</b>	<b>0.56%</b>	<b>0.46%</b>	<b>0.50%</b>	<b>0.51%</b>

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

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

**CHANGES IN THE REGULATORY ENVIRONMENT**

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

Desjardins Group closely monitors changes in regulation as they relate to financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering and terrorist financing in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2016 Annual MD&A.

On December 5, 2013, the Quebec Minister of Finance and the Economy tabled the "Report on the application of the *Act respecting financial services cooperatives*" in the National Assembly. The report contains proposals that will serve as criteria for amendments to the current legislative framework aimed at adapting it to the changing realities of financial services cooperatives as well as the requirements of the new international standards imposed on financial institutions. Pursuant to this report, an omnibus bill expected in 2017 will propose a reform of all the laws applying to financial services, including legislative changes to the *Act respecting financial services cooperatives* and the *Deposit Insurance Act*. Among other things, this bill will provide for settlement and resolution mechanisms in the event of non-compliance with new international standards imposed on financial institutions, a strengthening of the supervision and intervention duties of the Federation and the *Fonds de sécurité Desjardins*, and measures intended to facilitate capitalization and risk management within Desjardins Group. Furthermore, the bill will provide for the creation of a new, modernized *Act respecting insurance* that will introduce, among other things, a framework for selling insurance over the Internet and a new definition of the AMF's intervention powers. This bill is currently expected to come into force in 2017. Desjardins Group continues to closely monitor developments with respect to this bill.

The *Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans* came into force on January 1, 2016. The changes to the funding rules are intended to promote the sustainability of private pension plans by ensuring funding that must include an explicit stabilization provision determined according to the plan's investment policy. Funding on a solvency basis is no longer required. On July 12, 2017, the Quebec government issued draft regulations for comments on setting the requirements applicable to the elements introduced in 2016, particularly the funding policy and the annuity purchase policy. Desjardins Group continues to monitor developments in these draft regulations and any other draft regulation that may have an impact on its operations.

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

On June 19, 2014, to strengthen the Canadian regime to fight money laundering and terrorist financing as well as improve the effectiveness of its financial sanctions, the Parliament of Canada passed the *Economic Action Plan 2014 Act, No. 1*. The Act includes, in particular, amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the regulations thereunder. Some of these amendments came into effect in June 2016. The rest will come into effect gradually. The transitional period for the application of the new measures for ascertaining identity has been extended to January 23, 2018. Furthermore, on June 22, 2017, the Parliament of Canada passed an *Act to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures*. This Act includes amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to assess their impact on its operations.

On June 16, 2017, the Department of Finance Canada pre-published three draft regulations to implement the Bank Recapitalization (Bail-in) Regime (the Regulations) and the OSFI issued a draft guideline on Total Loss Absorbing Capacity (TLAC). The introduction of the Regulations and the TLAC guideline is intended to ensure that a non-viable domestic systemically important bank (D-SIB) has sufficient loss absorbing capacity to support its recapitalization. The consultation period for the Regulations and the TLAC guideline ended on July 17, 2017. According to the Department of Finance Canada, a definitive version of the regulations is expected in fall 2017. The D-SIBs will be required to issue the ratios specified in the TLAC guideline as of the first quarter commencing November 1, 2018 and comply with the requirements of the TLAC guideline no later than November 1, 2021. This recapitalization regime is not applicable immediately to Desjardins Group because it is regulated by the AMF. Moreover, the Quebec government has not yet publicly reacted, nor has it announced its intentions with regard to this subject.

The U.S. Federal Reserve (the Fed) has implemented a number of rules and standards that affect non-U.S. financial institutions with activities in the U.S. These measures have various impacts on Desjardins Group. The rules resulting from the *Dodd-Frank Wall Street Reform and Consumer Protection Act* affect, in particular, the implementation of provisions on swap trading, proprietary trading and ownership interests in hedge funds (the Volcker rule), as well as those concerning the Enhanced Prudential Standards and the submission of a resolution plan. Desjardins Group continues to closely monitor developments in these requirements and the regulatory environment under the new U.S. administration.

The Organisation for Economic Co-operation and Development (OECD) has set up a "Standard for Automatic Exchange of Financial Information in Tax Matters", based on the same general principles and obligations as those of the *Foreign Account Tax Compliance Act*, but globally. The standard took effect in Canada on July 1, 2017, with the first exchange of information between Canada and the competent authorities scheduled for May 1, 2018. Desjardins Group has implemented various solutions to ensure its compliance while minimizing the impact on member and client experience.

Finally, Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision. To this end, in January 2015, the Committee issued a new standard related to the third pillar, which aims to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards, which includes provisions with respect to the third pillar. Desjardins Group is currently working to ensure compliance with these new requirements once they take effect on December 31, 2018. The "Capital management" section of this MD&A presents additional information on the main changes in capital currently under study.

## ECONOMIC ENVIRONMENT AND OUTLOOK

In general, the world's stock indices continued to climb in the second quarter of 2017. Stock markets were sustained by the good performance of the world economy and higher corporate earnings, particularly in the U.S. Investors' optimism around the world can be traced to the election of Emmanuel Macron in France. However, the last few months have been a difficult time for oil prices, which briefly fell below US\$45 per barrel due to a sharp rise in U.S. production, which has raised fears of a continued surplus on the global market. This situation, as well as renewed concerns about the Canadian financial system, weighed on the Toronto Stock Exchange. Long-term bond yields generally fell; it appears that certain investors who still have doubts about the health of the global economy revised their inflation expectations downward.

But in spite of it all, even though investors appear to be relatively cautious, the central banks seem to be very encouraged by the signs of accelerating economic activity and the good performance of labour markets in many economies. In the U.S., the Federal Reserve raised its federal funds rate by 0.25% in mid-June, for a third consecutive quarter, and is expected to begin gradually reducing its bond holdings in the second half of 2017. Europe's central banks also continued to adopt a more positive tone. In Canada we saw a shift in rhetoric, as the monetary authorities openly wondered whether the time had come to reverse the two rate cuts made in 2015. The Canadian economy's excess capacity was quickly disappearing, so Canadian key interest rates began to rise in July 2017. Such expectations of monetary tightening drove the Canadian dollar up to approximately US\$0.77 at the end of the quarter, despite weak oil prices, and to go slightly higher since. The gradual implementation of monetary tightening policies in North America suggests an upward trend in bond rates over the next few quarters. Rates are nevertheless expected to remain low in historical terms, and inflation should remain subdued.

Conditions are improving in the world economy. The OECD's leading indicators for the industrialized countries and the BRICS countries (Brazil, Russia, India, China and South Africa) are decidedly positive. There has also been a relatively broad-based improvement in the consumer and business confidence indices. Global trade appears to be on a better track. In the eurozone, real GDP growth has been accelerating over the last few quarters. In addition, political risks that had weighed heavily on the economic outlook have been mitigated. Electors in the Netherlands and France were able to turn back a rising tide of populism that had emerged in the United Kingdom and the U.S. However, the negotiations over Brexit between the European Union and the United Kingdom may complicate economic conditions. In addition, the United Kingdom finds itself in an even more difficult position following the recent general election, at a time when the British economy is showing signs of a slowdown. In China, economic activity is expected to slow slightly following the 6.7% gain reported for 2016. As for global real GDP, 3.4% growth is expected in 2017 following an estimated 3.0% gain in 2016. The rate could rise to 3.5% in 2018.

Good news continues to flow from the U.S., including from the labour market. The unemployment rate fell to 4.3% in May 2017, a level slightly below the trough of the last economic cycle. Consumer and business confidence indices have improved since the fall of 2016. The results for real GDP in the latest quarter of 2017 were nevertheless disappointing, although there was a rebound in the spring, even if certain indicators fell short of expectations. It is worth noting that business investment is now on a better footing. The political problems faced by the Trump administration have led to a reappraisal of certain assumptions regarding the measures to be taken by the new administration. Forecasts of real U.S. GDP growth are 2.3% for 2017 and 2.4% for 2018.

In Canada, the economy has performed well since mid-2016. Following gains of 4.2% and 2.7% (annual rates) in the third and fourth quarters, respectively, of 2016, real GDP grew 3.7% in the first quarter of 2017. Moreover, domestic demand rose 4.7% in the winter of 2017 due to strong growth in household consumption, a rebound in capital investments in machinery and equipment, and sustained growth in residential investment. In addition, the housing market is clearly showing considerable resilience, as growth has spread to most regions over the last few months. The energy sector has stabilized, leading to a turnaround in real estate in the Prairie provinces. In British Columbia, the market appears to have gathered strength following adjustments to the measures taken by the provincial government last summer. In Ontario, it is still too soon to comment on the effectiveness of measures announced by the provincial government in April, but for now, any signs of a slowdown are not conclusive. Even if certain risks remain, including the re-negotiation of the NAFTA, the outlook for growth in the Canadian economy in 2017 is rather good, with an expected 2.7% increase in real GDP. Growth of 2.0% is forecast for 2018.

In Quebec, the strength of the economy in the first quarter of 2017 produced 4.3% growth in real GDP (annual rate). The fact that every component of domestic demand posted positive growth, with households playing a leading role, confirms that economic growth is on sound foundations. Consumption is strong, the residential sector has performed well, and business and government spending are both growing. Exports were weak in the first quarter due to tepid growth in the U.S. economy during the period, even if the Canadian dollar hovered around US\$0.75. It remains unclear whether international exports will rebound any time soon. Rising protectionism in the U.S. raises uncertainties over the future of Quebec's international exports. Strong domestic demand has however amply offset the problems in external trade. Growth in real GDP should exceed 2% in 2017.



## REVIEW OF FINANCIAL RESULTS

### FINANCIAL RESULTS AND INDICATOR

(in millions of dollars and as a percentage)

	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
<b>Results</b>					
Net interest income	\$ 344	\$ 339	\$ 321	\$ 683	\$ 640
Net premiums	2,099	2,006	1,764	4,105	3,509
Other operating income <sup>(2)</sup>					
Assessments	91	99	114	190	196
Service agreements	194	167	158	361	350
Lending fees and credit card service revenues	153	171	135	324	286
Brokerage and investment fund services	307	278	286	585	546
Management and custodial service fees	111	106	97	217	190
Foreign exchange income	21	18	17	39	29
Other	47	63	76	110	170
<b>Operating income<sup>(2)</sup></b>	<b>3,367</b>	<b>3,247</b>	<b>2,968</b>	<b>6,614</b>	<b>5,916</b>
Investment income <sup>(2)</sup>					
Net income on securities at fair value through profit or loss	497	295	870	792	1,380
Net income on available-for-sale securities	183	76	84	259	151
Net other investment income	54	54	51	108	101
	734	425	1,005	1,159	1,632
<b>Total income</b>	<b>4,101</b>	<b>3,672</b>	<b>3,973</b>	<b>7,773</b>	<b>7,548</b>
Provision for credit losses	59	73	58	132	130
Claims, benefits, annuities and changes in insurance contract liabilities	1,922	1,753	2,065	3,675	3,823
Non-interest expense	1,605	1,550	1,536	3,155	3,004
Income taxes on surplus earnings	100	67	43	167	88
<b>Surplus earnings before dividends to member caisses</b>	<b>\$ 415</b>	<b>\$ 229</b>	<b>\$ 271</b>	<b>\$ 644</b>	<b>\$ 503</b>
<b>Contribution to consolidated surplus earnings by business segment<sup>(3)</sup></b>					
Personal and Business Services	\$ 85	\$ 84	\$ 87	\$ 169	\$ 164
Wealth Management and Life and Health Insurance	189	143	124	332	221
Property and Casualty Insurance	98	(18)	49	80	88
Treasury and Other Support to Desjardins Group Entities	43	20	11	63	30
	\$ 415	\$ 229	\$ 271	\$ 644	\$ 503
<b>Indicator</b>					
Return on equity <sup>(2)</sup>	11.2%	6.5%	7.8%	8.9%	7.3%

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

<sup>(2)</sup> See "Basis of presentation of financial information".

<sup>(3)</sup> The breakdown by line item is presented in Note 14, "Segmented information", to the Interim Consolidated Financial Statements.

## ANALYSIS OF RESULTS

### *Comparison of the second quarters of 2017 and 2016*

#### Surplus earnings

For the second quarter ended June 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of \$415 million, compared to \$271 million for the corresponding quarter of 2016, an increase of \$144 million, or 53.1%. This increase was due, in part, to good investment performance and a reduction in actuarial liabilities stemming from changes in the ratings of the securities matched with these liabilities in the Wealth Management and Life and Health Insurance segment. The Property and Casualty Insurance segment benefited from favourable developments in prior-year claims. Card and Payment Services operations also contributed to the increase in surplus earnings for the quarter.

This result reflects the contribution of \$85 million made by the Personal and Business Services segment, or 20.5% of surplus earnings. The Wealth Management and Life and Health Insurance segment contributed \$189 million to surplus earnings, while the Property and Casualty Insurance segment contributed \$98 million, representing 45.5% and 23.6%, respectively, of surplus earnings. A \$43 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 10.4% of surplus earnings.

Return on equity was 11.2%, compared to 7.8% in the corresponding quarter of 2016. This increase was mainly due to higher surplus earnings, as explained above.

#### Operating income

Operating income stood at \$3,367 million, up \$399 million, or 13.4%, compared to the second quarter of 2016.

Net interest income increased by \$23 million, or 7.2%, to stand at \$344 million, compared to \$321 million for the same period in the previous year, as a result of \$1.4 billion growth in the portfolio of consumer, credit card and other personal loans, including point-of-sale financing, during the year.

Net premiums were up \$335 million, or 19.0%, compared to the second quarter of 2016, to total \$2,099 million as at June 30, 2017.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of \$1,159 million for the second quarter of 2017, up \$159 million, or 15.9%, compared to the same period in 2016. Insurance premiums increased by \$53 million, with group insurance accounting for \$41 million of this growth and individual insurance for \$12 million. Annuity premiums increased by \$106 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$981 million for the second quarter of 2017, compared to \$797 million for the same period in 2016, an increase of \$184 million, or 23.1%, mainly on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims arising from new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income totalled \$924 million, up \$41 million, or 4.6%, compared to the corresponding quarter in 2016, chiefly as a result of growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities. This increase was mitigated by a larger increase than in second quarter 2016 in the contingent consideration payable arising from favourable developments in claims taken over as part of the acquisition of State Farm's Canadian operations.

#### Investment income

Investment income was down \$271 million compared to the second quarter of 2016, primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was largely offset by a change in actuarial liabilities which led to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities, caused for the most part by fluctuations in the fair value of the stock, bond and derivatives portfolio. The Property and Casualty Insurance segment also recorded a reduction in investment income related mainly to a decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in second quarter 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies. Finally, higher gains on the disposal of investments in the second quarter of 2017 compared to the corresponding quarter of 2016, combined with the change in the fair value of derivative financial instruments associated with the Federation's hedging activities, mitigated the lower investment income.

#### Total income

Total income amounted to \$4,101 million, up \$128 million, or 3.2%, compared to the same period in 2016.

#### Provision for credit losses

The provision for credit losses totalled \$59 million for the second quarter of 2017, which is comparable to the second quarter of 2016. The Federation's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.14% as at June 30, 2017, down from 0.17% for the corresponding quarter of 2016.

#### Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$1,922 million, down by \$143 million, or 6.9%, compared to the corresponding quarter of 2016.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$1,327 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of \$165 million compared to 2016. This change mainly resulted from a \$194 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. However, the increase in annuity premiums mitigated the reduction in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$594 million for the second quarter, for an increase of \$25 million, or 4.4%, compared to the second quarter of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 63.8% for the second quarter of 2017, compared to 67.4% in the corresponding quarter of 2016. This decrease was chiefly due to favourable developments in claims for prior years in automobile insurance, which were higher than in the same quarter of 2016, partially mitigated by the claims experience for the current year in automobile insurance and home insurance, which was higher than in the second quarter of 2016.

### **Non-interest expense**

Non-interest expense totalled \$1,605 million, up \$69 million, or 4.5%, compared to the second quarter of 2016. Remuneration and other payments included in non-interest expense were \$142 million, a \$29 million, or 25.7%, increase compared to the same period in 2016 due to an increase in sales of Desjardins Group's products by the caisse network. If this item were excluded, non-interest expense would have up \$40 million, or 2.8%. This slight increase in expense reflects the deployment of productivity efforts, as well as the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, and business growth, particularly in credit card and point-of-sale financing activities.

### **Income taxes**

Income taxes on surplus earnings before dividends to member caisses totalled \$100 million for the second quarter of 2017, a \$57 million increase compared to the corresponding quarter in 2016. The effective tax rate was 19.4%, compared to 13.7% for the same quarter in 2016. Income taxes for 2016 included an income tax recovery on remuneration of capital stock.

### Comparison of the first six months of 2017 and 2016

### **Surplus earnings**

For the first six months ended June 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of \$644 million, an increase of \$141 million, or 28.0%, compared to \$503 million for the corresponding period of 2016 due, in part, to good investment performance and a reduction in actuarial liabilities stemming from changes in the ratings of the securities matched with these liabilities, combined with a favourable claims experience, in the Wealth Management and Life and Health Insurance segment.

This result reflects the contribution of \$169 million made by the Personal and Business Services segment, or 26.2% of surplus earnings. The Wealth Management and Life and Health Insurance segment contributed \$332 million to surplus earnings, while the Property and Casualty Insurance segment contributed \$80 million, representing 51.6% and 12.4%, respectively, of surplus earnings. A \$63 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 9.8% of surplus earnings.

Return on equity was 8.9%, compared to 7.3% in the corresponding period of 2016. This increase was mainly due to higher surplus earnings, as explained above.

### **Operating income**

Operating income stood at \$6,614 million, up \$698 million, or 11.8%, compared to the first six months of 2016.

Net interest income was \$683 million, compared to \$640 million for the same period in the previous year, an increase of \$43 million, or 6.7%, as a result of \$1.4 billion growth in the portfolio of consumer, credit card and other personal loans outstanding, including point-of-sale financing, during the year.

Net premiums rose by \$596 million, or 17.0%, to total \$4,105 million as at June 30, 2017.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of \$2,240 million for the first six months of 2017, compared to \$2,003 million for the same period in 2016, an increase of \$237 million, or 11.8%. Insurance premiums increased by \$95 million, with group insurance accounting for \$72 million of this growth and individual insurance for \$23 million. Annuity premiums increased by \$142 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$1,946 million for the first six months of 2017, compared to \$1,580 million for the same period in 2016, up \$366 million, or 23.2%, mainly on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims arising from new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income totalled \$1,826 million, up \$59 million, or 3.3%, compared to the corresponding six months in 2016. Growth in income from assets under management, higher income related to growth in credit card and point-of-sale financing activities and increased income from the caisses related in particular to various ongoing Desjardins-wide projects were the main factors in this increase, which was mitigated by a larger increase than in the first six months of 2016 in the contingent consideration payable arising from favourable developments in claims taken over as part of the acquisition of State Farm's Canadian operations.

## Investment income

Investment income was down \$473 million compared to the first six months of 2016, primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was largely offset by a change in actuarial liabilities which led to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities, caused for the most part by fluctuations in the fair value of the stock, bond and derivatives portfolio. Changes in the fair value of derivative financial instruments, including those associated with the Federation's hedging activities also contributed to the lower investment income. Finally, the Property and Casualty Insurance segment recorded a reduction in investment income related mainly to a decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in second quarter 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies. Higher gains on the disposal of investments in the first six months of 2017 compared to the corresponding period in 2016 mitigated the lower investment income.

## Total income

Total income amounted to \$7,773 million, up \$225 million, or 3.0%, compared to the same period in 2016.

## Provision for credit losses

The provision for credit losses totalled \$132 million for the first six months of 2017, which is comparable to the corresponding period in 2016. The Federation's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.14% as at June 30, 2017, down from 0.17% in the corresponding period of 2016.

## Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$3,675 million, down \$148 million, or 3.9%, compared to the corresponding period of 2016.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$2,363 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of \$308 million compared to the first six months of 2016. This change mainly resulted from a \$362 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. However, the increase in annuity premiums helped to mitigate the reduction in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$1,313 million for the first six months of 2017, for an increase of \$160 million, or 13.9%, compared to the corresponding period of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 69.1% for the first six months of 2017, compared to 70.7% in the corresponding period of 2016. This slight decrease was chiefly due to favourable developments in claims for prior years in automobile insurance, which were higher than in the same period of 2016. However, because of harsher weather conditions at the beginning of the year, this decrease was partially mitigated by the claims experience for the current year in automobile insurance and home insurance, which was higher than in the corresponding period of 2016.

## Non-interest expense

Non-interest expense totalled \$3,155 million, up \$151 million, or 5.0%, compared to the first six months of 2016. Remuneration and other payments included in non-interest expense were \$268 million, a \$29 million, or 12.1%, increase compared to the same period in 2016 due to an increase in sales of Desjardins Group's products by the caisse network. If this item were excluded, non-interest expense would have up \$122 million, or 4.4%. This increase in expense is mainly due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, and business growth, particularly in credit card and point-of-sale financing activities. The increase in these items was partially offset by productivity efforts.

## Income taxes

Income taxes on surplus earnings before dividends to member caisses totalled \$167 million for the first six months of 2017, a \$79 million increase compared to the corresponding period in 2016. The effective tax rate was 20.6% compared to 14.9% in 2016. Income taxes for 2016 included an income tax recovery on remuneration of capital stock.

## RESULTS BY BUSINESS SEGMENT

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which the Federation operates, and on its internal management structure. In first quarter 2017, certain changes were made to the business segments to reflect senior management's decisions about the way each segment is managed, as mentioned for the business segments concerned. The Federation's financial results are therefore divided into the following three business segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. In addition to these three segments, there is also the Treasury and Other Support to Desjardins Group Entities category. This section presents an analysis of results for each of these segments. Prior period amounts have been restated to conform to these reclassifications.

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

Additional information about each business segment, particularly its profile, activities, industry and 2017 strategies and priorities, can be found on pages 22 to 32 of the 2016 MD&A.

## PERSONAL AND BUSINESS SERVICES

The Personal and Business Services segment is central to Desjardins Group's operations. It is responsible for developing a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives through the Desjardins caisse network, its Desjardins Business centres and specialized teams. It thereby enables Desjardins Group to be a leading player on the financial services scene in Quebec and Ontario. To serve the constantly-changing needs of caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through implementing and managing complementary access methods, by phone, online, via applications for mobile devices, and at ATMs. The shared services which the Federation provides to this segment, formerly presented in the Treasury and Other Support to Desjardins Group Entities category, have been recorded in this segment since the first quarter of 2017.

## PERSONAL AND BUSINESS SERVICES – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
Net interest income	\$ 266	\$ 264	\$ 252	\$ 530	\$ 505
Other operating income <sup>(2)</sup>	414	399	366	813	738
<b>Operating income<sup>(2)</sup></b>	<b>680</b>	<b>663</b>	<b>618</b>	<b>1,343</b>	<b>1,243</b>
Investment income <sup>(2)</sup>	4	30	7	34	18
<b>Total income</b>	<b>684</b>	<b>693</b>	<b>625</b>	<b>1,377</b>	<b>1,261</b>
Provision for credit losses	59	73	58	132	130
Non-interest expense	511	504	461	1,015	930
Income taxes on surplus earnings	29	32	19	61	37
<b>Net surplus earnings for the period before dividends to member caisses</b>	<b>\$ 85</b>	<b>\$ 84</b>	<b>\$ 87</b>	<b>\$ 169</b>	<b>\$ 164</b>
Of which:					
Group's share	\$ 85	\$ 84	\$ 85	\$ 169	\$ 161
Non-controlling interests' share	-	-	2	-	3
<b>Indicators</b>					
Average gross loans and acceptances <sup>(2)</sup>	\$ 25,975	\$ 25,012	\$ 23,107	\$ 25,565	\$ 23,218
Average deposits <sup>(2)</sup>	17,171	15,011	14,926	15,855	14,023
Provisioning rate <sup>(2)</sup>	0.91%	1.18%	1.01%	1.04%	1.13%
Gross impaired loans/gross loans and acceptances <sup>(2)</sup>	0.28	0.37	0.35	0.28	0.35

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

<sup>(2)</sup> See "Basis of presentation of financial information".

Comparison of the second quarters of 2017 and 2016

For the second quarter of 2017, the Personal and Business Services segment's surplus earnings before dividends to member caisses totalled \$85 million, which is comparable to the same period in 2016.

Operating income totalled \$680 million, up \$62 million, or 10.0%.

Net interest income increased by \$14 million, or 5.6%, mainly as a result of \$1.4 billion growth in the portfolio of consumer, credit card and other personal loans, including point-of-sale financing, during the year.

Other operating income was up \$48 million, or 13.1%, compared to the same period in 2016, to total \$414 million, primarily because of income from growth in credit card and point-of-sale financing activities as well as growth in income from mergers and acquisitions related to capital markets.

Investment income was down \$3 million compared to the same period in 2016.

Total income for the segment was \$684 million, an increase of \$59 million, or 9.4%, compared to the second quarter of 2016.

The provision for credit losses was \$59 million, comparable to the second quarter of 2016.

Non-interest expense was \$511 million, for an increase of \$50 million, or 10.8%, compared to the same period in 2016, mainly due to business growth, particularly growth in credit card and point-of-sale financing activities, as well as higher expenses for capital market trading income.

Comparison of the first six months of 2017 and 2016

For the first six months of 2017, the Personal and Business Services segment's surplus earnings before dividends to member caisses totalled \$169 million, an increase of \$5 million, or 3.0%, compared to the same period in 2016, mainly due to growth in credit card and point-of-sale financing activities as well as higher capital market income.

Operating income totalled \$1,343 million, up \$100 million, or 8.0%.

Net interest income was up \$25 million, or 5.0%, mainly as a result of the \$1.4 billion growth during the year in the consumer, credit card and other personal loans outstanding, including point-of-sale financing.

Other operating income was up \$75 million, or 10.2%, compared to the same period in 2016, because of income from business growth, including growth in credit card and point-of-sale financing activities as well as higher capital market income.

Investment income was up \$16 million to total \$34 million for the first half of 2017, due to growth in capital market trading income.

Total income for the segment was \$1,377 million, for an increase of \$116 million, or 9.2%, compared to the first six months of 2016.

The provision for credit losses was \$132 million for the first six months of 2017, which was comparable to the first six months of 2016.

Non-interest expense was \$1,015 million, for an increase of \$85 million, or 9.1%, compared to the same period in 2016. It was chiefly due to business growth, particularly growth in credit card and point-of-sale financing activities. In addition, the higher non-interest expense resulted from growth in capital market trading income, which performed well.

## WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

The Wealth Management and Life and Health Insurance segment offers Desjardins Group members and clients a range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. These products and services are made available to Desjardins Group members and other client bases across Canada through a vast and diversified distribution network, which includes, among others:

- advisors and financial planners in the Desjardins caisse network and the Private Management sector
- financial security advisors, life and health insurance and employee benefit agents and brokers
- securities brokers

Some product lines are also distributed directly online via the Internet, through client care centres, and via applications for mobile devices.

## WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net premiums	\$ 1,159	\$ 1,081	\$ 1,000	\$ 2,240	\$ 2,003
Other operating income <sup>(1)</sup>	378	365	342	743	683
<b>Operating income<sup>(1)</sup></b>	<b>1,537</b>	<b>1,446</b>	<b>1,342</b>	<b>2,983</b>	<b>2,686</b>
Investment income <sup>(1)</sup>	622	332	854	954	1,366
<b>Total income</b>	<b>2,159</b>	<b>1,778</b>	<b>2,196</b>	<b>3,937</b>	<b>4,052</b>
Claims, benefits, annuities and changes in insurance contract liabilities	1,327	1,036	1,492	2,363	2,671
Non-interest expense	596	561	548	1,157	1,099
Income taxes on surplus earnings	47	38	32	85	61
<b>Net surplus earnings for the period</b>	<b>\$ 189</b>	<b>\$ 143</b>	<b>\$ 124</b>	<b>\$ 332</b>	<b>\$ 221</b>
Of which:					
Group's share	\$ 189	\$ 142	\$ 115	\$ 331	\$ 201
Non-controlling interests' share	-	1	9	1	20
<b>Indicators</b>					
Net sales of savings products	\$ 2,110	\$ 2,467	\$ 1,708	\$ 4,577	\$ 3,986
Insurance sales	152	176	118	328	259
Group insurance premiums	803	785	762	1,588	1,516
Individual insurance premiums	206	204	194	410	387
Annuity premiums	150	92	44	242	100
Segregated fund receipts <sup>(2)</sup>	364	488	297	852	857

<sup>(1)</sup> See "Basis of presentation of financial information".

<sup>(2)</sup> Segregated fund receipts are used to measure the growth of the Wealth Management and Life and Health Insurance segment's operations. They are the amounts invested by clients in the segregated funds available, which are comprised of investment funds whose capital is guaranteed upon death or at maturity.

Comparison of the second quarters of 2017 and 2016

For the second quarter of 2017, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$189 million, up \$65 million, or 52.4%, compared to the corresponding period in 2016. Overall, the good performance of investments and a reduction in actuarial liabilities as a result of changes in the ratings of the securities matched with these liabilities accounted for the increase in net surplus earnings.

Operating income stood at \$1,537 million, up \$195 million, or 14.5%, compared to the same period in 2016. Insurance premiums were up \$53 million due to growth of \$41 million in group insurance premiums and of \$12 million in individual insurance premiums while annuity premiums increased by \$106 million.

Other operating income grew by \$36 million, or 10.5%, to total \$378 million for the second quarter of 2017, chiefly because of growth in income related to assets under management.

Investment income was down \$232 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was largely offset by a change in actuarial liabilities, leading to reduced expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to fluctuations in the fair value of the stock, bond and derivatives portfolio. However, higher gains on the disposal of investments in the second quarter of 2017 compared to the corresponding quarter of 2016 mitigated the lower investment income.

The segment's total income was \$2,159 million, for a decrease of \$37 million, or 1.7%, compared to the corresponding quarter in 2016.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at \$1,327 million, down \$165 million compared to 2016. This change primarily resulted from a \$194 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. However, the increase in annuity premiums mitigated the lower actuarial liabilities.

Non-interest expense was \$596 million for the second quarter of 2017, up \$48 million, or 8.8%, compared to the same period in 2016. This increase was mainly the result of higher expenses related to assets under management and was limited by effective management of expenses in a context of operations growth.

Comparison of the first six months of 2017 and 2016

For the first six months of 2017, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$332 million, up \$111 million, or 50.2%, mainly due to the good performance of investments, a reduction in actuarial liabilities as a result of changes in the ratings of the securities matched with these actuarial liabilities and a more favourable claims experience in almost all business lines.

Operating income totalled \$2,983 million, up \$297 million, or 11.1%, compared to the same period in 2016. Insurance premiums were up \$95 million due to growth of \$72 million in group insurance premiums and of \$23 million in individual insurance premiums while annuity premiums increased by \$142 million.

Other operating income rose by \$60 million, or 8.8%, to total \$743 million for the first six months of 2017, chiefly because of growth in income related to assets under management.

Investment income was down \$412 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was partially offset by a change in actuarial liabilities, leading to reduced expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to fluctuations in the fair value of the stock, bond and derivatives portfolio. However, higher gains on the disposal of investments in the second quarter of 2017 mitigated the lower investment income.

The segment's total income was \$3,937 million, for a decrease of \$115 million, or 2.8%, compared to the corresponding period in 2016.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at \$2,363 million, down \$308 million compared to 2016. This change primarily resulted from a \$362 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. However, the increase in annuity premiums helped to mitigate the lower actuarial liabilities.

Non-interest expense was \$1,157 million for the first six months of 2017, up \$58 million, or 5.3%, compared to the same period in 2016. This increase was mainly the result of higher expenses related to assets under management and was limited by effective management of expenses in a context of operations growth.

**PROPERTY AND CASUALTY INSURANCE SEGMENT**

The Property and Casualty Insurance segment offers insurance products allowing Desjardins Group members and clients to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc., Western Financial Group Inc. and Western Life Assurance Company. Its products are distributed through P&C insurance agents in the Desjardins caisse network, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network, as well as online and via applications for mobile devices.

On February 15, 2017, Desjardins Group entered into an agreement to sell two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company. On July 1, 2017, Desjardins Group closed this transaction for a total consideration of approximately \$775 million. The transaction will be reflected in the third quarter. As at June 30, 2017, the results of these subsidiaries were presented in the results of this business segment. These subsidiaries' contribution to net surplus earnings for the period totalled \$19 million for the first six months of 2017.

## 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, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net interest income	\$ -	\$ 1	\$ 1	\$ 1	\$ 1
Net premiums	981	965	797	1,946	1,580
Other operating income (loss) <sup>(1)</sup>	11	(5)	42	6	85
<b>Operating income<sup>(1)</sup></b>	<b>992</b>	<b>961</b>	<b>840</b>	<b>1,953</b>	<b>1,666</b>
Investment income <sup>(1)</sup>	51	69	121	120	200
<b>Total income</b>	<b>1,043</b>	<b>1,030</b>	<b>961</b>	<b>2,073</b>	<b>1,866</b>
Claims, benefits, annuities and changes in insurance contract liabilities	594	719	569	1,313	1,153
Non-interest expense	319	326	326	645	595
Income taxes on surplus earnings	32	3	17	35	30
<b>Net surplus earnings (deficit) for the period</b>	<b>\$ 98</b>	<b>\$ (18)</b>	<b>\$ 49</b>	<b>\$ 80</b>	<b>\$ 88</b>
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, net of income taxes <sup>(1)</sup>	1	13	-	14	-
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes <sup>(1)</sup>	8	8	10	16	17
<b>Adjusted net surplus earnings for the period<sup>(1)</sup></b>	<b>\$ 107</b>	<b>\$ 3</b>	<b>\$ 59</b>	<b>\$ 110</b>	<b>\$ 105</b>
Based on net surplus earnings for the period:					
Group's share	\$ 84	\$ (22)	\$ 39	\$ 62	\$ 69
Non-controlling interests' share	14	4	10	18	19
<b>Indicators</b>					
Gross written premiums <sup>(2)</sup>	\$ 1,288	\$ 965	\$ 1,357	\$ 2,253	\$ 2,458
Loss ratio <sup>(1)</sup>	63.8%	74.5%	67.4%	69.1%	70.7%
Expense ratio <sup>(1)</sup>	25.1	25.8	29.8	25.5	28.0
Combined ratio <sup>(1)</sup>	88.9	100.3	97.2	94.6	98.7

<sup>(1)</sup> See "Basis of presentation of financial information".

<sup>(2)</sup> Includes Western Financial Group Inc. life insurance premiums.

Comparison of the second quarters of 2017 and 2016

For the second quarter of 2017, the Property and Casualty Insurance segment recorded net surplus earnings of \$98 million, up \$49 million, or 100.0%, compared to the second quarter of 2016. Net surplus earnings, adjusted for expenses related to the sale of subsidiaries and the acquisition of State Farm's Canadian operations, totalled \$107 million, compared to \$59 million in the second quarter of 2016. This increase in surplus earnings resulted mainly from more favourable developments in prior-year claims than during the corresponding quarter of 2016.

Operating income totalled \$992 million, up \$152 million, or 18.1%, mainly due to the growth of \$184 million, or 23.1%, in net premiums resulting primarily from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims on new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was down \$31 million, chiefly as a result of the increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and the favourable developments in the claims taken over.

Investment income was down \$70 million, compared to the same period in 2016, mainly due to the decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in second quarter 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies.

The segment's total income rose to \$1,043 million for the second quarter of 2017, up \$82 million, or 8.5%, compared to the second quarter of 2016.

The Property and Casualty Insurance segment's cost of claims was \$594 million for the second quarter of 2017, for an increase of \$25 million, or 4.4%, compared to the second quarter of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 63.8% for the second quarter of 2017, compared to 67.4% in the corresponding quarter of 2016. This decrease was chiefly due to the favourable developments in prior-year automobile insurance claims, which were higher than in the corresponding quarter in 2016, partially offset by the claims experience for the current year in automobile insurance and home insurance, which was higher than in the second quarter in 2016.

Non-interest expense was \$319 million for the second quarter of 2017, down \$7 million, or 2.1%, compared to the same quarter a year earlier. This decrease was primarily due to the sale of the pet insurance operations of Western Financial Group Inc., which was closed on January 1, 2017.



Comparison of the first six months of 2017 and 2016

For the first half of 2017, the Property and Casualty Insurance segment recorded net surplus earnings of \$80 million, down \$8 million, or 9.1%, compared to the first half of 2016. Adjusted net surplus earnings totalled \$110 million, up \$5 million, or 4.8%.

Operating income totalled \$1,953 million, for an increase of \$287 million, or 17.2%, mainly due to the growth of \$366 million, or 23.2%, in net premiums resulting primarily from the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims on new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was down \$79 million, or 92.9%, chiefly as a result of the increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, which was higher than in the first six months of 2016, and the favourable developments in the claims taken over.

Investment income was down \$80 million, or 40.0%, compared to the same period in 2016, mainly due to the decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in the first half of 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies.

The segment's total income rose to \$2,073 million for the first six months of 2017, up \$207 million, or 11.1%, compared to the first half of 2016.

The Property and Casualty Insurance segment's cost of claims was \$1,313 million for the first six months of 2017, for an increase of \$160 million, or 13.9%, compared to the first half of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 69.1% for the first half of 2017, compared to 70.7% in the corresponding six months of 2016. This slight decrease was chiefly due to the favourable developments in prior-year automobile insurance claims, which were higher than in the corresponding quarter in 2016. However, because of harsher weather conditions at the beginning of the year, this decrease was partially mitigated by the claims experience for the current year in automobile insurance and home insurance, which was higher than in the corresponding period of 2016.

Non-interest expense was \$645 million for the first half of 2017, up \$50 million, or 8.4%, compared to the same period a year earlier. This increase was primarily due to the effect of the reinsurance treaty on the charges covered by it, but was mitigated by the lower expenses related to the pet insurance operations of Western Financial Group Inc., which was sold on January 1, 2017.

**TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY**

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between the caisses' liquidity surpluses and needs, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of *Capital Desjardins inc.* It further includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Consolidated Financial Statements, this category also contains intersegment balance eliminations. The shared services which the Federation provides, formerly presented in the Treasury and Other Support to Desjardins Group Entities category, have been recorded in the Personal and Business Services segment since first quarter 2017.

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

**TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES**

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016 <sup>(1)</sup>	June 30, 2017	June 30, 2016 <sup>(1)</sup>
Treasury activities	\$ 36	\$ 23	\$ 38	\$ 59	\$ 69
Activities related to derivatives associated with hedging activities	25	5	6	30	12
Other <sup>(2)</sup>	(18)	(8)	(33)	(26)	(51)
<b>Net surplus earnings for the period</b>	<b>\$ 43</b>	<b>\$ 20</b>	<b>\$ 11</b>	<b>\$ 63</b>	<b>\$ 30</b>
Of which:					
Group's share	\$ 43	\$ 20	\$ 9	\$ 63	\$ 26
Non-controlling interests' share	-	-	2	-	4

<sup>(1)</sup> Data for 2016 have been reclassified to conform to the current period's presentation.

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

**Contribution to surplus earnings***Comparison of the second quarters of 2017 and 2016*

Net surplus earnings for the period arising from operations grouped under the Treasury and Other Support to Desjardins Group Entities category totalled \$43 million for the second quarter of 2017, compared to \$11 million for the corresponding period in 2016.

Treasury activities contributed \$36 million to surplus earnings for the quarter, a contribution comparable to that for the same period in 2016.

Surplus earnings of \$25 million were posted by activities related to derivatives associated with hedging activities, compared to surplus earnings of \$6 million for the corresponding period in 2016. This was mainly due to the increase in the fair value of swaps as a result of the hike in interest rates in the second quarter of 2017, compared to a decrease in the corresponding period of 2016.

Other activities were mainly affected in the second quarters of 2017 and 2016 by expenses related to the ongoing Desjardins-wide strategic projects. These projects aim, in particular, to improve systems and processes as well as to enhance the products and services offered to members and clients by better meeting their needs, at the best price. In addition, severance costs had been incurred for the same period in 2016, following changes in Desjardins Group's senior management.

*Comparison of the first six months of 2017 and 2016*

Net surplus earnings for the period arising from operations grouped under the Treasury and Other Support to Desjardins Group Entities category, totalled \$63 million for the first half of 2017, compared to \$30 million for the corresponding period in 2016.

Treasury activities contributed \$59 million to surplus earnings, down \$10 million, mainly as a result of the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative instruments used to hedge foreign currency deposits that does not qualify for hedge accounting. This was mitigated by growth in trading income.

Since January 2017, almost all of the asset-backed term note (ABTN) have been settled. The activities related to ABTN generated surplus earnings of \$6 million in the first half of 2016 as a result of the increase in the fair value of the ABTN portfolio, net of hedging positions.

Surplus earnings of \$30 million were posted by activities related to derivatives associated with hedging activities, compared to surplus earnings of \$12 million for the corresponding period in 2016. This was mainly due to the increase in the fair value of swaps as a result of the hike in interest rates in the second quarter of 2017, compared to a decrease in the corresponding period of 2016.

Other activities were mainly affected in 2017 and 2016 by expenses related to the ongoing Desjardins-wide strategic projects. These projects aim, in particular, to improve systems and processes, as well as to enhance the products and services offered to members and clients by better meeting their needs, at the best price. In addition, severance costs had been incurred for the first half of 2016, following changes in Desjardins Group's senior management.

**SUMMARY OF INTERIM RESULTS**

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

**RESULTS OF THE MOST RECENT EIGHT QUARTERS**

(in millions of dollars)	2017		2016				2015	
	Q2	Q1	Q4 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q2 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q4 <sup>(1)</sup>	Q3 <sup>(1)</sup>
Net interest income	\$ 344	\$ 339	\$ 331	\$ 332	\$ 321	\$ 319	\$ 328	\$ 308
Net premiums	2,099	2,006	1,857	1,897	1,764	1,745	1,665	1,717
Other operating income <sup>(2)</sup>								
Assessments	91	99	98	99	114	82	94	91
Service agreements	194	167	174	175	158	192	192	184
Lending fees and credit card service revenues	153	171	151	138	135	151	139	130
Brokerage and investment fund services	307	278	281	279	286	260	263	255
Management and custodial service fees	111	106	108	99	97	93	96	94
Foreign exchange income	21	18	20	21	17	12	17	17
Other	47	63	(13)	(17)	76	94	57	47
<b>Operating income<sup>(2)</sup></b>	<b>3,367</b>	<b>3,247</b>	<b>3,007</b>	<b>3,023</b>	<b>2,968</b>	<b>2,948</b>	<b>2,851</b>	<b>2,843</b>
Investment income (loss) <sup>(2)</sup>								
Net income (loss) on securities at fair value through profit or loss	497	295	(1,204)	396	870	510	220	(7)
Net income on available-for-sale securities	183	76	93	91	84	67	69	32
Net other investment income	54	54	49	51	51	50	48	54
	734	425	(1,062)	538	1,005	627	337	79
<b>Total income</b>	<b>4,101</b>	<b>3,672</b>	<b>1,945</b>	<b>3,561</b>	<b>3,973</b>	<b>3,575</b>	<b>3,188</b>	<b>2,922</b>
Provision for credit losses	59	73	48	70	58	72	79	68
Claims, benefits, annuities and changes in insurance contract liabilities	1,922	1,753	(104)	1,727	2,065	1,758	1,350	1,246
Non-interest expense	1,605	1,550	1,560	1,458	1,536	1,468	1,489	1,370
Income taxes on surplus earnings	100	67	27	32	43	45	33	34
<b>Surplus earnings before dividends to member caisses</b>	<b>415</b>	<b>229</b>	<b>414</b>	<b>274</b>	<b>271</b>	<b>232</b>	<b>237</b>	<b>204</b>
Dividends to member caisses, net of income tax recovery	-	-	18	-	-	-	-	-
<b>Net surplus earnings for the period after dividends to member caisses</b>	<b>\$ 415</b>	<b>\$ 229</b>	<b>\$ 396</b>	<b>\$ 274</b>	<b>\$ 271</b>	<b>\$ 232</b>	<b>\$ 237</b>	<b>\$ 204</b>
Of which:								
Group's share	\$ 401	\$ 224	\$ 370	\$ 261	\$ 248	\$ 209	\$ 179	\$ 186
Non-controlling interests' share	14	5	26	13	23	23	58	18

<sup>(1)</sup> Prior-period data have been reclassified to conform to the current period's presentation.

<sup>(2)</sup> See "Basis of presentation of financial information".

Quarterly income, expenses and surplus earnings before dividends to member caisses fluctuate based on certain trends, including seasonal variations and changes in general economic conditions and capital market conditions. For more information about quarterly trends, see page 35 and 36 of the 2016 MD&A.

## BALANCE SHEET REVIEW

### BALANCE SHEET MANAGEMENT

#### CONSOLIDATED BALANCE SHEETS

(in millions of dollars and as a percentage)

	As at June 30, 2017		As at December 31, 2016	
<b>Assets</b>				
Cash and deposits with financial institutions	\$ 1,975	1.4%	\$ 1,212	0.9%
Securities	49,551	34.4	44,937	33.4
Securities borrowed or purchased under reverse repurchase agreements	6,353	4.4	7,713	5.7
Net loans and acceptances	54,431	37.7	52,441	38.9
Segregated fund net assets	12,527	8.7	11,965	8.9
Derivative financial instruments	3,251	2.3	3,706	2.8
Other assets	16,118	11.1	12,684	9.4
<b>Total assets</b>	<b>\$ 144,206</b>	<b>100.0%</b>	<b>\$ 134,658</b>	<b>100.0%</b>
<b>Liabilities and equity</b>				
Deposits	\$ 54,728	38.0%	\$ 46,902	34.8%
Commitments related to securities sold short	7,440	5.2	8,196	6.1
Commitments related to securities lent or sold under repurchase agreements	7,887	5.5	9,870	7.3
Derivative financial instruments	2,803	1.9	2,540	1.9
Insurance contract liabilities	28,147	19.5	27,493	20.4
Segregated fund net liabilities	12,493	8.7	11,957	8.9
Other liabilities	13,997	9.6	11,642	8.7
Subordinated notes	1,374	1.0	1,378	1.0
Equity	15,337	10.6	14,680	10.9
<b>Total liabilities and equity</b>	<b>\$ 144,206</b>	<b>100.0%</b>	<b>\$ 134,658</b>	<b>100.0%</b>

#### TOTAL ASSETS

As at June 30, 2017, the Federation's total assets stood at \$144.2 billion, up \$9.5 billion, or 7.1%, since December 31, 2016. This growth was largely due to an increase in securities and net loans and acceptances, which were up \$4.6 billion and \$2.0 billion, respectively.

#### CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at June 30, 2017, the Federation's cash and deposits with financial institutions amounted to \$2.0 billion, an increase of \$763 million, or 63.0%, since December 31, 2016. The volume of securities, including securities borrowed or purchased under reverse repurchase agreements, was up \$3.3 billion, or 6.2%, to total \$55.9 billion as at June 30, 2017. The increase was due to growth in market activities and deposits.

#### LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at June 30, 2017, the Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was \$54.4 billion, an increase of \$2.0 billion, or 3.8%, since December 31, 2016.

#### LOANS AND ACCEPTANCES

(in millions of dollars and as a percentage)

	As at June 30, 2017		As at December 31, 2016	
Residential mortgages	\$ 3,869	7.1%	\$ 3,486	6.6%
Consumer, credit card and other personal loans	16,445	30.1	15,720	29.9
Business and government	34,305	62.8	33,427	63.5
	54,619	100.0%	52,633	100.0%
Allowance for credit losses	(188)		(192)	
<b>Total loans and acceptances by borrower category</b>	<b>\$ 54,431</b>		<b>\$ 52,441</b>	
Loans guaranteed or insured <sup>(1)</sup>	\$ 5,031		\$ 5,196	

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

Business and government loans, including acceptances, were up \$878 million, or 2.6%, since the end of 2016, to total \$34.3 billion as at June 30, 2017. Consumer, credit card and other personal loans, which made up 30.1% of the Federation's total loan portfolio, amounted to \$16.4 billion as at June 30, 2017, an increase of \$725 million, or 4.6%, since December 31, 2016. Residential mortgages totalled \$3.9 billion as at June 30, 2017, up \$383 million, or 11.0%, since December 31, 2016.

## CREDIT QUALITY

Information about the quality of the Federation's loan portfolio is presented in the "Risk management" section on page 27 of this MD&A.

## DEPOSITS

The Federation's outstanding deposits totalled \$54.7 billion as at June 30, 2017, up \$7.8 billion, or 16.7%, since December 31, 2016. Deposits from businesses and governments, which comprised 77.6% of the total deposit portfolio, mainly accounted for this growth. They were the Federation's primary source of funding and were up \$5.7 billion, or 15.5%, since the end of 2016, to stand at \$42.5 billion as at June 30, 2017. The growth in these deposits resulted in particular from the various issuances of securities made on the U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

## DEPOSITS

(in millions of dollars and as a percentage)	As at June 30, 2017		As at December 31, 2016	
Individuals	\$	4,214 7.7%	\$	3,817 8.1%
Business and government		42,489 77.6		36,780 78.5
Deposit-taking institutions and other		8,025 14.7		6,305 13.4
<b>Total deposits</b>	<b>\$</b>	<b>54,728 100.0%</b>	<b>\$</b>	<b>46,902 100.0%</b>

Deposits from deposit-taking institutions and other sources totalled \$8.0 billion as at June 30, 2017, up \$1.7 billion, or 27.3%, since December 31, 2016. Deposits from individuals were up \$397 million, or 10.4%, since the end of 2016, to total \$4.2 billion as at June 30, 2017.

## EQUITY

Equity totalled \$15.3 billion as at June 30, 2017, up \$657 million, or 4.5%, since the prior year-end. Net surplus earnings after dividends to member caisses, totalling \$644 million for the first six months of 2017, were the source of this growth. In addition, the Federation issued F capital shares for proceeds of \$196 million, net of issuance expenses, as well as F capital shares having a value of \$125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares. The remuneration of \$167 million on the F capital shares reduced equity.

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

## CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group, including the Federation. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of the Federation's 2016 MD&A.

### Regulatory framework and internal policies

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

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

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

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

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

For the purpose of calculating capital, Desjardins Financial Corporation Inc., the holding corporation that mainly includes the insurance companies, has been deconsolidated and presented as a capital deduction. Desjardins Financial Corporation Inc. is subject to the AMF's Capital Adequacy Requirements Guideline — Life and Health Insurance.

As well, certain Federation subsidiaries, including the insurance companies, are subject to regulatory requirements from the AMF or other regulators. Most of these subsidiaries must comply with minimum capital requirements that could limit the Federation's ability to allocate part of this capital or these funds to other purposes.

### Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS). Additional information in this regard can be found in the Federation's 2016 MD&A on pages 39 and 40. The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations.

An update to the guideline went into effect on January 1, 2017, featuring a change in the treatment of equity investments in investment funds as well as the implementation of a level of loss in the event of failure to slow residential mortgages, for financial institutions applying the Internal Ratings-Based Approach on loans secured by residential real estate.

On March 15, 2017, the BCBS issued a second consultative document on identification and management of step-in risk, aimed at measuring the risk related to the support a financial institution could give an unconsolidated entity, should such entity find itself in financial distress, even beyond or in the absence of contractual obligations. The proposed framework does not call for capital requirements to be automatically added to those required under present Basel standards. It is scheduled to come into force in the fourth quarter of 2019.

On March 29, 2017, the BCBS issued a final document entitled *Regulatory treatment of accounting provisions – interim and transitional arrangements*. This document is the result of the application of IFRS 9 effective January 1, 2018, which requires provisioning for expected credit losses rather than incurred losses, as required under the present standard. Given the imminent coming into force of IFRS 9, the BCBS will maintain the present regulatory treatment of provisions under the Basel Accord framework for a transitional period. Authorities may adopt transitional measures in order to gradually take into account any significant future negative effect on regulatory capital as a result of the introduction of the new depreciation model based on expected credit loss provisioning under IFRS 9. The AMF has not yet issued a guideline in this regard.

### Compliance with requirements

As at June 30, 2017, the Tier 1A, Tier 1 and total capital ratios of the Federation, calculated in accordance with Basel III requirements, were each 15.8%. The leverage ratio was 6.7%.

The Federation and its subsidiaries that are subject to minimum regulatory capital requirements were in compliance with said requirements as at June 30, 2017.

### Regulatory capital

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

#### MAIN CAPITAL COMPONENTS

	Total capital		
	Tier 1A <sup>(1)</sup>	Tier 1B <sup>(1)</sup>	Tier 2 capital
<b>Eligible items</b>	<ul style="list-style-type: none"> <li>Reserves and undistributed surplus earnings</li> <li>Eligible accumulated other comprehensive income</li> <li>Capital shares</li> <li>Non-controlling interests<sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Non-controlling interests<sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Eligible collective allowance</li> <li>Subordinated notes subject to phase-out</li> <li>Eligible qualifying shares</li> <li>Non-controlling interests<sup>(2)</sup></li> </ul>
<b>Regulatory adjustments</b>	<ul style="list-style-type: none"> <li>Goodwill</li> <li>Software</li> <li>Other intangible assets</li> <li>Deferred tax assets essentially resulting from loss carryforwards</li> <li>Shortfall in allowance</li> <li>Cross-investments<sup>(3)</sup></li> </ul>		
<b>Deductions</b>	<ul style="list-style-type: none"> <li>Mainly significant investments in financial entities<sup>(4)</sup></li> </ul>		<ul style="list-style-type: none"> <li>Investment in preferred shares of a component deconsolidated for regulatory capital purposes</li> <li>Subordinated financial instrument</li> </ul>

<sup>(1)</sup> The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET 1 and AT1 ratios, for financial services co-operatives regulated by the AMF.

<sup>(2)</sup> The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

<sup>(3)</sup> Cross-investments in Tier 1A capital of the Desjardins caisse network in Quebec.

<sup>(4)</sup> Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from Tier 1A capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

## REGULATORY CAPITAL

(in millions of dollars and as a percentage)

	As at June 30, 2017	As at December 31, 2016
<b>Tier 1A capital</b>		
Federation's capital shares	\$ 4,448	\$ 4,127
Other capital shares	4,036	3,939
Reserves	403	524
Undistributed surplus earnings	5,214	4,765
Eligible accumulated other comprehensive income	400	386
Non-controlling interests	-	32
Deductions <sup>(1)(2)</sup>	(6,875)	(6,456)
<b>Total Tier 1A capital</b>	<b>7,626</b>	<b>7,317</b>
Non-controlling interests	14	19
Deductions <sup>(1)</sup>	(14)	(19)
<b>Total Tier 1B capital</b>	<b>-</b>	<b>-</b>
<b>Total Tier 1 capital</b>	<b>7,626</b>	<b>7,317</b>
<b>Tier 2 capital</b>		
Subordinated notes subject to phase-out	1,018	1,200
Eligible collective allowance	128	132
Non-controlling interests	-	6
Deductions <sup>(1)</sup>	(1,146)	(1,338)
<b>Total Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital (Tiers 1 and 2)</b>	<b>\$ 7,626</b>	<b>\$ 7,317</b>
<b>Ratios and leverage ratio exposure</b>		
Tier 1A capital ratio <sup>(3)</sup>	15.8%	15.9%
Tier 1 capital ratio <sup>(3)</sup>	15.8	15.9
Total capital ratio <sup>(3)</sup>	15.8	15.9
Leverage ratio <sup>(4)</sup>	6.7	7.4
Leverage ratio exposure	\$ 113,189	\$ 98,892

<sup>(1)</sup> As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.

<sup>(2)</sup> Deductions from Tier 1A are comprised of regulatory adjustments (\$2,122 million, \$1,886 million in 2016), for which cross-investments (\$1,542 million, \$1,318 million in 2016), significant investments (\$4,002 million, \$3,841 million in 2016), deferred tax assets attributable to temporary differences (\$17 million, \$16 million in 2016), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers (\$735 million, \$713 million in 2016).

<sup>(3)</sup> As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.

<sup>(4)</sup> The leverage ratio is calculated according to the guideline and is defined as the capital measure (namely Tier 1 capital), divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposure, and 4) off-balance sheet exposures.

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

On December 21, 2016, the Federation filed a new short form prospectus and obtained a receipt to issue F capital shares for a maximum of \$250 million during the 12 months following the date of the receipt. This new issue started on January 24, 2017. During the first six months of 2017, the Federation issued F capital shares for proceeds of \$196 million, net of issuance expenses. In addition, the Federation issued F capital shares having a value of \$125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

During the same period, the Federation issued A capital shares for a cash consideration of \$25 million. In addition, on October 27, 2016, the Federation's Board of Directors approved the creation of a new class of capital shares, class G. On January 1, 2017, namely the date of the merger, the CCD capital shares issued and outstanding were converted into G shares issued to members of the Federation. CCD capital shares have not been part of the Federation's authorized share capital since the merger date. During the first six months of 2017, the Federation issued G capital shares for a cash consideration of \$72 million.

As at June 30, 2017, the Tier 1A capital ratio was down 11 basis points compared to December 31, 2016. Growth in surplus earnings and reserves was offset by an increase in risk-weighted assets.

**CHANGE IN REGULATORY CAPITAL**

For the six-month period ended

(in millions of dollars)

	June 30, 2017
<b>Tier 1A capital</b>	
Balance at beginning of period	\$ 7,317
Increase in reserves and undistributed surplus earnings <sup>(1)</sup>	328
Eligible accumulated other comprehensive income	14
Federation's capital shares	321
Other capital shares	97
Non-controlling interests	(32)
Deductions	(419)
Balance at end of period	7,626
<b>Tier 1B capital</b>	
Balance at beginning of period	-
Non-controlling interests	(5)
Deductions	5
Balance at end of period	-
<b>Total Tier 1 capital</b>	<b>7,626</b>
<b>Tier 2 capital</b>	
Balance at beginning of period	-
Non-controlling interests	(6)
Senior notes subject to phase-out	(182)
Eligible collective allowance	(4)
Deductions	192
Balance at end of period	-
<b>Total capital</b>	<b>\$ 7,626</b>

<sup>(1)</sup> Including the change in defined benefit pension plan liabilities.**Risk-weighted assets (RWA)**

The Federation calculates the risk-weighted assets for credit risk, market risk and operational risk. It uses the Internal Ratings-Based Approach for credit risk related to retail loan portfolios – Personal. Other exposures to credit and market risk are measured according to the Standardized Approach. In addition, on June 19, 2017, the Federation received the AMF's authorization to use the Standardized Approach for calculating operational risk as of the second quarter.

As indicated in the table below, risk-weighted assets totalled \$48.2 billion as at June 30, 2017. Of this amount, \$38.5 billion was for credit risk, \$1.9 billion for market risk and \$8.0 billion for operational risk. As at December 31, 2016, risk-weighted assets stood at \$45.9 billion.



## RISK-WEIGHTED ASSETS

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at June 30, 2017			Total as at December 31, 2016
	Exposure <sup>(1)</sup>	Risk-weighted assets	Exposure <sup>(1)</sup>	Risk-weighted assets	Exposure <sup>(1)</sup>	Risk-weighted assets	Average risk weighting rate	Risk-weighted assets
<b>Credit risk other than counterparty risk</b>								
Sovereign borrowers	\$ -	\$ -	\$ 8,174	\$ 2	\$ 8,174	\$ 2	- %	\$ -
Financial institutions	-	-	34,674	7,006	34,674	7,006	20	5,330
Businesses	-	-	13,885	13,423	13,885	13,423	97	12,491
Securitizations	-	-	7	93	7	93	1,329	1,138
Equities	-	-	128	217	128	217	170	98
SMEs similar to other retail client exposures	-	-	1,942	1,491	1,942	1,491	77	1,048
Mortgages	1,550	143	206	73	1,756	216	12	207
Other retail client exposures (excluding SMEs)	5,106	2,416	263	220	5,369	2,636	49	2,396
Qualifying revolving retail client exposures	28,560	6,764	-	-	28,560	6,764	24	6,881
<b>Subtotal - Credit risk other than counterparty risk</b>	<b>35,216</b>	<b>9,323</b>	<b>59,279</b>	<b>22,525</b>	<b>94,495</b>	<b>31,848</b>	<b>34</b>	<b>29,589</b>
<b>Counterparty risk</b>								
Sovereign borrowers	-	-	89	-	89	-	-	-
Financial institutions	-	-	1,544	310	1,544	310	20	316
Businesses	-	-	27	20	27	20	74	8
Trading portfolio	-	-	888	270	888	270	30	192
Credit valuation adjustment charge (CVA)	-	-	-	-	-	774	-	808
Additional requirements for banking and trading portfolio	-	-	-	-	44	1	-	1
<b>Subtotal - Counterparty risk</b>	<b>-</b>	<b>-</b>	<b>2,548</b>	<b>600</b>	<b>2,592</b>	<b>1,375</b>	<b>53</b>	<b>1,325</b>
Other assets <sup>(2)</sup>	-	-	-	-	18,477	4,716	26	4,320
Scaling factor <sup>(3)</sup>	-	559	-	-	-	559	-	551
<b>Total credit risk</b>	<b>35,216</b>	<b>9,882</b>	<b>61,827</b>	<b>23,125</b>	<b>115,564</b>	<b>38,498</b>	<b>33</b>	<b>35,785</b>
<b>Market risk</b>								
Interest rate position risk	-	-	-	1,517	-	1,517	-	1,428
Currency risk	-	-	-	231	-	231	-	262
Additional requirements for other risks <sup>(4)</sup>	-	-	-	139	-	139	-	120
<b>Total market risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,887</b>	<b>-</b>	<b>1,887</b>	<b>-</b>	<b>1,810</b>
<b>Operational risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,995</b>	<b>-</b>	<b>7,995</b>	<b>-</b>	<b>8,612</b>
<b>Total risk-weighted assets before threshold</b>	<b>35,216</b>	<b>9,882</b>	<b>61,827</b>	<b>33,007</b>	<b>115,564</b>	<b>48,380</b>	<b>-</b>	<b>46,207</b>
<b>Risk-weighted assets after the transitional provisions for the CVA charge<sup>(5)</sup></b>								
RWA for Tier 1A capital	-	-	-	-	-	48,163	-	45,916
RWA for Tier 1 capital	-	-	-	-	-	48,202	-	45,972
RWA for total capital	-	-	-	-	-	48,233	-	46,021
<b>Total risk-weighted assets</b>	<b>\$ 35,216</b>	<b>\$ 9,882</b>	<b>\$ 61,827</b>	<b>\$ 33,007</b>	<b>\$ 115,564</b>	<b>\$ 48,163</b>	<b>- %</b>	<b>\$ 45,916</b>

<sup>(1)</sup> Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).

<sup>(2)</sup> Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets below a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class includes the credit valuation adjustment (CVA) charge and additional requirements related to the banking and trading portfolio, which are disclosed in the counterparty credit risk section.

<sup>(3)</sup> The scaling factor is a 6% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

<sup>(4)</sup> Other risks include equities risk, commodities risk and options risk.

<sup>(5)</sup> The scaling factors used since January 1, 2014 to account for the requirements for the CVA charge are being phased in to calculate the Tier 1A, Tier 1 and total capital ratios, which are 72%, 77% and 81%, respectively, in 2017 (64%, 71% and 77% in 2016). They will reach 100% for each capital tier by 2019.

## OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization. Additional information can be found in the "Off-balance sheet arrangements" section of the Federation's 2016 MD&A.

### Assets under management and under administration

As at June 30, 2017, the Federation administered, for the account of caisse members and its clients, assets worth \$387.9 billion, for a decrease of \$40.2 billion, or 9.4%, since December 31, 2016. The financial assets entrusted to the Federation as wealth manager totalled \$63.7 billion as at June 30, 2017, up \$4.2 billion, or 7.0%, since December 31, 2016.

### Structured entities

In the normal course of operations, the Federation enters into various financial transactions with structured entities to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they frequently have limited activities. These entities may be included in the Federation's Consolidated Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities not included in the Federation's Consolidated Balance Sheets is provided below. Note 13, "Interests in other entities", to the Annual Consolidated Financial Statements provides more information on structured entities.

#### Master Asset Vehicle (MAV) trusts

The Federation holds financial interests in MAV trusts, which are structured entities not included in its Consolidated Balance Sheets. These trusts have been created for the specific purpose of aggregating the restructured notes arising from asset-backed commercial paper held by Canadian institutional investors. During the first quarter of 2017, substantially all of the ABTN were the subject of a settlement. Furthermore, the Federation ended its commitment to contribute to the margin funding facility during the year ended December 31, 2016.

#### Securitization of the Federation's financial assets

The Federation participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this Program sometimes require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 8, "Derecognition of financial assets", to the Annual Consolidated Financial Statements provides more information about the securitization of the Federation's loans.

## RISK MANAGEMENT

### RISK MANAGEMENT

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

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

Risk management is a function covering all Desjardins Group operations, including those of the Federation. As a result, the description of risk management that follows is a description for Desjardins Group. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial stability 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 culture in which each of its business segments, employees and managers is responsible for risk management.

In the first six months of fiscal 2017, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which the Federation is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 47 to 72 of the Federation's 2016 MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group's control (including the Federation's control) could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 44 to 46 of the Federation's 2016 MD&A.

**CREDIT RISK**

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

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

**Quality of loan portfolio**

As at June 30, 2017, gross impaired loans outstanding stood at \$76 million, down \$19 million since December 31, 2016. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.14% for the second quarter of 2017, down from 0.18% as at December 31, 2016. The Federation's loan portfolio continues to be of high quality.

Individual allowances for credit losses, which totalled \$5 million as at June 30, 2017, made it possible to obtain a total coverage ratio of 6.6% of the gross impaired loans portfolio, compared to a ratio of 5.3% as at December 31, 2016.

The collective allowance stood at \$183 million as at June 30, 2017, down from \$187 million recorded at the end of 2016. In addition, an allowance for risk related to off-balance sheet arrangements of \$39 million was recognized under "Other liabilities – Other" on the Consolidated Balance Sheets as at June 30, 2017, for a decrease of \$7 million compared to the amount recorded as at December 31, 2016. The collective allowance reflects the best estimate of the risk of credit losses that have not yet been designated individually as impaired loans.

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

**GROSS IMPAIRED LOANS BY BORROWER CATEGORY**

(in millions of dollars and as a percentage)

	As at June 30, 2017				As at December 31, 2016	
	Gross loans and acceptances	Gross impaired loans	Individual allowances for credit losses	Net impaired loans	Gross impaired loans	Net impaired loans
Residential mortgages	\$ 3,869	\$ 2	\$ -	\$ 2	\$ 2	\$ 2
Consumer, credit card and other personal loans	16,445	70	-	70	82	82
Business and government	34,305	4	5	(1)	11	6
<b>Total</b>	<b>\$ 54,619</b>	<b>\$ 76</b>	<b>\$ 5</b>	<b>\$ 71</b>	<b>\$ 95</b>	<b>\$ 90</b>
As a percentage of gross loans and acceptances		0.14%		0.13%	0.18%	0.17%

**CHANGE IN GROSS IMPAIRED LOAN BALANCE**

(in millions of dollars)

	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Gross impaired loans at the beginning of the period</b>	<b>\$ 94</b>	<b>\$ 95</b>	<b>\$ 76</b>	<b>\$ 95</b>	<b>\$ 85</b>
Gross impaired loans since the last period	106	118	114	224	235
Loans returned to unimpaired status	(65)	(55)	(58)	(120)	(111)
Write-offs and recoveries	(73)	(70)	(67)	(143)	(142)
Other changes	14	6	19	20	17
<b>Gross impaired loans at the end of the period</b>	<b>\$ 76</b>	<b>\$ 94</b>	<b>\$ 84</b>	<b>\$ 76</b>	<b>\$ 84</b>

**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 Desjardins Group Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to different components based on their needs.

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

**MARKET RISK**

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

Desjardins Group is primarily exposed to market risk through positions taken in the course of its traditional financing and saving recruitment activities. It is also exposed to market risk through its insurance and trading activities. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

All financial instruments generate a market risk for trading activities, insurance activities and structural interest rate risk management activities. Aggregate VaR and aggregate stressed VaR (SVaR) presented in the "VaR by risk category" table are primarily used to monitor trading activities. These different measurements are completed by stress testing programs. The main measurement for structural interest rate risk management and insurance activities is presented in the "Interest rate sensitivity" table at the end of this section.

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

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

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

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

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

**VaR BY RISK CATEGORY (TRADING PORTFOLIO)**

(in millions of dollars)	For the quarter ended June 30, 2017				For the quarters ended			
					March 31, 2017		June 30, 2016	
	As at June 30, 2017	Average	High	Low	As at March 31, 2017	Average	As at June 30, 2016	Average
Equities	\$ 0.5	\$ 0.3	\$ 1.6	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.2
Foreign exchange	0.3	0.4	0.7	0.1	0.5	0.2	0.1	0.3
Interest rate	2.8	3.4	5.1	2.3	4.5	3.6	3.8	3.2
Specific interest rate risk <sup>(1)</sup>	5.7	6.2	8.2	4.6	5.4	4.2	4.3	4.5
Diversification effect <sup>(2)</sup>	(6.4)	(6.8)	N/A <sup>(3)</sup>	N/A <sup>(3)</sup>	(6.0)	(4.5)	(4.5)	(4.9)
<b>Aggregate VaR</b>	<b>\$ 2.9</b>	<b>\$ 3.5</b>	<b>\$ 5.1</b>	<b>\$ 2.4</b>	<b>\$ 4.5</b>	<b>\$ 3.7</b>	<b>\$ 3.8</b>	<b>\$ 3.3</b>
<b>Aggregate SVaR</b>	<b>\$ 9.6</b>	<b>\$ 12.4</b>	<b>\$ 19.7</b>	<b>\$ 8.2</b>	<b>\$ 13.0</b>	<b>\$ 12.6</b>	<b>\$ 7.6</b>	<b>\$ 9.6</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Represents the risk reduction related to diversification, namely the difference between the sum of the VaRs of the various market risks and the aggregate VaR.

<sup>(3)</sup> The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was \$3.5 million for the quarter ended June 30, 2017, down \$0.2 million compared to the quarter ended March 31, 2017, primarily as a result of a decrease in the average of the interest-rate VaR as well as an increase in the diversification effect, despite an increase in the specific interest rate risk. The average of the aggregate SVaR was \$12.4 million for the quarter ended June 30, 2017, down \$0.2 million compared to the quarter ended March 31, 2017. It should be noted that there has been no change in the model or assumptions over the periods presented.

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, 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 interval 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

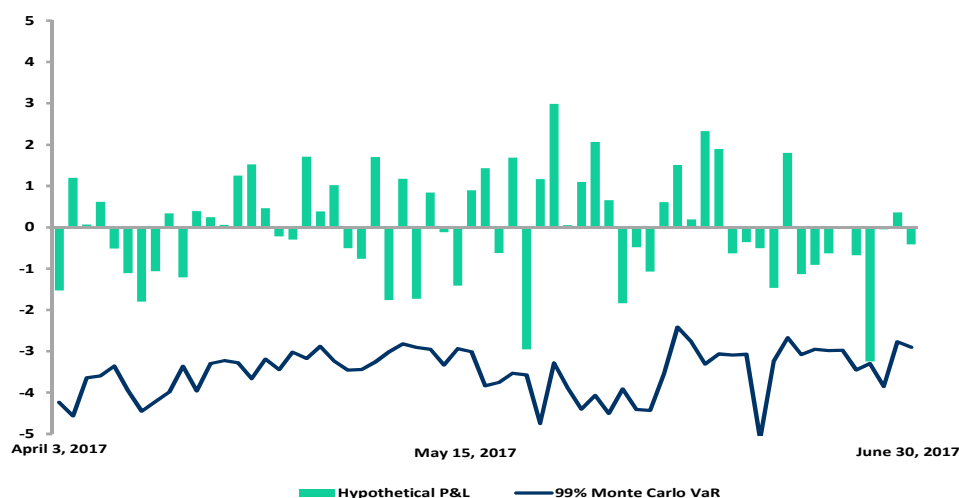
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that hypothetical results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the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

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

The following chart presents changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the second quarter of 2017, hypothetical P&L was not exceeded.

### VaR COMPARED TO HYPOTHETICAL P&L FOR TRADING ACTIVITIES

(in millions of dollars)



## Stress testing

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

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

## Structural Interest rate risk management

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

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

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

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

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

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

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

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

#### INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)<sup>(1)</sup>

(in millions of dollars)	As at June 30, 2017		As at March 31, 2017		As at June 30, 2016	
	Net interest income <sup>(2)</sup>	Economic value of equity <sup>(3)</sup>	Net interest income <sup>(2)</sup>	Economic value of equity <sup>(3)</sup>	Net interest income <sup>(2)</sup>	Economic value of equity <sup>(3)</sup>
Impact of a 100-basis-point increase in interest rates	\$ 38	\$ (2)	\$ (18)	\$ (10)	\$ 4	\$ (64)
Impact of a 100-basis-point decrease in interest rates <sup>(4)</sup>	(65)	4	(45)	21	(48)	72

<sup>(1)</sup> Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a \$222 million decrease in the economic value of equity before taxes as at June 30, 2017, and in a \$218 million and \$219 million decrease as at March 31, 2017 and as at June 30, 2016, respectively. A 100-basis-point decrease in interest rates would result in a \$199 million increase in the economic value of equity before taxes as at June 30, 2017, and in a \$195 million and \$231 million increase as at March 31, 2017 and June 30, 2016, respectively.

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

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

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

#### Foreign exchange risk management

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

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

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

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group has established policies describing the principles, limits, risk appetite and tolerance thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices.

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. It should be noted that the enactment date of the regulatory requirements concerning the NSFR has been postponed until January 1, 2019, and Desjardins Group intends to comply with this ratio once it has become effective.

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 121.9% for the quarter ended June 30, 2017, unchanged from the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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 to meet its financing needs.

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

### Liquidity risk measurement and monitoring

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

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

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

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

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

### Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation's liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows it to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to \$54.7 billion as at June 30, 2017, up \$7.8 billion since December 31, 2016. Additional information on deposits is presented in the "Balance sheet management" section of this MD&A.

### Financing programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In the first six months of 2017, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

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

### MAIN FINANCING PROGRAMS

As at June 30, 2017

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

The following table represents remaining terms to maturity of wholesale funding.

#### REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	As at June 30, 2017								As at December 31, 2016
	Less than 1 month	1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Total-Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 1,989	\$ 1,102	\$ 14	\$ 6	\$ 3,111	\$ -	\$ -	\$ 3,111	\$ 1,908
Commercial paper	7,886	1,781	303	-	9,970	-	-	9,970	5,842
Medium-term notes	338	2,731	598	2,777	6,444	1,246	4,277	11,967	10,938
Mortgage loan securitization	-	-	570	939	1,509	1,642	5,472	8,623	8,009
Covered bonds	-	-	-	-	-	1,480	2,955	4,435	6,255
Subordinated notes	-	-	-	-	-	-	1,374	1,374	1,378
<b>Total</b>	<b>\$ 10,213</b>	<b>\$ 5,614</b>	<b>\$ 1,485</b>	<b>\$ 3,722</b>	<b>\$ 21,034</b>	<b>\$ 4,368</b>	<b>\$ 14,078</b>	<b>\$ 39,480</b>	<b>\$ 34,330</b>
Including:									
Secured	\$ -	\$ -	\$ 570	\$ 939	\$ 1,509	\$ 3,122	\$ 9,801	\$ 14,432	\$ 15,642
Unsecured	10,213	5,614	915	2,783	19,525	1,246	4,277	25,048	18,688

The total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was up \$5.2 billion compared to December 31, 2016, mainly because of an increase in commercial paper and bearer discount notes, partially offset by a decrease in covered bonds.

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

#### WHOLESALE FUNDING BY CURRENCY

(in millions of dollars and as a percentage)	As at June 30, 2017		As at December 31, 2016	
Canadian dollars	\$ 17,703	44.9%	\$ 14,902	43.4%
U.S. dollars	13,674	34.6	11,670	34.0
Other	8,103	20.5	7,758	22.6
	<b>\$ 39,480</b>	<b>100.0%</b>	<b>\$ 34,330</b>	<b>100.0%</b>

The Federation also 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 2017. During the same period, it also completed one issue under its Canadian medium-term note program for a total amount of \$1.0 billion and an issue of US\$300 million under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to \$25.0 billion as at June 30, 2017, compared to \$25.2 billion as at December 31, 2016. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Consolidated Balance Sheets. *Capital Desjardins inc.*'s senior notes outstanding totalled \$1.4 billion as at June 30, 2017, unchanged from December 31, 2016. Furthermore, to round out its financing and increase its capital base, in the first six months of 2017, the Federation, issued F capital shares for proceeds of \$196 million, net of issuance expenses, as well as F capital shares having a value of \$125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

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

#### Credit ratings of securities issued

Desjardins Group's credit ratings affect its ability to access sources of funding on capital markets, as well as the conditions of such funding, and also help to enhance Desjardins Group's credibility and reputation among institutional investors and counterparties.

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria such as capitalization and the quality of assets, but also factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis, because the credit ratings of the Federation, a reporting issuer, and of *Capital Desjardins inc.*, a venture issuer, are backed by Desjardins Group's financial strength. The agencies recognize its capitalization, the stability of its operating surplus earnings, its significant market shares in Quebec and the quality of its assets.

During the first half of 2017, the credit ratings and outlooks assigned by the rating agencies Moody's, Standard & Poor's (S&P), DBRS and Fitch for the securities issued by Desjardins Group remained unchanged and were affirmed.

In addition, on May 10, 2017, Moody's lowered the long-term debt ratings of the six major Canadian banks by a notch due to deteriorating credit conditions in Canada, including expanding levels of private sector debt that could weaken the asset quality and profitability of Canadian banks. In its press release, Moody's affirmed the credit ratings of Desjardins Group since it considers the Group's activities less exposed to the risks it has mentioned.



The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks for Desjardins Group and the six major Canadian banks have remained negative since May 20, 2015 and June 11, 2014, respectively. However, Moody's ratings outlook for *Capital Desjardins inc.* remains stable. DBRS and Moody's justified their decision to assign a negative ratings outlook for Desjardins Group as well as for the six major Canadian banks due to uncertainty about continued government support to systemically important financial institutions on account of the "bail-in" regime proposed by the Canadian government. Following publication by the Department of Finance Canada on June 16, 2017 of draft regulations to implement the Bank Recapitalization (Bail-in) Regime and the issuance by the OSFI of a draft guideline on Total Loss Absorbing Capacity (TLAC), the four rating agencies did not make any comment affecting the ratings of Desjardins Group and the six major Canadian banks.

The Federation and *Capital Desjardins inc.* have first-class credit ratings that are among the best of the major Canadian and international banking institutions.

#### CREDIT RATINGS OF SECURITIES ISSUED

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

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

#### ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

#### ASSET-BACKED SECURITIES

(in millions of dollars)	As at June 30, 2017		As at December 31, 2016	
	Notional amounts	Fair value	Notional amounts	Fair value
Commercial mortgage-backed securities <sup>(1)</sup>	\$ -	\$ -	\$ 15	\$ 15
Financial asset-backed and mortgage-backed securities <sup>(2)</sup>	141	145	170	174

<sup>(1)</sup> These securities are presented in the Consolidated Balance Sheets under "Securities at fair value through profit or loss".

<sup>(2)</sup> None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented in the Consolidated Balance Sheets under "Securities at fair value through profit or loss" and "Available-for-sale securities".

#### DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)	As at June 30, 2017			As at December 31, 2016		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps <sup>(1)</sup>	\$ 648	\$ 11	\$ 1	\$ 644	\$ 10	\$ -
Total return swaps <sup>(2)</sup>	76	-	-	66	-	-

<sup>(1)</sup> Credit default swaps are presented in the Consolidated Balance Sheets as derivative financial instruments.

<sup>(2)</sup> These amounts do not include any amounts realized as part of securitization activities. Total return swaps are presented in the Consolidated Balance Sheets as derivative financial instruments.

#### LEVERAGED FINANCE LOANS AND SUBPRIME LOANS

(in millions of dollars)	As at June 30, 2017		As at December 31, 2016	
Leveraged finance loans <sup>(1)</sup>	\$	315	\$	179
Alt-A mortgage loans <sup>(2)</sup>		21		23
Subprime residential mortgage loans <sup>(3)</sup>		2		2

<sup>(1)</sup> Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.

<sup>(2)</sup> Alt-A mortgages loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

<sup>(3)</sup> Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

## ADDITIONAL INFORMATION

### CONTROLS AND PROCEDURES

During the interim period ended June 30, 2017, the Federation did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on pages 73 and 74 of the 2016 MD&A.

### RELATED PARTY DISCLOSURES

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

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

The Federation has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2016.

Additional information on related party transactions, including transactions with other Desjardins Group entities, is provided in Note 32, "Related party disclosures", to the Annual Consolidated Financial Statements.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by the Federation is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements on pages 94 to 109 of the 2016 Annual Report.

Some of these policies are of particular importance in presenting the Federation's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 74 to 78 of the 2016 MD&A.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first six months of 2017.

### FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2016 are presented in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements, on pages 109 to 110 of the 2016 Annual Report. Additional information is also presented under "Future accounting changes" on pages 78 to 82 of the 2016 MD&A. Since then, the IASB has issued the following standard:

#### IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on present value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as a separate liability and recognized in profit or loss over the contract term as services are provided.

The Federation will have to apply IFRS 17 effective January 1, 2021 and is currently assessing the impact of adopting this standard.

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## CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at June 30, 2017	As at December 31, 2016
<b>ASSETS</b>			
<b>Cash and deposits with financial institutions</b>		<b>\$ 1,975</b>	<b>\$ 1,212</b>
<b>Securities</b>			
Securities at fair value through profit and loss		33,807	31,005
Available-for-sale securities	5	15,744	13,932
		49,551	44,937
<b>Securities borrowed or purchased under reverse repurchase agreements</b>		<b>6,353</b>	<b>7,713</b>
<b>Loans</b>			
	6		
Residential mortgages		3,869	3,486
Consumer, credit card and other personal loans		16,445	15,720
Business and government		34,246	33,416
		54,560	52,622
Allowance for credit losses	6	(188)	(192)
		54,372	52,430
<b>Segregated fund net assets</b>		<b>12,527</b>	<b>11,965</b>
<b>Other assets</b>			
Clients' liability under acceptances		59	11
Premiums receivable		1,991	1,961
Derivative financial instruments		3,251	3,706
Amounts receivable from clients, brokers and financial institutions		5,369	2,541
Reinsurance assets		2,176	2,582
Investment property		804	806
Property, plant and equipment		758	769
Goodwill		153	471
Intangible assets		553	690
Deferred tax assets		758	724
Other		2,616	2,140
Assets of the group held for sale	9	940	-
		19,428	16,401
<b>TOTAL ASSETS</b>		<b>\$ 144,206</b>	<b>\$ 134,658</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Deposits</b>			
	8		
Individuals		\$ 4,214	\$ 3,817
Business and government		42,489	36,780
Deposit-taking institutions		8,025	6,305
		54,728	46,902
<b>Other liabilities</b>			
Acceptances		59	11
Commitments related to securities sold short		7,440	8,196
Commitments related to securities lent or sold under repurchase agreements		7,887	9,870
Derivative financial instruments		2,803	2,540
Amounts payable to clients, brokers and financial institutions		7,000	4,659
Insurance contract liabilities		28,147	27,493
Segregated fund net liabilities		12,493	11,957
Net defined benefit plan liabilities		1,661	1,478
Deferred tax liabilities		223	247
Other		4,681	5,247
Liabilities of the group held for sale	9	373	-
		72,767	71,698
<b>Subordinated notes</b>		<b>1,374</b>	<b>1,378</b>
<b>TOTAL LIABILITIES</b>		<b>128,869</b>	<b>119,978</b>
<b>EQUITY</b>			
Capital stock	10	8,484	8,066
Undistributed surplus earnings		5,231	4,781
Accumulated other comprehensive income	11	406	393
Reserves		403	524
<b>Equity - Group's share</b>		<b>14,524</b>	<b>13,764</b>
<b>Non-controlling interests</b>		<b>813</b>	<b>916</b>
<b>TOTAL EQUITY</b>		<b>15,337</b>	<b>14,680</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 144,206</b>	<b>\$ 134,658</b>

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

On behalf of the Board of Directors of the *Fédération des caisses Desjardins du Québec*,Guy Cormier  
Chair of the BoardYvon Vinet, LL.L., D.D.N.  
Vice-Chair of the Board

**CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

		For the three-month periods ended June 30		For the six-month periods ended June 30	
(in millions of Canadian dollars)	Notes	2017	2016	2017	2016
<b>INTEREST INCOME</b>					
Loans		\$ 493	\$ 459	\$ 974	\$ 917
Securities		50	49	98	95
		543	508	1,072	1,012
<b>INTEREST EXPENSE</b>					
Deposits		180	164	352	323
Subordinated notes and other		19	23	37	49
		199	187	389	372
<b>NET INTEREST INCOME</b>					
		344	321	683	640
<b>NET PREMIUMS</b>					
		2,099	1,764	4,105	3,509
<b>OTHER INCOME</b>					
Assessments		91	114	190	196
Service agreements		194	158	361	350
Lending fees and credit card service revenues		153	135	324	286
Brokerage and investment fund services		307	286	585	546
Management and custodial service fees		111	97	217	190
Net income on securities at fair value through profit or loss	13	497	870	792	1,380
Net income on available-for-sale securities		183	84	259	151
Net other investment income		54	51	108	101
Foreign exchange income		21	17	39	29
Other		47	76	110	170
		1,658	1,888	2,985	3,399
<b>TOTAL INCOME</b>					
		4,101	3,973	7,773	7,548
<b>PROVISION FOR CREDIT LOSSES</b>					
	6	59	58	132	130
<b>CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE</b>					
<b>CONTRACT LIABILITIES</b>					
		1,922	2,065	3,675	3,823
<b>NON-INTEREST EXPENSE</b>					
Remuneration and other payments		142	113	268	239
Salaries and fringe benefits		613	592	1,196	1,184
Premises, equipment and furniture, including depreciation		123	111	238	211
Service agreements and outsourcing		73	78	143	161
Communications		66	70	125	131
Other		588	572	1,185	1,078
		1,605	1,536	3,155	3,004
<b>OPERATING SURPLUS EARNINGS</b>					
Income taxes on surplus earnings		100	314	811	591
			43	167	88
<b>NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS</b>					
<b>TO MEMBER CAISSES</b>					
		\$ 415	\$ 271	\$ 644	\$ 503
<b>of which:</b>					
Group's share		\$ 401	\$ 248	\$ 625	\$ 457
Non-controlling interests' share		14	23	19	46

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2017	2016	2017	2016
<b>Net surplus earnings for the period after dividends to member caisses</b>	<b>\$ 415</b>	<b>\$ 271</b>	<b>\$ 644</b>	<b>\$ 503</b>
<b>Other comprehensive income, net of income taxes</b>				
<b>Items that will not be reclassified subsequently to the Consolidated Statements of Income</b>				
Remeasurement of net defined benefit plan liabilities	(111)	(121)	(135)	(303)
Share of associates and joint ventures accounted for using the equity method	(1)	-	(1)	(2)
	(112)	(121)	(136)	(305)
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains on available-for-sale securities	6	114	148	144
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	(102)	(25)	(131)	(41)
	(96)	89	17	103
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	2	1	2	(3)
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(1)	(1)	(3)	(4)
	1	-	(1)	(7)
Net unrealized exchange losses on the translation of a net investment in a foreign operation, net of hedging transactions	-	(1)	-	(1)
	(95)	88	16	95
<b>Total other comprehensive income, net of income taxes</b>	<b>(207)</b>	<b>(33)</b>	<b>(120)</b>	<b>(210)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 208</b>	<b>\$ 238</b>	<b>\$ 524</b>	<b>\$ 293</b>
<b>of which:</b>				
Group's share	\$ 199	\$ 215	\$ 505	\$ 252
Non-controlling interests' share	9	23	19	41

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

**INCOME TAXES ON OTHER COMPREHENSIVE INCOME**

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

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2017	2016	2017	2016
<b>Item that will not be reclassified subsequently to the Consolidated Statements of Income</b>				
Remeasurement of net defined benefit plan liabilities	\$ (38)	\$ (44)	\$ (48)	\$ (111)
	(38)	(44)	(48)	(111)
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains on available-for-sale securities	(3)	42	34	64
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	(23)	(3)	(25)	(9)
	(26)	39	9	55
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	1	-	1	(1)
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(1)	-	(1)	(1)
	-	-	-	(2)
	(26)	39	9	53
<b>Total income tax recovery</b>	<b>\$ (64)</b>	<b>\$ (5)</b>	<b>\$ (39)</b>	<b>\$ (58)</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the six-month periods ended June 30

(in millions of Canadian dollars)

	Capital stock (Note 10)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 11)	Reserves			Equity - Group's share	Non-controlling interests	Total equity
				Stabilization reserve	General and other reserves	Total reserves			
<b>BALANCE AS AT DECEMBER 31, 2016</b>	<b>\$ 8,066</b>	<b>\$ 4,781</b>	<b>\$ 393</b>	<b>\$ 436</b>	<b>\$ 88</b>	<b>\$ 524</b>	<b>\$ 13,764</b>	<b>\$ 916</b>	<b>\$ 14,680</b>
Net surplus earnings for the period after dividends to member caisses	-	625	-	-	-	-	625	19	644
Other comprehensive income for the period	-	(133)	13	-	-	-	(120)	-	(120)
Comprehensive income for the period	-	492	13	-	-	-	505	19	524
Issuance of F capital shares	322	-	-	-	-	-	322	-	322
F capital share issuance costs	(1)	-	-	-	-	-	(1)	-	(1)
Other net change in capital stock	97	-	-	-	-	-	97	(97)	-
Remuneration on F capital shares	-	(167)	-	-	-	-	(167)	-	(167)
Redemption of share capital	-	-	-	-	-	-	-	(4)	(4)
Dividends	-	-	-	-	-	-	-	(20)	(20)
Transfer from undistributed surplus earnings (to reserves)	-	121	-	31	(152)	(121)	-	-	-
Transactions related to put options	-	1	-	-	-	-	1	-	1
Other	-	3	-	-	-	-	3	(1)	2
<b>BALANCE AS AT JUNE 30, 2017</b>	<b>\$ 8,484</b>	<b>\$ 5,231</b>	<b>\$ 406</b>	<b>\$ 467</b>	<b>\$ (64)</b>	<b>\$ 403</b>	<b>\$ 14,524</b>	<b>\$ 813</b>	<b>\$ 15,337</b>
<b>BALANCE AS AT DECEMBER 31, 2015</b>	<b>\$ 7,505</b>	<b>\$ 3,977</b>	<b>\$ 265</b>	<b>\$ 436</b>	<b>\$ 71</b>	<b>\$ 507</b>	<b>\$ 12,254</b>	<b>\$ 1,333</b>	<b>\$ 13,587</b>
Net surplus earnings for the period after dividends to member caisses	-	457	-	-	-	-	457	46	503
Other comprehensive income for the period	-	(294)	89	-	-	-	(205)	(5)	(210)
Comprehensive income for the period	-	163	89	-	-	-	252	41	293
Issuance of F capital shares	426	-	-	-	-	-	426	-	426
F capital share issuance costs	(1)	-	-	-	-	-	(1)	-	(1)
Remuneration on F capital shares	-	(135)	-	-	-	-	(135)	-	(135)
Issuance of share capital	-	-	-	-	-	-	-	1	1
Redemption of share capital	-	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	-	-	-	(15)	(15)
Transfer from participating contract holders	-	362	34	-	-	-	396	(396)	-
Transfer from undistributed surplus earnings (to reserves)	-	77	-	-	(77)	(77)	-	-	-
Other	-	(5)	-	-	-	-	(5)	(10)	(15)
<b>BALANCE AS AT JUNE 30, 2016</b>	<b>\$ 7,930</b>	<b>\$ 4,439</b>	<b>\$ 388</b>	<b>\$ 436</b>	<b>\$ (6)</b>	<b>\$ 430</b>	<b>\$ 13,187</b>	<b>\$ 951</b>	<b>\$ 14,138</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

		For the six-month periods ended June 30	
(in millions of Canadian dollars)	Note	2017	2016
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>			
Operating surplus earnings		\$ 811	\$ 591
Non-cash adjustments:			
Depreciation of property, plant and equipment, intangible assets and investment property		92	95
Net change in insurance contract liabilities		821	1,637
Provision for credit losses		132	130
Impairment on available-for-sale securities recognized in net income		4	14
Net realized gains on available-for-sale securities		(161)	(63)
Other		83	8
Change in operating assets and liabilities:			
Securities at fair value through profit and loss		(2,925)	(3,862)
Securities borrowed or purchased under reverse repurchase agreements		1,360	(2,336)
Loans		(2,074)	396
Derivative financial instruments, net amount		723	1,061
Net amounts receivable from and payable to clients, brokers and financial institutions		(503)	(39)
Deposits		7,826	2,461
Commitments related to securities sold short		(756)	1,481
Commitments related to securities lent or sold under repurchase agreements		(1,983)	90
Other		(392)	(773)
Payment of the contingent consideration		(243)	(121)
Income taxes paid on surplus earnings		(198)	(233)
		2,617	537
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>			
Redemption of subordinated notes		-	(500)
Purchase of debt securities and subordinated notes from third parties on the market		(4)	-
Issuance of F capital shares		197	326
F capital share issuance costs		(1)	(1)
Remuneration on F capital shares		(42)	(35)
Issuance of share capital		-	1
Redemption of share capital		(4)	(3)
Dividends paid		(20)	(15)
Exercise of put options written on non-controlling interests		(4)	(2)
		122	(229)
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>			
Purchase of available-for-sale securities		(24,752)	(20,218)
Proceeds from disposals of available-for-sale securities		8,229	5,119
Proceeds from maturities of available-for-sale securities		14,728	15,061
Business sale, net of cash and cash equivalents sold		44	-
Payment of the contingent consideration recognized at acquisition date		(23)	(34)
Acquisitions of property, plant and equipment, intangible assets and investment property		(124)	(214)
		(1,898)	(286)
<b>Net increase in cash and cash equivalents</b>		841	22
Cash and cash equivalents at beginning of period		1,212	1,006
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		2,053	1,028
Less:			
Cash and cash equivalents of the group held for sale	9	78	-
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD RELATED TO CONTINUING OPERATIONS</b>		\$ 1,975	\$ 1,028
<b>Supplemental information on cash flows from (used in) operating activities</b>			
Interest paid		\$ 652	\$ 441
Interest and dividends received		1,643	1,717

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



# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

### NATURE OF OPERATIONS

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

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

## NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

#### STATEMENT OF COMPLIANCE

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

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 2016, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Federation on August 11, 2017.

#### PRESENTATION AND FUNCTIONAL CURRENCY

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

#### FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2016, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements. The IASB since issued the following accounting standard.

#### IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on present value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as a separate liability and recognized in profit or loss over the contract term as services are provided.

The Federation will have to apply IFRS 17 effective January 1, 2021 and is currently assessing the impact of adopting this standard.

## NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

### CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in the financial instrument standards as well as the carrying amount of financial instruments designated as hedging instruments.

	At fair value through profit or loss			Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
	Held for trading	Designated as at fair value through profit or loss	Available for sale			
<b>As at June 30, 2017</b>						
<b>Financial assets</b>						
Cash and deposits with financial institutions	\$ 21	\$ 182	\$ 292	\$ 1,480	\$ -	\$ 1,975
Securities						
Securities at fair value through profit or loss	14,788	19,019	-	-	-	33,807
Available-for-sale securities	-	-	15,744	-	-	15,744
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	6,353	-	6,353
Loans <sup>(1)</sup>	-	-	-	54,372	-	54,372
Other financial assets						
Clients' liability under acceptances	-	-	-	59	-	59
Premiums receivable	-	-	-	1,991	-	1,991
Derivative financial instruments	2,730	-	-	-	521	3,251
Amounts receivable from clients, brokers and financial institutions	-	-	-	5,369	-	5,369
Other	-	-	-	1,271	-	1,271
<b>Total financial assets</b>	<b>\$ 17,539</b>	<b>\$ 19,201</b>	<b>\$ 16,036</b>	<b>\$ 70,895</b>	<b>\$ 521</b>	<b>\$ 124,192</b>
<b>Financial liabilities</b>						
Deposits	\$ -	\$ -	\$ -	\$ 54,728	\$ -	\$ 54,728
Other financial liabilities						
Acceptances	-	-	-	59	-	59
Commitments related to securities sold short	7,440	-	-	-	-	7,440
Commitments related to securities lent or sold under repurchase agreements	-	-	-	7,887	-	7,887
Derivative financial instruments	2,578	-	-	-	225	2,803
Amounts payable to clients, brokers and financial institutions	-	-	-	7,000	-	7,000
Other	262	-	-	2,681	-	2,943
Subordinated notes	-	-	-	1,374	-	1,374
<b>Total financial liabilities</b>	<b>\$ 10,280</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 73,729</b>	<b>\$ 225</b>	<b>\$ 84,234</b>

<sup>(1)</sup> For more information, see Note 6, "Loans and allowance for credit losses".

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

As at December 31, 2016	At fair value through profit or loss		Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
	Held for trading	Designated as at fair value through profit or loss				
<b>Financial assets</b>						
Cash and deposits with financial institutions	\$ 21	\$ 122	\$ 195	\$ 874	\$ -	\$ 1,212
Securities						
Securities at fair value through profit or loss	12,363	18,642	-	-	-	31,005
Available-for-sale securities	-	-	13,932	-	-	13,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,713	-	7,713
Loans <sup>(1)</sup>	-	-	-	52,430	-	52,430
Other financial assets						
Clients' liability under acceptances	-	-	-	11	-	11
Premiums receivable	-	-	-	1,961	-	1,961
Derivative financial instruments	2,628	-	-	-	1,078	3,706
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,541	-	2,541
Other	-	-	-	998	-	998
<b>Total financial assets</b>	<b>\$ 15,012</b>	<b>\$ 18,764</b>	<b>\$ 14,127</b>	<b>\$ 66,528</b>	<b>\$ 1,078</b>	<b>\$ 115,509</b>
<b>Financial liabilities</b>						
Deposits	\$ -	\$ -	\$ -	\$ 46,902	\$ -	\$ 46,902
Other financial liabilities						
Acceptances	-	-	-	11	-	11
Commitments related to securities sold short	8,196	-	-	-	-	8,196
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,870	-	9,870
Derivative financial instruments	2,197	-	-	-	343	2,540
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	-	4,659
Other	432	-	-	3,116	-	3,548
Subordinated notes	-	-	-	1,378	-	1,378
<b>Total financial liabilities</b>	<b>\$ 10,825</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 65,936</b>	<b>\$ 343</b>	<b>\$ 77,104</b>

<sup>(1)</sup> For more information, see Note 6, "Loans and allowance for credit losses".

## NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

### DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

### Financial instruments whose fair value equals carrying amount

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

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents financial instruments whose carrying amount does not equal fair value.

	As at June 30, 2017		As at December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Loans	\$ 54,372	\$ 54,727	\$ 52,430	\$ 52,748
<b>Financial liabilities</b>				
Deposits	54,728	54,793	46,902	46,918
Subordinated notes	1,374	1,505	1,378	1,521

### FAIR VALUE HIERARCHY

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

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

### Transfers between levels

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

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

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

<b>As at June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Cash and deposits with financial institutions	\$ 49	\$ 154	\$ -	\$ 203
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,211	1,584	-	8,795
Provincial governmental entities and municipal corporations in Canada	17,140	1,336	-	18,476
School or public corporations in Canada	14	117	-	131
Foreign public administrations	233	-	-	233
Other securities				
Financial institutions	30	1,212	59	1,301
Other issuers	-	2,300	964	3,264
Equity securities	1,190	225	192	1,607
	25,867	6,928	1,215	34,010
Derivative financial instruments				
Interest rate contracts	-	1,226	-	1,226
Foreign exchange contracts	-	617	-	617
Other contracts	-	1,408	-	1,408
	-	3,251	-	3,251
<b>Total financial assets at fair value through profit or loss</b>	<b>25,867</b>	<b>10,179</b>	<b>1,215</b>	<b>37,261</b>
<b>Available-for-sale financial assets</b>				
Cash and deposits with financial institutions	33	259	-	292
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,606	1,060	-	2,666
Provincial governmental entities and municipal corporations in Canada	6,007	977	-	6,984
Foreign public administrations	9	24	-	33
Other securities				
Financial institutions	-	2,312	-	2,312
Other issuers	5	579	99	683
Equity securities	2,208	606	252	3,066
<b>Total available-for-sale financial assets</b>	<b>9,868</b>	<b>5,817</b>	<b>351</b>	<b>16,036</b>
Financial instruments of segregated funds	5,533	6,962	26	12,521
<b>Total financial assets</b>	<b>\$ 41,268</b>	<b>\$ 22,958</b>	<b>\$ 1,592</b>	<b>\$ 65,818</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading</b>				
Other liabilities				
Commitments related to securities sold short	\$ 7,310	\$ 130	\$ -	\$ 7,440
Other	-	-	262	262
	7,310	130	262	7,702
Derivative financial instruments				
Interest rate contracts	-	1,014	-	1,014
Foreign exchange contracts	-	443	-	443
Other contracts	-	1,346	-	1,346
	-	2,803	-	2,803
<b>Total financial liabilities</b>	<b>\$ 7,310</b>	<b>\$ 2,933</b>	<b>\$ 262</b>	<b>\$ 10,505</b>

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial assets at fair value through profit or loss</b>				
Cash and deposits with financial institutions	\$ 7	\$ 136	\$ -	\$ 143
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,569	1,026	-	8,595
Provincial governmental entities and municipal corporations in Canada	14,790	1,165	-	15,955
School or public corporations in Canada	19	97	-	116
Foreign public administrations	231	-	-	231
Other securities				
Financial institutions	29	1,009	60	1,098
Other issuers	-	2,624	996	3,620
Equity securities	1,066	227	97	1,390
	23,711	6,284	1,153	31,148
Derivative financial instruments				
Interest rate contracts	-	1,177	-	1,177
Foreign exchange contracts	-	1,189	-	1,189
Other contracts	-	1,340	-	1,340
	-	3,706	-	3,706
<b>Total financial assets at fair value through profit or loss</b>	<b>23,711</b>	<b>9,990</b>	<b>1,153</b>	<b>34,854</b>
<b>Available-for-sale financial assets</b>				
Cash and deposits with financial institutions	19	176	-	195
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,415	603	-	2,018
Provincial governmental entities and municipal corporations in Canada	6,221	1,050	-	7,271
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	911	-	911
Other issuers	5	492	101	598
Equity securities	2,384	586	130	3,100
<b>Total available-for-sale financial assets<sup>(1)</sup></b>	<b>10,054</b>	<b>3,841</b>	<b>231</b>	<b>14,126</b>
Financial instruments of segregated funds	5,331	6,627	20	11,978
<b>Total financial assets</b>	<b>\$ 39,096</b>	<b>\$ 20,458</b>	<b>\$ 1,404</b>	<b>\$ 60,958</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading</b>				
Other liabilities				
Commitments related to securities sold short	\$ 8,069	\$ 127	\$ -	\$ 8,196
Other	-	-	432	432
	8,069	127	432	8,628
Derivative financial instruments				
Interest rate contracts	-	891	-	891
Foreign exchange contracts	-	365	-	365
Other contracts	-	1,284	-	1,284
	-	2,540	-	2,540
<b>Total financial liabilities</b>	<b>\$ 8,069</b>	<b>\$ 2,667</b>	<b>\$ 432</b>	<b>\$ 11,168</b>

<sup>(1)</sup> As at December 31, 2016, certain available-for-sale securities having a carrying amount of \$1 million were recognized at cost since their fair value cannot reliably be measured.

During the six-month period ended June 30, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value. During the year ended December 31, 2016, ABTNs having a carrying amount of \$800 million were transferred from Level 3 to Level 2 as they were settled during the first quarter of 2017 and the unobservable inputs with respect to the related illiquidity premium were no longer deemed significant to the measurement of fair value. No other material transfers attributable to changes in the observability of market data between hierarchy levels for instruments measured at fair value were made during the year ended December 31, 2016.

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*****FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3****Valuation process for financial instruments categorized within Level 3**

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect. During the six-month period ended June 30, 2017, no significant changes were made to the key controls and procedures as well as the valuation techniques for financial instruments categorized within Level 3. For more information on the valuation process for financial instruments categorized within Level 3, refer to Note 4, "Fair value of financial instruments", to the Annual Consolidated Financial Statements.

**Sensitivity of financial instruments categorized within Level 3**

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

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

During the six-month period ended June 30, 2017, no changes were made to valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3.

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

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

#### Changes in fair value of financial instruments categorized within Level 3

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

For the six-month period ended June 30, 2017	Balance at beginning of period	Realized gains / losses recognized in profit or loss <sup>(1)</sup>	Unrealized gains / losses recognized in profit or loss <sup>(2)</sup>	Unrealized gains / losses recognized in other comprehensive income <sup>(3)</sup>	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
<b>Financial assets</b>								
<b>Financial assets at fair value through profit or loss</b>								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	\$ 60	\$ -	\$ (1)	\$ -	\$ -	\$ -	\$ -	\$ 59
Other issuers								
Hedge funds	7	-	3	-	-	-	-	10
Asset-backed term notes	8	-	2	-	-	-	(2)	8
Mortgage bonds	981	-	(6)	-	-	-	(29)	946
Equity securities	97	(1)	8	-	-	125	(37)	192
<b>Total financial assets at fair value through profit or loss</b>	<b>1,153</b>	<b>(1)</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>125</b>	<b>(68)</b>	<b>1,215</b>
<b>Available-for-sale financial assets</b>								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	(1)	-	-	(1)	99
Equity securities	130	-	2	20	-	102	(2)	252
<b>Total available-for-sale financial assets</b>	<b>231</b>	<b>-</b>	<b>2</b>	<b>19</b>	<b>-</b>	<b>102</b>	<b>(3)</b>	<b>351</b>
Financial instruments of segregated funds	20	-	1	-	(4)	11	(2)	26
<b>Total financial assets</b>	<b>\$ 1,404</b>	<b>\$ (1)</b>	<b>\$ 9</b>	<b>\$ 19</b>	<b>\$ (4)</b>	<b>\$ 238</b>	<b>\$ (73)</b>	<b>\$ 1,592</b>
<b>Financial liabilities</b>								
<b>Financial liabilities held for trading</b>								
Other liabilities - Other								
Financial liability related to put options	\$ 68	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 70
Financial liability related to the contingent consideration	364	-	94	-	-	-	(266)	192
<b>Total financial liabilities</b>	<b>\$ 432</b>	<b>\$ -</b>	<b>\$ 96</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (266)</b>	<b>\$ 262</b>

<sup>(1)</sup> Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".

<sup>(2)</sup> Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss".

<sup>(3)</sup> Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Consolidated 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, 2016	Balance at beginning of period	Realized gains / losses recognized in profit or loss <sup>(1)</sup>	Unrealized gains / losses recognized in profit or loss <sup>(2)</sup>	Unrealized gains / losses recognized in other comprehensive income <sup>(3)</sup>	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
<b>Financial assets</b>								
<b>Financial assets at fair value through profit or loss</b>								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (10)	\$ 62
Other issuers								
Hedge funds	8	-	-	-	-	-	-	8
Asset-backed term notes	801	-	7	-	-	-	(2)	806
Mortgage bonds	1,043	-	8	-	-	5	(25)	1,031
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	-	-	-	-	47	(16)	99
<b>Total financial assets at fair value through profit or loss</b>	<b>2,019</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>(81)</b>	<b>2,006</b>
<b>Available-for-sale financial assets</b>								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	1	-	-	(2)	105
Equity securities	131	1	(2)	25	(38)	13	(9)	121
<b>Total available-for-sale financial assets</b>	<b>237</b>	<b>1</b>	<b>(2)</b>	<b>26</b>	<b>(38)</b>	<b>13</b>	<b>(11)</b>	<b>226</b>
Financial instruments of segregated funds	8	-	-	-	-	5	-	13
<b>Total financial assets</b>	<b>\$ 2,264</b>	<b>\$ 1</b>	<b>\$ 14</b>	<b>\$ 26</b>	<b>\$ (38)</b>	<b>\$ 70</b>	<b>\$ (92)</b>	<b>\$ 2,245</b>
<b>Financial liabilities</b>								
<b>Financial liabilities held for trading</b>								
Other liabilities - Other								
Financial liability related to put options	\$ 79	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 81
Financial liability related to the contingent consideration	258	-	23	-	-	-	(155)	126
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
<b>Total financial liabilities</b>	<b>\$ 375</b>	<b>\$ -</b>	<b>\$ 25</b>	<b>\$ -</b>	<b>\$ (38)</b>	<b>\$ -</b>	<b>\$ (155)</b>	<b>\$ 207</b>

<sup>(1)</sup> Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss". Realized gains or losses on available-for-sale financial assets are recognized under "Net income on available-for-sale securities".

<sup>(2)</sup> Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss".

<sup>(3)</sup> Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains on available-for-sale securities" in the Consolidated Statements of Comprehensive Income.

## NOTE 5 – SECURITIES

### UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

The following tables present unrealized gains and losses on available-for-sale securities.

As at June 30, 2017	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
<b>Debt securities issued or guaranteed by</b>				
Canadian governmental entities	\$ 2,677	\$ 3	\$ 14	\$ 2,666
Provincial governmental entities and municipal corporations in Canada	6,876	129	21	6,984
Foreign public administrations	33	-	-	33
<b>Other securities</b>				
Financial institutions	2,312	2	2	2,312
Other issuers	669	16	2	683
Equity securities	2,662	442	38	3,066
	<b>\$ 15,229</b>	<b>\$ 592</b>	<b>\$ 77</b>	<b>\$ 15,744</b>

As at December 31, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
<b>Debt securities issued or guaranteed by</b>				
Canadian governmental entities	\$ 2,015	\$ 8	\$ 5	\$ 2,018
Provincial governmental entities and municipal corporations in Canada	7,175	112	16	7,271
Foreign public administrations	33	-	-	33
<b>Other securities</b>				
Financial institutions	909	4	2	911
Other issuers	582	17	1	598
Equity securities	2,711	436	46	3,101
	<b>\$ 13,425</b>	<b>\$ 577</b>	<b>\$ 70</b>	<b>\$ 13,932</b>

### Impairment losses recognized

During the six-month period ended June 30, 2017, the Federation concluded that there was objective evidence of impairment. Impairment losses on available-for-sale securities of \$1 million for the three-month period ended June 30, 2017 (\$12 million for the three-month period ended June 30, 2016) and \$4 million for the six-month period ended June 30, 2017 (\$14 million for the six-month period ended June 30, 2016) were recognized under "Net income on available-for-sale securities" in the Consolidated Statements of Income.

### SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

The Federation holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of \$8 million and \$37 million, respectively, as at June 30, 2017 (\$807 million and \$839 million as at December 31, 2016). In January 2017, substantially all ABTNs were settled, and a cash consideration of \$799 million, corresponding to the nominal value of these ABTNs, was received.

### Impact on profit or loss

A gain of \$1 million related to the fair value of ABTNs was recognized in the Federation's Consolidated Statement of Income for the three-month period ended June 30, 2017 (gain of \$4 million for the three-month period ended June 30, 2016) and a gain of \$2 million was recognized for the six-month period ended June 30, 2017 (gain of \$7 million for the six-month period ended June 30, 2016).

## NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

### LOANS, IMPAIRED LOANS AND ALLOWANCES FOR CREDIT LOSSES

The following tables present the credit quality of loans.

<b>As at June 30, 2017</b>	<b>Gross loans neither past due nor impaired</b>	<b>Gross loans past due but not impaired</b>	<b>Gross impaired loans</b>	<b>Individual allowances</b>	<b>Collective allowance<sup>(1)</sup></b>	<b>Net loans</b>
Residential mortgages	\$ 3,822	\$ 45	\$ 2	\$ -	\$ 3	\$ 3,866
Consumer, credit card and other personal loans	15,827	548	70	-	131	16,314
Business and government	34,235	7	4	5	49	34,192
	<b>\$ 53,884</b>	<b>\$ 600</b>	<b>\$ 76</b>	<b>\$ 5</b>	<b>\$ 183</b>	<b>\$ 54,372</b>

<sup>(1)</sup> Includes the collective allowance on impaired loans of \$25 million.

<b>As at December 31, 2016</b>	<b>Gross loans neither past due nor impaired</b>	<b>Gross loans past due but not impaired</b>	<b>Gross impaired loans</b>	<b>Individual allowances</b>	<b>Collective allowance<sup>(1)</sup></b>	<b>Net loans</b>
Residential mortgages	\$ 3,442	\$ 42	\$ 2	\$ -	\$ 3	\$ 3,483
Consumer, credit card and other personal loans	14,989	649	82	-	135	15,585
Business and government	33,249	156	11	5	49	33,362
	<b>\$ 51,680</b>	<b>\$ 847</b>	<b>\$ 95</b>	<b>\$ 5</b>	<b>\$ 187</b>	<b>\$ 52,430</b>

<sup>(1)</sup> Includes the collective allowance on impaired loans of \$22 million.

As at June 30, 2017, the balance of "Business and government" loans included an amount of \$24 billion (\$24 billion as at December 31, 2016) corresponding to loans to member caisses that are neither past due nor impaired. No collective allowance has been recognized for these loans.

### GROSS LOANS PAST DUE BUT NOT IMPAIRED

The following tables present the aging of gross loans that are past due but not impaired.

<b>As at June 30, 2017</b>	<b>1 to 29 days</b>	<b>30 to 59 days</b>	<b>60 to 89 days</b>	<b>90 days or more</b>	<b>Total</b>
Residential mortgages	\$ 40	\$ 3	\$ 1	\$ 1	\$ 45
Consumer, credit card and other personal loans	425	84	38	1	548
Business and government	4	1	2	-	7
	<b>\$ 469</b>	<b>\$ 88</b>	<b>\$ 41</b>	<b>\$ 2</b>	<b>\$ 600</b>

<b>As at December 31, 2016</b>	<b>1 to 29 days</b>	<b>30 to 59 days</b>	<b>60 to 89 days</b>	<b>90 days or more</b>	<b>Total</b>
Residential mortgages	\$ 35	\$ 5	\$ 1	\$ 1	\$ 42
Consumer, credit card and other personal loans	488	109	52	-	649
Business and government	155	1	-	-	156
	<b>\$ 678</b>	<b>\$ 115</b>	<b>\$ 53</b>	<b>\$ 1</b>	<b>\$ 847</b>

### ALLOWANCES FOR CREDIT LOSSES

The following table presents the changes in allowances for credit losses.

	<b>Residential mortgages</b>		<b>Consumer, credit card and other personal loans</b>		<b>Business and government</b>		<b>Total</b>	
<b>For the six-month periods ended June 30</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Balance at beginning of period</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 148</b>	<b>\$ 144</b>	<b>\$ 87</b>	<b>\$ 125</b>	<b>\$ 238</b>	<b>\$ 271</b>
Provision for credit losses	-	-	140	143	(8)	(13)	132	130
Write-offs and recoveries	-	-	(143)	(142)	-	-	(143)	(142)
<b>Balance at end of period</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 145</b>	<b>\$ 145</b>	<b>\$ 79</b>	<b>\$ 112</b>	<b>\$ 227</b>	<b>\$ 259</b>
<b>Composed of:</b>								
Allowance for credit losses	\$ 3	\$ 2	\$ 131	\$ 111	\$ 54	\$ 72	\$ 188	\$ 185
Allowance for off-balance sheet items <sup>(1)</sup>	-	-	14	34	25	40	39	74

<sup>(1)</sup> The allowance for off-balance sheet items is presented under "Other liabilities – Other".

## NOTE 7 – INTERESTS IN OTHER ENTITIES

### SUBSIDIARIES

On January 1, 2017, the Federation amalgamated with Caisse centrale Desjardins by absorption thereof. As a result of this amalgamation, the Federation holds all the rights and assumes all the obligations of Caisse centrale Desjardins, in addition to its own rights and obligations. The A capital shares issued by Caisse centrale Desjardins and held by the Federation were cancelled without any repayment of capital, while those held by the Fédération des caisses populaires de l'Ontario were converted into A capital shares and G capital shares of the Federation.

This transaction had no significant impact on the Consolidated Balance Sheet of the Federation other than a \$98 million decrease in the non-controlling interest related to Caisse centrale Desjardins, and a \$97 million increase in capital stock related to the issuance of capital shares by the Federation to the Fédération des caisses populaires de l'Ontario upon conversion.

### COVERED BONDS

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. This entity is controlled by the Federation, and therefore included in its Consolidated Financial Statements. The Federation granted financing to the entity in order to facilitate the acquisition of these assets. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by the structured entity for the purpose of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by the entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to \$4,435 million as at June 30, 2017 (\$6,255 million as at December 31, 2016), are presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

## NOTE 8 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at June 30, 2017				As at December 31, 2016			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 2,936	\$ 53	\$ 1,225	\$ 4,214	\$ 2,623	\$ 51	\$ 1,143	\$ 3,817
Business and government	3,395	-	39,094	42,489	2,642	-	34,138	36,780
Deposit-taking institutions	4,020	-	4,005	8,025	2,664	-	3,641	6,305
	\$ 10,351	\$ 53	\$ 44,324	\$ 54,728	\$ 7,929	\$ 51	\$ 38,922	\$ 46,902

## NOTE 9 – GROUP HELD FOR SALE

On February 15, 2017, the Federation entered into an agreement to sell its interests in two of its subsidiaries, Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd, a subsidiary of The Wawanesa Mutual Insurance Company. On July 1, 2017, the Federation completed this transaction for a total consideration of approximately \$775 million.

These two subsidiaries are classified as group held for sale, as their carrying amount will be recovered through this transaction rather than through continuing use. A group held for sale is measured at the lower of its carrying amount and fair value less costs to sell. The assets and liabilities of the group held for sale are presented separately in the Consolidated Balance Sheet as at June 30, 2017.

The assets and the liabilities of the two subsidiaries held for sale presented in the Consolidated Balance Sheet as at June 30, 2017 are as follows:

<b>Assets</b>	
Cash and deposit with financial institutions	\$ 78
Securities at fair value through profit or loss	123
Available-for-sale securities	59
Amounts receivable from clients, brokers and financial institutions	17
Reinsurance assets	55
Property, plant and equipment	17
Goodwill	293
Intangible assets	155
Deferred tax assets	3
Other assets	140
<b>Total assets of the group held for sale</b>	<b>\$ 940</b>
<b>Liabilities</b>	
Insurance contract liabilities	\$ 161
Deferred tax liabilities	40
Other liabilities	172
<b>Total liabilities of the group held for sale</b>	<b>\$ 373</b>

The operations of these two subsidiaries are presented in the Property and Casualty Insurance segment.

## NOTE 10 – CAPITAL STOCK

### ISSUANCE OF CAPITAL SHARES

During the six-month period ended June 30, 2017, the Federation issued 19,693,094 F capital shares for a cash consideration of \$196 million, which represents the gross proceeds of this issuance of \$197 million less issue costs of \$1 million. In addition, the Federation issued 12,535,746 F capital shares having a value of \$125 million as interest payments when the holders elected to receive their remuneration in F capital shares.

The Federation also issued, during the six-month period ended June 30, 2017, 4,925,420 A capital shares for a cash consideration of \$25 million, and 14,459,580 G capital shares for a cash consideration of \$72 million.

### SHARE CONVERSION

During the six-month period ended June 30, 2017, the Federation converted 598,296,746 capital shares of CCD into 586,073,351 G capital shares. This conversion has no impact on the equity value.

## NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 2017		As at December 31, 2016	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
<b>Items that will be reclassified subsequently to the Consolidated Statements of Income</b>				
Net unrealized gains on available-for-sale securities	\$ 396	\$ 18	\$ 382	\$ 15
Net gains on derivative financial instruments designated as cash flow hedges	9	-	10	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	1	1	1	1
<b>Accumulated other comprehensive income</b>	<b>\$ 406</b>	<b>\$ 19</b>	<b>\$ 393</b>	<b>\$ 16</b>

## NOTE 12 – CAPITAL MANAGEMENT

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

Since January 1, 2017, the Federation's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF.

The minimum Tier 1A capital ratio that the Federation must maintain is 8.0%. In addition, Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3.0%.

As mentioned in Note 10, “Capital stock”, the Federation issued F capital shares in 2017 for gross proceeds of \$322 million, of which \$125 million was as interest payments to holders who elected to receive their remuneration in shares.

As at June 30, 2017, the Federation was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

(in millions of dollars and as a percentage)	As at June 30, 2017	As at December 31, 2016
<b>Capital</b>		
Tier 1A capital	\$ 7,626	\$ 7,317
Tier 1B capital	7,626	7,317
Total capital	7,626	7,317
<b>Risk-weighted assets for capital ratio calculation purposes<sup>(1)</sup></b>		
For Tier 1A capital	48,163	45,916
For Tier 1 capital	48,202	45,972
For total capital	48,233	46,021
<b>Risk-weighted assets for total capital calculation purposes<sup>(1)</sup></b>		
Credit risk	38,351	35,599
Market risk	1,887	1,810
Operational risk	7,995	8,612
<b>Total risk-weighted assets</b>	<b>\$ 48,233</b>	<b>\$ 46,021</b>
<b>Ratios and leverage ratio exposure</b>		
Tier 1A capital	15.8%	15.9%
Tier 1 capital	15.8	15.9
Total capital	15.8	15.9
Leverage	6.7	7.4
Leverage ratio exposure	\$ 113,189	\$ 98,892

<sup>(1)</sup> Takes into account the requirements of the CVA charge that have been phased in to calculate the Tier 1A, Tier 1 and total capital ratios, which are 72%, 77% and 81%, respectively. They will reach 100% for each category by 2019.

## NOTE 13 – NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

### FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Consolidated Statements of Income.

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2017	2016	2017	2016
<b>Income</b>				
Net interest income	\$ 10	\$ 13	\$ 21	\$ 23
Net income on securities at fair value through profit or loss	9	119	7	324
	<b>\$ 19</b>	<b>\$ 132</b>	<b>\$ 28</b>	<b>\$ 347</b>

### FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Consolidated Statements of Income.

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2017	2016	2017	2016
<b>Income</b>				
Net interest income	\$ 4	\$ 1	\$ 6	\$ 1
Net income on securities at fair value through profit or loss	488	751	785	1,056
	<b>\$ 492</b>	<b>\$ 752</b>	<b>\$ 791</b>	<b>\$ 1,057</b>

## NOTE 14 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation's internal management method. During the first quarter of 2017, certain changes were made to business segments to reflect management's decisions as to how each segment is managed. Prior period comparative amounts have been restated to reflect these reclassifications. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category.

The Personal and Business Services segment is responsible for upgrading and marketing a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. The line of products and services includes day-to-day and convenience transactions, savings, card and payment services, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via applications for mobile devices, as well as ATMs. Certain support activities provided by the Federation to this segment, which were previously presented in the Treasury and Other Support to Desjardins Group Entities category, have been presented in this segment since the first quarter of 2017.

The Wealth Management and Life and Health Insurance segment offers members and clients of Desjardins Group a range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. The products and services of the Wealth Management and Life and Health Insurance segment are distributed through advisors and financial planners across the Desjardins caisse network and in the Private Management team, financial security advisors, life and health insurance and employee benefits representatives and brokers, and securities brokers. Certain product lines are also distributed online, via applications for mobile devices and through client care centres.

The Property and Casualty Insurance segment offers insurance products allowing members and clients of Desjardins Group to protect themselves against the impact of a disaster. It includes the activities of Desjardins General Insurance Group Inc. and Western Financial Group Inc. Products are distributed through property and casualty insurance agents in the Desjardins caisse network and in several client contact centres and Desjardins Business centres, through a network of exclusive agents in the field in Quebec and outside Quebec, online and via applications for mobile devices.

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

Intersegment transactions are recognized at the exchange amount, which represents the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered on financial markets. The results of the main segments reflect data collected by internal financial reporting systems and are consistent with the policies applicable to the preparation of the Consolidated Financial Statements of the Federation.



**NOTE 14 – SEGMENTED INFORMATION (continued)****RESULTS BY BUSINESS SEGMENT**

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

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
<b>For the three-month periods ended June 30</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net interest income	\$ 266	\$ 252	\$ -	\$ -	\$ -	\$ 1	\$ 78	\$ 68	\$ 344	\$ 321
Net premiums	-	-	1,159	1,000	981	797	(41)	(33)	2,099	1,764
Other income	418	373	1,000	1,196	62	163	178	156	1,658	1,888
<b>Total income</b>	<b>684</b>	<b>625</b>	<b>2,159</b>	<b>2,196</b>	<b>1,043</b>	<b>961</b>	<b>215</b>	<b>191</b>	<b>4,101</b>	<b>3,973</b>
Provision for credit losses	59	58	-	-	-	-	-	-	59	58
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,327	1,492	594	569	1	4	1,922	2,065
Non-interest expense	511	461	596	548	319	326	179	201	1,605	1,536
<b>Operating surplus earnings</b>	<b>114</b>	<b>106</b>	<b>236</b>	<b>156</b>	<b>130</b>	<b>66</b>	<b>35</b>	<b>(14)</b>	<b>515</b>	<b>314</b>
Income taxes on surplus earnings	29	19	47	32	32	17	(8)	(25)	100	43
<b>Net surplus earnings for the period after dividends to member caisses</b>	<b>\$ 85</b>	<b>\$ 87</b>	<b>\$ 189</b>	<b>\$ 124</b>	<b>\$ 98</b>	<b>\$ 49</b>	<b>\$ 43</b>	<b>\$ 11</b>	<b>\$ 415</b>	<b>\$ 271</b>
<b>of which:</b>										
Group's share	\$ 85	\$ 85	\$ 189	\$ 115	\$ 84	\$ 39	\$ 43	\$ 9	\$ 401	\$ 248
Non-controlling interests' share	-	2	-	9	14	10	-	2	14	23

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
<b>For the six-month periods ended June 30</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net interest income	\$ 530	\$ 505	\$ -	\$ -	\$ 1	\$ 1	\$ 152	\$ 134	\$ 683	\$ 640
Net premiums	-	-	2,240	2,003	1,946	1,580	(81)	(74)	4,105	3,509
Other income	847	756	1,697	2,049	126	285	315	309	2,985	3,399
<b>Total income</b>	<b>1,377</b>	<b>1,261</b>	<b>3,937</b>	<b>4,052</b>	<b>2,073</b>	<b>1,866</b>	<b>386</b>	<b>369</b>	<b>7,773</b>	<b>7,548</b>
Provision for credit losses	132	130	-	-	-	-	-	-	132	130
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	2,363	2,671	1,313	1,153	(1)	(1)	3,675	3,823
Non-interest expense	1,015	930	1,157	1,099	645	595	338	380	3,155	3,004
<b>Operating surplus earnings</b>	<b>230</b>	<b>201</b>	<b>417</b>	<b>282</b>	<b>115</b>	<b>118</b>	<b>49</b>	<b>(10)</b>	<b>811</b>	<b>591</b>
Income taxes on surplus earnings	61	37	85	61	35	30	(14)	(40)	167	88
<b>Net surplus earnings for the period after dividends to member caisses</b>	<b>\$ 169</b>	<b>\$ 164</b>	<b>\$ 332</b>	<b>\$ 221</b>	<b>\$ 80</b>	<b>\$ 88</b>	<b>\$ 63</b>	<b>\$ 30</b>	<b>\$ 644</b>	<b>\$ 503</b>
<b>of which:</b>										
Group's share	\$ 169	\$ 161	\$ 331	\$ 201	\$ 62	\$ 69	\$ 63	\$ 26	\$ 625	\$ 457
Non-controlling interests' share	-	3	1	20	18	19	-	4	19	46

**SEGMENT ASSETS**

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
<b>As at June 30, 2017</b>	<b>\$ 49,272</b>	<b>\$ 41,275</b>	<b>\$ 13,935</b>	<b>\$ 39,724</b>	<b>\$ 144,206</b>
As at December 31, 2016	\$ 43,163	\$ 38,616	\$ 14,568	\$ 38,311	\$ 134,658

**GENERAL INFORMATION****The Fédération des caisses Desjardins du Québec**

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