

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

## Desjardins Group posts surplus earnings of \$677 million for the second quarter

### FINANCIAL HIGHLIGHTS

#### Financial results and indicators

	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
(in millions of dollars and as a percentage)					
Net interest income	\$ 1,160	\$ 1,135	\$ 1,087	\$ 2,295	\$ 2,144
Net premiums	2,200	2,139	2,076	4,339	4,058
Other operating income <sup>(2)</sup>	781	744	737	1,525	1,453
<b>Operating income<sup>(2)</sup></b>	<b>4,141</b>	<b>4,018</b>	<b>3,900</b>	<b>8,159</b>	<b>7,655</b>
Investment income <sup>(2)</sup>	328	280	711	608	1,146
<b>Total income</b>	<b>4,469</b>	<b>4,298</b>	<b>4,611</b>	<b>8,767</b>	<b>8,801</b>
Provision for credit losses	80	115	76	195	168
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	1,656	1,922	3,383	3,675
Non-interest expense	1,838	1,913	1,878	3,751	3,725
Income taxes on surplus earnings	147	113	154	260	269
<b>Surplus earnings before member dividends</b>	<b>\$ 677</b>	<b>\$ 501</b>	<b>\$ 581</b>	<b>\$ 1,178</b>	<b>\$ 964</b>
<b>Adjusted surplus earnings before member dividends<sup>(2)</sup></b>	<b>\$ 548</b>	<b>\$ 501</b>	<b>\$ 582</b>	<b>\$ 1,049</b>	<b>\$ 973</b>
<b>Contribution to combined surplus earnings by business segment<sup>(3)</sup></b>					
Personal and Business Services	\$ 299	\$ 275	\$ 272	\$ 574	\$ 518
Wealth Management and Life and Health Insurance	331	206	189	537	332
Property and Casualty Insurance	52	26	98	78	80
Other	(5)	(6)	22	(11)	34
	<b>\$ 677</b>	<b>\$ 501</b>	<b>\$ 581</b>	<b>\$ 1,178</b>	<b>\$ 964</b>
<b>Return to members and the community</b>					
Return to members	\$ 71	\$ 50	\$ 40	\$ 121	\$ 75
Sponsorships, donations and bursaries	25	20	23	45	40
Desjardins Member Advantages program	10	12	11	22	20
	<b>\$ 106</b>	<b>\$ 82</b>	<b>\$ 74</b>	<b>\$ 188</b>	<b>\$ 135</b>
<b>Indicators</b>					
Net interest margin <sup>(2)</sup>	2.36%	2.38%	2.36%	2.35%	2.34%
Return on equity <sup>(2)</sup>	11.0	8.3	9.9	9.7	8.4
Adjusted return on equity <sup>(2)</sup>	9.0	8.4	10.0	8.7	8.5
Productivity index <sup>(2)</sup>	67.0	72.4	69.8	69.7	72.7
Adjusted productivity index <sup>(2)</sup>	70.4	72.4	69.8	71.4	72.6
Credit loss provisioning rate <sup>(2)</sup>	0.18	0.26	0.18	0.22	0.20

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

<sup>(3)</sup> The breakdown by line item is presented in Note 13, "Segmented information", to the Interim Combined Financial Statements.

**Balance sheet and indicators**

(in millions of dollars and as a percentage)

	As at June 30, 2018 <sup>(1)</sup>	As at December 31, 2017
<b>Balance sheet</b>		
Assets	\$ 290,073	\$ 275,095
Net loans and acceptances	184,625	177,521
Deposits	181,523	171,586
Equity	25,522	24,773
<b>Indicators</b>		
Assets under administration	\$ 400,889	\$ 411,548
Assets under management <sup>(2)</sup>	58,604	58,220
Tier 1A capital ratio	17.5%	18.0%
Tier 1 capital ratio	17.5	18.0
Total capital ratio	17.8	18.4
Leverage ratio	8.2	8.5
Gross credit-impaired loans <sup>(3)</sup> /gross loans and acceptances <sup>(4)</sup>	0.51	0.25

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.

<sup>(3)</sup> Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(4)</sup> See "Basis of presentation of financial information".

**MESSAGE FROM SENIOR MANAGEMENT**

Lévis, August 13, 2018 – For the second quarter ended June 30, 2018, Desjardins Group, the leading financial cooperative group in Canada, posted surplus earnings before member dividends of \$677 million, a \$96 million increase compared to the corresponding quarter of 2017. Surplus earnings, adjusted for the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. as well as the expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, totalled \$548 million, down \$34 million, or 5.8%. This decrease was due to the higher claims experience in property and casualty insurance operations. Caisse network activities and income from assets under management continued to grow during the second quarter.

This result reflects the contribution of \$299 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment, including the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. with the creation of Aviso Wealth in April 2018, contributed \$331 million, while the Property and Casualty Insurance segment contributed \$52 million.

The total amount returned to members and the community reached \$106 million in the second quarter of 2018, including a \$71 million provision for member dividends, \$25 million given to various organizations in the form of sponsorships, donations and bursaries, and \$10 million paid out through the Desjardins Member Advantages program, compared to a total amount returned to members and the community of \$74 million for the corresponding quarter of 2017.

"Our organization's performance means we can further our mission, innovate and fulfill our role as a socioeconomic leader," said Guy Cormier, President and Chief Executive Officer. "Innovation is at the heart of what we do. It allows us to improve services and simplify the lives of our members and clients. We were one of the first Canadian institutions to let consumers purchase home insurance and renew their mortgages entirely online."

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at June 30, 2018, Desjardins Group's Tier 1A and total capital ratios were 17.5% and 17.8%, respectively, compared to 18.0% and 18.4%, respectively, as at December 31, 2017.

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## ENHANCED DISCLOSURE TASK FORCE RECOMMENDATIONS INDEX

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

Information regarding the EDTF recommendations is presented in the 2017 Annual Report, the interim financial report for the second quarter of 2018 and the "Supplemental Financial Information" report, which are available on Desjardins Group's website at [www.desjardins.com/ca/about-us](http://www.desjardins.com/ca/about-us). The "Supplemental Financial Information" report is not incorporated by reference in this MD&A.

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

Type of risk	Recommendation	Disclosure	2017 Annual Report	Interim Financial Report	Supplemental Financial Information
<b>General</b>	1	Summary of risk information	11	Current page	
	2	Risk terminology, risk measures and key parameters	70, 71, 226-233		
	3	Principal and emerging risks	60, 67, 68, 75, 76, 93	30-32, 41	
	4	New regulatory ratios	60, 62, 63, 93, 95, 96 192-194, 197-199	30-34, 41, 43, 44	7, 8, 13
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	14	Breakdown of capital requirements by type of risk and by calculation method	63, 64, 80, 81, 89, 90	38, 39	15, 16
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated August 13, 2018 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended June 30, 2018, in comparison to previous periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the practices provided in this regulation to demonstrate its willingness to comply with best practices in financial governance. Information on Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at June 30, 2018, and Desjardins Group's 2017 Annual Report (the 2017 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) (under the Desjardins Capital Inc. profile). The Annual Information Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. Further information is available on the Desjardins website at [www.desjardins.com/ca/about-us/investor-relations](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

Desjardins Group'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 Desjardins Group'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, the assumptions formulated may be incorrect, or the predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins Group 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 Desjardins Group's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", of the 2017 annual 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 loss or reputational damage to Desjardins Group as a result of environmental issues related to its operations or its financing, investment or insurance activities. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by Desjardins Group 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 cyber threats, technological advancement and regulatory developments, household indebtedness and real estate market trends, the low interest rate environment and geopolitical risks. Furthermore, there are factors related to general economic and business conditions in regions in which Desjardins Group 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 Desjardins Group 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 Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; geographic concentration; acquisitions and joint arrangements; credit ratings; catastrophes and climate change.

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 Desjardins Group's disaster recovery plan within a reasonable time, the potential impact of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of the 2017 annual MD&A. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

The significant economic assumptions underlying the forward-looking statements in this MD&A are described under “Economic outlook for 2018” in the 2017 annual MD&A. These assumptions may also be updated in the quarterly MD&As under “Economic environment and outlook”. Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Group’s balance sheet as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives. These statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any oral or written forward-looking statements that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

## DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in Canada, with assets of \$290.1 billion. The organization brought together 271 caisses in Quebec and Ontario as at June 30, 2018, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including Desjardins Capital Inc.), the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada, and Desjardins Group maintains a presence in the U.S. through Desjardins Bank, National Association.

Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers a full range of financial services to members and clients designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of close to 46,000 employees and the commitment of more than 3,900 elected officers.

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

## SIGNIFICANT EVENT IN 2018

### Creation of Aviso Wealth

On April 1, 2018, Desjardins Group and a partnership comprised of Canada’s five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and a partnership between the Centrals and The CUMIS Group. A gain of \$129 million, net of income taxes, related to this transaction, was recognized in the Combined Statements of Income for the three-month period ended June 30, 2018. For Desjardins Group, the interest held in Aviso Wealth represents an investment in a joint venture and is recognized using the equity method of accounting in the Wealth Management and Life and Health Insurance segment. The results of the subsidiary Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P. were also presented in the Wealth Management and Life and Health Insurance segment.

Additional financial information is presented in the section “Impact of significant transactions”.

## BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Combined Financial Statements have been prepared by Desjardins Group’s management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. These Interim Combined Financial Statements of Desjardins Group have been prepared in accordance with International Accounting Standard (IAS) 34, “Interim Financial Reporting”. The accounting policies were applied as described in Note 2, “Basis of presentation and significant accounting policies”, to the Annual Combined Financial Statements, except for the amendments described in Note 2, “Basis of presentation and significant accounting policies”, to the Interim Combined Financial Statements as a result of the adoption of IFRS 9, “Financial Instruments”, IFRS 15, “Revenue from Contracts with Customers”, and amendments to IFRS 4, “Insurance Contracts”, on January 1, 2018. For more information about the accounting policies applied, see the Annual and Interim Combined Financial Statements.

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

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

### Adjusted surplus earnings of Desjardins Group before member dividends

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

Desjardins Group’s surplus earnings before member dividends are adjusted to exclude the following specific items: the expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017, as well as the gain, net of income taxes, related to the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018, as part of the creation of Aviso Wealth.



The following table presents a reconciliation of surplus earnings before member dividends as presented in the Combined Financial Statements and the adjusted surplus earnings as presented in the MD&A.

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Presentation of the surplus earnings before member dividends in the Combined Financial Statements	\$ 677	\$ 501	\$ 581	\$ 1,178	\$ 964
<b>Specific items, net of income taxes</b>					
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company	-	-	1	-	9
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	(129)	-	-	(129)	-
<b>Presentation of the adjusted surplus earnings before member dividends</b>	<b>\$ 548</b>	<b>\$ 501</b>	<b>\$ 582</b>	<b>\$ 1,049</b>	<b>\$ 973</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

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

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Presentation of the net surplus earnings of the Wealth Management and Life and Health Insurance segment in the Combined Financial Statements	\$ 331	\$ 206	\$ 189	\$ 537	\$ 332
<b>Specific item, net of income taxes</b>					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	(129)	-	-	(129)	-
<b>Presentation of the adjusted net surplus earnings of the Wealth Management and Life and Health Insurance segment</b>	<b>\$ 202</b>	<b>\$ 206</b>	<b>\$ 189</b>	<b>\$ 408</b>	<b>\$ 332</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

#### 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 following specific item: the expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	\$ 52	\$ 26	\$ 98	\$ 78	\$ 80
<b>Specific item, net of income taxes</b>					
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company	-	-	1	-	14
<b>Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment</b>	<b>\$ 52</b>	<b>\$ 26</b>	<b>\$ 99</b>	<b>\$ 78</b>	<b>\$ 94</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

## Productivity index and adjusted productivity index

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

The following table presents the calculation of the productivity index as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
<b>Non-interest expense</b>	<b>\$ 1,838</b>	\$ 1,913	\$ 1,878	<b>\$ 3,751</b>	\$ 3,725
Total income	4,469	4,298	4,611	8,767	8,801
Claims, benefits, annuities and changes in insurance contract liabilities	(1,727)	(1,656)	(1,922)	(3,383)	(3,675)
<b>Total income excluding claims</b>	<b>\$ 2,742</b>	\$ 2,642	\$ 2,689	<b>\$ 5,384</b>	\$ 5,126
<b>Productivity index</b>	<b>67.0%</b>	72.4%	69.8%	<b>69.7%</b>	72.7%
<b>Adjusted productivity index<sup>(2)</sup></b>	<b>70.4%</b>	72.4%	69.8%	<b>71.4%</b>	72.6%

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

## Net interest margin

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

## Gross credit-impaired loans/gross loans and acceptances ratio

The gross credit-impaired loans/gross loans and acceptances ratio is used to measure loan portfolio quality and is equal to gross credit-impaired loans expressed as a percentage of total gross loans and acceptances. Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

## Average loans and acceptances – Average deposits – Average equity

The average balances for these items are used to measure growth. They are equal to averages of the amounts presented in the Combined 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 loss ratio is comprised of the following ratios:

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

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

The combined ratio is equal to the sum of the 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, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net premiums	\$ 1,073	\$ 1,059	\$ 981	\$ 2,132	\$ 1,946
Premiums excluded from the loss ratio <sup>(1)</sup>	-	-	(30)	-	(62)
<b>Net premiums considered in the ratio denominators</b>	<b>\$ 1,073</b>	<b>\$ 1,059</b>	<b>\$ 951</b>	<b>\$ 2,132</b>	<b>\$ 1,884</b>
Claims, benefits, annuities, and changes in insurance contract liabilities	\$ 734	\$ 815	\$ 594	\$ 1,549	\$ 1,313
Market yield adjustment (MYA)	18	27	25	45	9
Other items excluded from the loss ratio <sup>(1)</sup>	-	-	(12)	-	(20)
<b>Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA</b>	<b>\$ 752</b>	<b>\$ 842</b>	<b>\$ 607</b>	<b>\$ 1,594</b>	<b>\$ 1,302</b>
<b>Loss ratio</b>	<b>70.1%</b>	<b>79.5%</b>	<b>63.8%</b>	<b>74.8%</b>	<b>69.1%</b>
Non-interest expense	\$ 280	\$ 277	\$ 319	\$ 557	\$ 645
Other expenses excluded from the expense ratio <sup>(2)</sup>	(6)	(4)	(69)	(10)	(143)
<b>Operating expenses</b>	<b>\$ 274</b>	<b>\$ 273</b>	<b>\$ 250</b>	<b>\$ 547</b>	<b>\$ 502</b>
<b>Expense ratio</b>	<b>25.5%</b>	<b>25.8%</b>	<b>26.3%</b>	<b>25.7%</b>	<b>26.6%</b>
<b>Combined ratio</b>	<b>95.6%</b>	<b>105.3%</b>	<b>90.1%</b>	<b>100.5%</b>	<b>95.7%</b>

<sup>(1)</sup> Comes mainly from the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.

<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 on July 1, 2017.

### Return on equity and adjusted return on equity

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Surplus earnings before member dividends	\$ 677	\$ 501	\$ 581	\$ 1,178	\$ 964
Non-controlling interests' share	(11)	(9)	(14)	(20)	(19)
<b>Group's share</b>	<b>\$ 666</b>	<b>\$ 492</b>	<b>\$ 567</b>	<b>\$ 1,158</b>	<b>\$ 945</b>
Average equity before non-controlling interests' share	\$ 24,302	\$ 23,904	\$ 22,884	\$ 24,189	\$ 22,748
<b>Return on equity<sup>(2)</sup></b>	<b>11.0%</b>	<b>8.3%</b>	<b>9.9%</b>	<b>9.7%</b>	<b>8.4%</b>
<b>Adjusted return on equity<sup>(2)(3)</sup></b>	<b>9.0%</b>	<b>8.4%</b>	<b>10.0%</b>	<b>8.7%</b>	<b>8.5%</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

<sup>(3)</sup> Takes into account the specific items presented under "Adjusted surplus earnings of Desjardins Group before member dividends" in this section.

### Income

#### Operating income

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

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



### Investment income

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

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
<b>Presentation of income in the Combined Financial Statements</b>					
Net interest income	\$ 1,160	\$ 1,135	\$ 1,087	\$ 2,295	\$ 2,144
Net premiums	2,200	2,139	2,076	4,339	4,058
Other income					
Deposit and payment service charges	106	103	122	209	242
Lending fees and credit card service revenues	163	186	154	349	326
Brokerage and investment fund services	239	271	307	510	585
Management and custodial service fees	122	120	106	242	207
Net investment income <sup>(2)</sup>	308	111	711	419	1,146
Overlay approach adjustment for insurance operations financial assets	20	169	N/A	189	N/A
Foreign exchange income	21	27	20	48	39
Other	130	37	28	167	54
<b>Total income</b>	<b>\$ 4,469</b>	<b>\$ 4,298</b>	<b>\$ 4,611</b>	<b>\$ 8,767</b>	<b>\$ 8,801</b>
<b>Presentation of income in the MD&amp;A</b>					
Net interest income	\$ 1,160	\$ 1,135	\$ 1,087	\$ 2,295	\$ 2,144
Net premiums	2,200	2,139	2,076	4,339	4,058
Other operating income					
Deposit and payment service charges	106	103	122	209	242
Lending fees and credit card service revenues	163	186	154	349	326
Brokerage and investment fund services	239	271	307	510	585
Management and custodial service fees	122	120	106	242	207
Foreign exchange income	21	27	20	48	39
Other	130	37	28	167	54
<b>Operating income</b>	<b>4,141</b>	<b>4,018</b>	<b>3,900</b>	<b>8,159</b>	<b>7,655</b>
Investment income					
Net investment income <sup>(2)</sup>	308	111	711	419	1,146
Overlay approach adjustment for insurance operations financial assets	20	169	N/A	189	N/A
	328	280	711	608	1,146
<b>Total income</b>	<b>\$ 4,469</b>	<b>\$ 4,298</b>	<b>\$ 4,611</b>	<b>\$ 8,767</b>	<b>\$ 8,801</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> The breakdown of this line item is presented in Note 12, "Net interest income and net investment income", to the Interim Combined Financial Statements.

## Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
<b>Provision for credit losses</b>	<b>\$ 80</b>	<b>\$ 115</b>	<b>\$ 76</b>	<b>\$ 195</b>	<b>\$ 168</b>
Average gross loans	182,433	178,749	169,934	180,931	168,779
Average gross acceptances	43	37	82	39	58
<b>Average gross loans and acceptances</b>	<b>\$ 182,476</b>	<b>\$ 178,786</b>	<b>\$ 170,016</b>	<b>\$ 180,970</b>	<b>\$ 168,838</b>
<b>Credit loss provisioning rate<sup>(2)</sup></b>	<b>0.18%</b>	<b>0.26%</b>	<b>0.18%</b>	<b>0.22%</b>	<b>0.20%</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<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

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, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2017 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital.

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

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

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

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

Generally speaking, the provisions of the Act applicable to financial services cooperatives came into force on July 13, 2018, one month after assent, but there are several exceptions. Among these, the chapter concerning the cooperative group is scheduled to come into force within six months after the Act has received assent, when the first internal by-law of the cooperative group is adopted. The new provisions of the *Insurers Act*, for their part, will come into force on July 13, 2019 or subsequently, as the case may be, along with a large portion of the amendments to the *Act respecting the distribution of financial products and services*.

### Rules concerning capital instruments

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

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

On June 9, 2018, proposals for significant regulatory changes to the PCMLTFA and its regulations were published by the Department of Finance Canada. Desjardins Group is participating in work sessions with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Department of Finance Canada and other industry players to discuss future regulatory changes to fight money laundering and terrorist financing (ML/TF). Desjardins Group was thus consulted for the new guidance entitled "Compliance program requirements", the draft guidance to replace "Guideline 2: Suspicious Transactions", the draft document on ML/TF indicators as well as for the public consultation as part of the examination of the Canadian ML/TF regime. While preparing for the implementation of these legislative changes, Desjardins Group is continuing to closely monitor developments to assess their impact on its operations.

### Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. On May 24, 2018, the U.S. government moved ahead with its deregulation project by adopting the *Economic Growth, Regulatory Relief, and Consumer Protection Act*, which provides some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. Desjardins Group will monitor the implementation of this legislative reform by the regulators. On June 5, 2018, the regulators, in charge of the Volcker rule which deals with proprietary trading and hedge fund ownership interests, jointly presented a draft regulation that would simplify compliance requirements and broaden the scope of exempt activities. Desjardins Group continues to closely monitor developments in these draft reforms.

### Recapitalization regime for domestic systemically important banks

On April 18, 2018, the Department of Finance Canada published the final version of three regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime and the OSFI issued the final version of its guideline on Total Loss Absorbing Capacity (TLAC). The introduction of the regulations and the TLAC guideline are intended to ensure that a non-viable domestic systemically important bank (D-SIB) has sufficient loss absorbing capacity to support its recapitalization. These regulations and the TLAC guideline will come into force on September 23, 2018. The D-SIBs will be required to issue the ratios specified in the TLAC guideline as of the quarter commencing November 1, 2018 and comply with the requirements of the TLAC guideline no later than November 1, 2021. This regime is not applicable to Desjardins Group because it is regulated by the AMF. Furthermore, the amendments to the *Deposit Insurance Act* (now known as the *Deposit Institutions and Deposit Protection Act*) passed by the Quebec government on June 13, 2018, as mentioned above, provide for certain recovery and resolution mechanisms in the event of the failure of deposit-taking institutions. Desjardins Group continues to monitor developments in this file at the provincial level and is expecting the adoption and implementation of a recapitalization regime similar to the federal one.

### Data confidentiality and security

Data confidentiality and security is a rapidly changing area. In Canada, new provisions of the *Personal Information Protection and Electronic Documents Act* (PIPEDA) will come into force on November 1, 2018. They will, in particular, require businesses to give notice of any breaches of security safeguards and impose the keeping of a register. Failure to give notice will result in a fine. It should be noted that in Europe, the *General Data Protection Regulation* (GDPR), which came into force on May 25, 2018, provides for new obligations that will apply internationally to entities that control or process the personal data of citizens in the territory of the European Union. Several of these obligations, if applicable, could require changes to the processes used by Desjardins Group. In Quebec, consultations took place concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its operations.

### New standard related to the third pillar of the Basel Committee on Banking Supervision

Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). 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, which will take effect on December 31, 2018. In addition, in March 2017, the BCBS issued the second phase of the standard related to the third pillar. The AMF has not yet announced the effective date of the second phase.

### Capital adequacy requirements for life and health insurers

In October 2016, the AMF issued the new *Capital Adequacy Requirements Guideline (CARLI) – Insurance of persons*. This new regulatory framework replaced the *Capital Adequacy Requirements Guideline (CAR) – Life and Health Insurance* as of January 1, 2018. The subsidiary Desjardins Financial Security Life Assurance Company complied with the requirements of the new guideline as at June 30, 2018.

## Report on Ontario's auto insurance plan

Before the election, in June 2018, of a new majority government in Ontario, the Ontario Finance Minister at the time unveiled the Fair Auto Insurance Plan in December 2017, aimed at making automobile insurance more affordable for drivers and providing better care for accident victims. The Plan was based on a report by David Marshall on the province of Ontario's automobile insurance system, released in April 2017, and provided for the implementation by the government of various initiatives in the short- and medium-term. In spite of the uncertainty surrounding the potential implementation of the recommendations as a result of the change in government, Desjardins Group continues to monitor and support developments in Ontario's automobile insurance system.

## Guideline on granting residential mortgages

In February 2018, the AMF issued the revision of its guideline on granting residential mortgages, which went into effect in March 2018. The AMF's requirements are similar to those of the OSFI, issued in October 2017, which aim to encourage mortgage lenders to remain prudent in their mortgage underwriting practices and set a minimum interest rate or "stress test" for uninsured mortgages. Desjardins Group has already applied these practices since January 1, 2018.

## Modernization of the Canadian payments system

Technological progress and innovation affect the payments ecosystem, which is undergoing major changes. In 2016, Payments Canada launched a multiyear initiative to modernize the Canadian payments system. The Department of Finance Canada unveiled its project for a retail payments oversight framework in 2017. In December 2017, the Competition Bureau issued the final report from its market study concerning technology-led innovation in the Canadian financial services sector. The report suggests modernizing laws and regulations and provides recommendations for regulators. In May 2018, the Department of Finance Canada launched consultations as part of the review of the *Canadian Payments Act*. Desjardins Group continues to monitor work by the industry, the federal government and Payments Canada.

## Qualified Intermediary Agreement

The U.S. Qualified Intermediary regime allows clients of financial intermediaries to benefit from more streamlined administrative procedures and more readily take advantage of the reduced tax rates allowed under tax agreements concerning taxable U.S. source income. For their part, financial institutions must comply with the sometimes-complex provisions of an agreement established by the U.S. tax authorities. This agreement has undergone several significant changes in the past few years with very short implementation deadlines. Desjardins Group entities that are QIs are continuing their efforts to take the necessary measures to comply with the last agreement issued in January 2017 and monitor developments.

## Section 871(m) of the U.S. Internal Revenue Code

Section 871(m) of the *U.S. Internal Revenue Code* was set up to ensure that non-U.S. investors pay tax on dividend payments on U.S. equity-linked instruments. For 2017 and 2018, the withholding tax and reporting obligations determined in section 871(m) apply basically to transactions issued on or after January 1, 2017 and that have a delta equal to 1. This regulation has undergone several changes in recent years and is subject to further amendment. The Desjardins Group entities concerned are putting measures in place to apply the regulation and monitor future changes.

## Regulation 93-101, Derivatives: Business Conduct and Regulation 93-102, Derivatives: Registration

In April 2017, the Canadian Securities Administrators (CSA) issued draft *National Instrument 93-101 – Derivatives: Business Conduct* and draft *Companion Policy 93-101 Derivatives: Business Conduct* to establish a comprehensive regime for regulating the business conduct of participants in over-the-counter derivatives markets. In June 2018, the CSA published a second version of these drafts for comment. The consultation will end in September 2018. In April 2018, the CSA published for consultation draft *National Instrument 93-102 – Derivatives: Registration* and draft *Companion Policy 93-102 – Derivatives: Registration* for derivatives dealers, derivatives advisers and potentially other derivatives market participants. This consultation will also end in September 2018. The various derivatives market participants are furthermore subject directly or indirectly to a certain number of national and international standards resulting from a regulatory reform that is gradually taking effect. The Desjardins Group entities concerned are closely watching this regulatory development.

## Application of the new framework for European markets in financial instruments

In May 2014, European legislatures adopted a new framework for markets in financial instruments (MiFID 2), in the form of the *Markets in Financial Instruments Directive* and the *Markets in Financial Instruments Regulation*. The regulatory requirements related to the MiFID 2 directive have been applicable since January 3, 2018 and change the framework for carrying on market activities in Europe. One purpose of the new framework is to strengthen investor protection and make financial markets more resilient and transparent. The Desjardins Group entities concerned are closely monitoring this regulatory development and the notices issued in this regard by the CSA.

## Report on Climate change-related Disclosure Project

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

## ECONOMIC ENVIRONMENT AND OUTLOOK

### Global economy

The global economy has continued to post strong gains, but growth rates appear to have stabilized somewhat over the last few months. Global trade has even slowed over recent months, perhaps as a result of protectionist measures taken by the U.S. government. In the eurozone, real GDP is expected to grow 2.3% in 2018 following a 2.5% increase in 2017. This is due to slower growth in the first quarter in many of the zone's member countries. Since the Brexit referendum, the United Kingdom has gone against trend, unable to profit from the improved global economic conditions as much as the other industrialized economies. The political uncertainties surrounding Brexit have not been quelled, and we still have no indication of what type of agreement will govern relations between the United Kingdom and the European Union after the separation. China's real GDP grew from 6.7% in 2016 to 6.9% in 2017, representing the first improvement since 2010. As in 2017, the Chinese government will target 6.5% growth for 2018. It is less likely, however, that actual results surpass this figure, as the government does not seem as keen to stimulate the economy. In addition, the escalating series of trade restriction measures being taken by the U.S. and China is becoming a source of concern. Real global GDP is expected to increase from 3.7% in 2017 to 3.9% in 2018 and 2019. However, the protectionist threat in the U.S. weighs on these prognoses.

Investors paid considerable attention to international issues in the second quarter of 2018. The decision by the U.S. to impose new sanctions on Iran and Venezuela helped drive up oil prices to levels not seen in years, which amplified the upward pressure on inflation. A political crisis in Italy has brought new financial tensions to Europe, and the U.S. dollar's new strength has placed emerging countries at a significant disadvantage. Fears of a trade war also resurfaced following the U.S. administration's decision to impose tariffs on steel and aluminum from the European Union, Canada and Mexico. The trade tensions between China and the U.S. also continue to give cause for concern. This has placed overseas stock markets at a disadvantage, but North American markets have performed well nonetheless, favoured by encouraging economic data and strong growth in corporate profits. Following a negative first quarter, the S&P 500 and the S&P/TSX also rose slightly above their levels at the start of the year.

A favourable economic outlook and rising inflation suggest that the normalization of monetary policy will continue, despite the many uncertainties. The U.S. Federal Reserve (the Fed) announced more monetary tightening on June 13, 2018, and its leaders are signalling that the Fed will continue to raise rates by 0.25% per quarter in the second half of 2018. After having raised its key interest rates in January, the Canadian monetary authorities left rates unchanged at their three subsequent meetings. However, the tone of the press releases issued by the Bank of Canada (BoC) has improved. After clearly signaling an intent to raise its key interest rates soon, the Bank did as much at its July 11, 2018 meeting, with a 0.25% hike. Uncertainties nevertheless continue to plague the real estate sector and international trade, and this may convince the BoC to stay the course with very gradual increases to key interest rates over the next few quarters. This slower tightening of Canadian monetary policy should maintain a significant spread between Canadian and U.S. bond rates and keep the Canadian dollar under US\$0.80. The many international uncertainties limited increases in long-term bond rates in the second quarter, but a clear increase can be expected in the second half of the year.

### United States

Real GDP in the U.S. grew 2.2% in 2017, a substantial improvement from the relatively low 1.6% increase recorded for 2016. Growth of only 2.2% was registered for the first quarter of 2018, which is disappointing given that there could have already been evidence of the stimulation provided by tax cuts. However, annualized growth of 4.1% was recorded for the second quarter of 2018. In addition to the potential impacts of tax reform, the economy has been stimulated by a sharp rise in federal government spending, posting 2.1% growth. However, it remains to be seen how the U.S. economy will respond to the Trump administration's protectionist measures. For now, real GDP is expected to grow 2.8% in the current year and another 2.5% in 2019. The labour market should continue to improve, with inflation rising at a slower pace.

### Canada

In Canada, real GDP grew only 1.3% (annualized rate) in the first quarter of 2018, falling short of expectations. Domestic demand grew at the slowest rate since the end of 2016, up only 2.1%, in particular due to slightly slower growth in consumer spending in early 2018. On the other hand, residential investment declined 7.2% due to the negative impacts of lower existing home sales in the wake of new restrictive measures on mortgage credit. However, non-residential investment continued to climb, stimulated by the disappearance of excess production capacity. The Canadian economy is nevertheless expected to have rallied in the second quarter and then grow by close to 2% in the second half of the year. Furthermore, consumer spending should pick up. Conditions in the labour market are good, and wages continue to gather momentum, with labour shortages now reported in certain sectors and regions. The disappearance of excess capacity should continue to encourage growth in non-residential investment over the next few quarters. However, the increases in business spending in non-residential construction as well as machinery and equipment could slow somewhat in future quarters. The uncertainties surrounding the renegotiation of the North American Free Trade Agreement (NAFTA) have increased noticeably, and this may throw cold water on the development projects of many businesses. For now, it is assumed that the free-trade agreement between Canada, the U.S. and Mexico will eventually be renewed. The protectionist measures implemented so far are sure to have negative impacts on certain sectors and regions, but, overall, the consequences for the Canadian economy in general should, ultimately, be limited.

### Quebec

The pace of growth in the Quebec economy has continued to slow since the beginning of the year. Real GDP grew at an annualized rate of 1.8% in the first quarter of 2018, compared to 2.2% in the previous quarter. Spending by consumers and in the housing sector has slowed somewhat after a strong period. Even if new construction maintained a brisk pace, a slowdown in existing home sales since the introduction of new federal rules on mortgage loans (introduced in January 2018) has put a damper on the housing market. The high level of confidence among SMEs finally appears to be leading to investment, in particular as part of the digital shift begun in Quebec. Hopefully the uncertainties surrounding trade relations with the U.S. will not keep businesses from maintaining their momentum. Foreign trade will nevertheless need to adjust to new tariffs affecting certain industries on both sides of the Canada-U.S. border, and this may affect production, employment and the investments of certain businesses. For now the economic environment is favourable, but significant risks cloud the outlook. Real GDP is expected to grow by 2.2% in 2018, slower than the 3.0% recorded for 2017.

## REVIEW OF FINANCIAL RESULTS

### IMPACT OF SIGNIFICANT TRANSACTIONS

#### Creation of Aviso Wealth in 2018

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

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Other operating income <sup>(1)</sup>	\$ -	\$ 49	\$ 31	\$ 49	\$ 60
<b>Operating income<sup>(1)</sup></b>	-	49	31	49	60
Non-interest expense	-	44	29	44	56
Income taxes on surplus earnings	-	1	1	1	1
<b>Surplus earnings before member dividends</b>	\$ -	\$ 4	\$ 1	\$ 4	\$ 3

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

#### Sale of Western Financial Group Inc. and Western Life Assurance Company in 2017

On July 1, 2017, Desjardins Group completed the sale of 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.

The table below presents the operating results of these two subsidiaries included in Desjardins Group's financial results in the Property and Casualty Insurance segment.

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net interest income	\$ -	\$ -	\$ 1	\$ -	\$ 3
Net premiums	-	-	31	-	65
Other operating income <sup>(1)</sup>	-	-	57	-	97
<b>Operating income<sup>(1)</sup></b>	-	-	89	-	165
Investment income <sup>(1)</sup>	-	-	7	-	9
<b>Total income</b>	-	-	96	-	174
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	13	-	22
Non-interest expense	-	-	66	-	124
Income taxes on surplus earnings	-	-	5	-	9
<b>Surplus earnings before member dividends</b>	\$ -	\$ -	\$ 12	\$ -	\$ 19

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



## ANALYSIS OF RESULTS

## Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
<b>Results</b>					
Net interest income	\$ 1,160	\$ 1,135	\$ 1,087	\$ 2,295	\$ 2,144
Net premiums	2,200	2,139	2,076	4,339	4,058
Other operating income <sup>(2)</sup>					
Deposit and payment service charges	106	103	122	209	242
Lending fees and credit card service revenues	163	186	154	349	326
Brokerage and investment fund services	239	271	307	510	585
Management and custodial service fees	122	120	106	242	207
Foreign exchange income	21	27	20	48	39
Other	130	37	28	167	54
<b>Operating income<sup>(2)</sup></b>	<b>4,141</b>	<b>4,018</b>	<b>3,900</b>	<b>8,159</b>	<b>7,655</b>
Investment income <sup>(2)</sup>					
Net investment income	308	111	711	419	1,146
Overlay approach adjustment for insurance operations financial assets	20	169	N/A	189	N/A
	328	280	711	608	1,146
<b>Total income</b>	<b>4,469</b>	<b>4,298</b>	<b>4,611</b>	<b>8,767</b>	<b>8,801</b>
Provision for credit losses	80	115	76	195	168
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	1,656	1,922	3,383	3,675
Non-interest expense	1,838	1,913	1,878	3,751	3,725
Income taxes on surplus earnings	147	113	154	260	269
<b>Surplus earnings before member dividends</b>	<b>\$ 677</b>	<b>\$ 501</b>	<b>\$ 581</b>	<b>\$ 1,178</b>	<b>\$ 964</b>
<b>Adjusted surplus earnings before member dividends<sup>(2)</sup></b>	<b>\$ 548</b>	<b>\$ 501</b>	<b>\$ 582</b>	<b>\$ 1,049</b>	<b>\$ 973</b>
<b>Contribution to combined surplus earnings by business segment<sup>(3)</sup></b>					
Personal and Business Services	\$ 299	\$ 275	\$ 272	\$ 574	\$ 518
Wealth Management and Life and Health Insurance	331	206	189	537	332
Property and Casualty Insurance	52	26	98	78	80
Other	(5)	(6)	22	(11)	34
	\$ 677	\$ 501	\$ 581	\$ 1,178	\$ 964
<b>Amount returned to members and the community</b>					
Member dividends	\$ 71	\$ 50	\$ 40	\$ 121	\$ 75
Sponsorships, donations and bursaries	25	20	23	45	40
Desjardins Member Advantages program	10	12	11	22	20
	\$ 106	\$ 82	\$ 74	\$ 188	\$ 135
<b>Indicators</b>					
Net interest margin <sup>(2)</sup>	2.36%	2.38%	2.36%	2.35%	2.34%
Return on equity <sup>(2)</sup>	11.0	8.3	9.9	9.7	8.4
Adjusted return on equity <sup>(2)</sup>	9.0	8.4	10.0	8.7	8.5
Productivity index <sup>(2)</sup>	67.0	72.4	69.8	69.7	72.7
Adjusted productivity index <sup>(2)</sup>	70.4	72.4	69.8	71.4	72.6
Credit loss provisioning rate <sup>(2)</sup>	0.18	0.26	0.18	0.22	0.20

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

<sup>(3)</sup> The breakdown by line item is presented in Note 13, "Segmented information", to the Interim Combined Financial Statements.

## COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017

### Surplus earnings

For the second quarter ended June 30, 2018, Desjardins Group posted surplus earnings before member dividends of \$677 million, a \$96 million, or 16.5%, increase compared to the same period in 2017. Surplus earnings, adjusted for the gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. as well as the expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, totalled \$548 million, down \$34 million, or 5.8%. This decrease is due to the higher claims experience in property and casualty insurance operations. Caisse network activities and income from assets under management continued to grow during the second quarter.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the second quarter of 2018:

- A total of \$106 million returned to the community, compared to \$74 million for the corresponding period in 2017, a 43.2% increase.
  - Member dividends totalled \$71 million for the quarter ended June 30, 2018, compared to \$40 million for the same period last year.
  - An amount of \$25 million was given to various organizations in the form of sponsorships, donations and bursaries, which is up \$2 million compared to the second quarter of 2017.
  - Through the Desjardins Member Advantages program, \$10 million was paid out, which is comparable to the same period in 2017.

### Segment contributions to surplus earnings

- Personal and Business Services: **Contribution of \$299 million**, up \$27 million, or 9.9% compared to the same period in 2017.
  - Good performance from the caisse network, related especially to growth in net interest income.
  - However, higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - The segment contributed 44.2% to surplus earnings.
- Wealth Management and Life and Health Insurance: **Contribution of \$331 million**, up \$142 million, and net surplus earnings, adjusted for specific items, of \$202 million, up \$13 million, compared to the second quarter of 2017.
  - Higher income as a result of growth in assets under management.
  - More favourable claims experience.
  - Offset, however, by less favourable gains on disposal of securities and interest margins.
  - The segment contributed 48.9% to surplus earnings.
- Property and Casualty Insurance: **Contribution of \$52 million**, down \$46 million compared to the same period in 2017.
  - Higher claims experience than in the comparative quarter of 2017, particularly due to two catastrophes.
  - Impact of the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - The segment contributed 7.7% to surplus earnings.
- **Return on equity was 11.0%**, compared to 9.9% for the quarter ended June 30, 2017.
- **Adjusted return on equity was 9.0%**, down compared to the 10.0% rate in the quarter ended June 30, 2017, mainly because of the increase in members' equity and the decrease in adjusted surplus earnings, as explained earlier.

### Operating income

Operating income totalled \$4,141 million, up \$241 million, or 6.2%, compared to the second quarter of 2017. Excluding the gain, before income taxes, of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., operating income would have been \$4,009 million, up \$109 million, or 2.8%, compared to the same period in 2017.

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

- **Net interest income of \$1,160 million**, up \$73 million, or 6.7%, mainly because of growth in mortgages, consumer loans and business loans outstanding since June 30, 2017, and, to a lesser extent, higher interest rates.
- **Net interest margin of 2.36%** for the quarter ended June 30, 2018, as a percentage of average interest-bearing assets, which is stable compared to the corresponding period in 2017.

Net premiums were up \$124 million, or 6.0%, compared to the second quarter of 2017, to total \$2,200 million as at June 30, 2018.

### Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$1,190 million**, up \$31 million, or 2.7%, due to business growth.
  - Premiums up \$31 million, with group insurance accounting for \$18 million, individual insurance for \$7 million, and annuities for \$6 million.

### Property and Casualty Insurance segment

- **Net premiums of \$1,073 million**, up \$92 million, or 9.4%, essentially due to the following:
  - Increase of \$77 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), mainly due to a change in the rate of cession stipulated in the treaty, which provides for the scaling down, over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offset by a decrease in net premiums resulting from the sale of Western Life Assurance Company on July 1, 2017.

Other operating income stood at \$781 million, which is an increase of \$44 million, or 6.0%, compared to the second quarter of 2017. Excluding the gain, before income taxes, of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., other operating income would have been \$649 million, down \$88 million, or 11.9%, compared to the same period in 2017, mainly on account of the following items:

- Decrease in commission income following the sale of Western Financial Group Inc. and the transaction involving Qtrade Canada Inc.
- Lower income related to deposit service charges due to changes in pricing and lower volume.
- Larger increase than in second quarter 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

This decrease was partially offset by:

- Higher income as a result of growth in assets under management.
- Growth in business volumes from card payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.

### Investment income

Investment income totalled \$328 million, a decrease of \$383 million compared to the second quarter of 2017, essentially because of the following:

- Decrease primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
  - Offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Changes for the most part due to fluctuations in the fair value of the bond portfolio as a result of higher interest rates.
- Lower trading income.
- Smaller reduction in the fair value of bonds in the Property and Casualty Insurance segment than in the second quarter of 2017, mainly on account of a smaller increase in interest rates on the markets in the second quarter of 2018 compared to the same quarter in 2017. 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 a matching strategy.

### Total income

Total income amounted to \$4,469 million, a decrease of \$142 million, or 3.1%, compared to the same period in 2017.

### Provision for credit losses

The provision for credit losses totalled \$80 million, up slightly by \$4 million, or 5.3%. The increase is mainly due to the change in the risk profile for business loans. The adoption of IFRS 9 as at January 1, 2018 made the allowance for credit losses more volatile. In spite of this increase, Desjardins Group's loan portfolio continued to be of high quality in 2018.

- The credit loss provisioning rate was 0.18% for the second quarter of 2018, the same as in the corresponding period of 2017.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.51% compared to 0.28% as at June 30, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered negligible.

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

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$1,727 million, down \$195 million, or 10.1%, compared to the corresponding quarter of 2017.

#### Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$993 million**, down \$334 million, or 25.2%. This reduction was basically due of the following:
  - Decrease of \$336 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, that results from the more favourable claims experience mainly offset by less favourable interest margins.
  - Offset by an increase in benefits related to growth in operations.

#### Property and Casualty Insurance segment

- **Cost of claims of \$734 million**, up \$140 million, or 23.6%, essentially as a result of the following:
  - Increase due to 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 period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Growth in business, which led to a higher cost of claims.
  - The P&C insurers' loss ratio was 70.1% for the period ended June 30, 2018, compared to 63.8% for the corresponding period in 2017:
    - Higher ratio attributable to the greater impact of catastrophes and major events compared to second quarter 2017 (8.4% vs. 4.1%). The second quarter of 2018 was marked by two catastrophes, namely wind damage in May and water and wind damage in April, as well as a major event, namely wind damage in April. In the corresponding quarter of 2017, some major events were noted, but no catastrophes.
    - Less positive developments than in second quarter 2017 concerning prior-year claims, (16.9)% vs. (18.8)%.

### Non-interest expense and productivity index

- Non-interest expense totalled \$1,838 million, down \$40 million, or 2.1%, compared to the second quarter of 2017, mainly because of:
  - Decrease in expense following the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017, as well as the transaction involving Qtrade Canada Inc.

This decrease was partially offset by the following:

- Increase in expense due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
- Increase in expense related to the acquisition and set-up of new Canada-wide credit card portfolios.
- Business growth, particularly in card payment and financing activities and in assets under management.

**Productivity index at 67.0% for the second quarter of 2018**, compared to 69.8% for the corresponding period in 2017.

**Adjusted productivity index at 70.4%**, compared to 69.8% for the second quarter of 2017. The increase in the productivity index for second quarter 2018 was due to lower surplus earnings adjusted for specific items, mitigated by the reduction in non-interest expense, as explained earlier.

### Income taxes

- **Income taxes on surplus earnings before member dividends of \$147 million**, down \$7 million compared to the second quarter of 2017.
  - Effective tax rate of 17.8% for the quarter ended June 30, 2018, down compared to 21.0% for the corresponding period in 2017.
  - Excluding the effect of the specific items, the effective tax rate would have been 20.8% for the second quarter of 2018, compared to 20.9% for the same period in 2017.

## COMPARISON OF THE FIRST HALF OF 2018 AND 2017

### Surplus earnings

For the first six months ended June 30, 2018, Desjardins Group posted surplus earnings before member dividends of \$1,178 million, a \$214 million, or 22.2%, increase compared to the same period in 2017. Surplus earnings adjusted for specific items were up \$76 million, or 7.8%, and totalled \$1,049 million. This increase is mainly due to continuing growth in caisse network activities, gains on the disposal of investments, the profit realized following the restructuring of Interac Corp., and higher income as a result of growth in assets under management.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the first six months of 2018:

- A total of \$188 million returned to the community, compared to \$135 million for the corresponding period in 2017, a 39.3% increase.
  - Member dividends totalled \$121 million for the six-month period, compared to \$75 million for the same period last year.
  - An amount of \$45 million was given to various organizations in the form of sponsorships, donations and bursaries, which is up \$5 million compared to the first half of 2017.
  - Through the Desjardins Member Advantages program, \$22 million was paid out, which is up \$2 million compared to the same period in 2017.

### Segment contributions to surplus earnings

- Personal and Business Services: **Contribution of \$574 million**, up \$56 million, or 10.8% compared to the same period in 2017.
  - Good performance from the caisse network, related especially to growth in net interest income.
  - Profit related to the restructuring of Interac Corp.  
This increase was partially offset by the following:
    - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
    - Lower income from trading and new issues on capital markets.
  - The segment contributed 48.7% to surplus earnings.
- Wealth Management and Life and Health Insurance: **Contribution of \$537 million**, up \$205 million, and surplus earnings, adjusted for specific items, of \$408 million, up \$76 million compared to the corresponding period in 2017.
  - Higher gains on the disposal of securities and real estate investments in 2018.
  - Higher income as a result of growth in assets under management.
  - Offset by less favourable interest margins.
  - The segment contributed 45.6% to surplus earnings.
- Property and Casualty Insurance: **Contribution of \$78 million**, down \$2 million, or 2.5%, compared to the same period in 2017.
  - Impact of the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Higher claims experience than in the comparative period in 2017.
  - Offset by a smaller increase than in the first half of 2017 in the contingent consideration payable as part of the acquisition of the Canadian operations of State Farm.
  - The segment contributed 6.6% to surplus earnings.
- **Return on equity was 9.7%**, compared to 8.4% for the six months ended June 30, 2017.
- **Adjusted return on equity was 8.7%**, compared to 8.5% for the six months ended June 30, 2017.

### Operating income

Operating income totalled \$8,159 million, up \$504 million, or 6.6%, compared to the first six months of 2017. Excluding the gain before income taxes of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., operating income would have been \$8,027 million, up \$372 million, or 4.9%, compared to the same period in 2017.

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

- **Net interest income of \$2,295 million**, up \$151 million, or 7.0%, mainly because of growth in mortgages, consumer loans and business loans outstanding since June 30, 2017, and, to a lesser extent, higher interest rates.
- **Net interest margin of 2.35%** for the six months ended June 30, 2018, as a percentage of average interest-bearing assets, which is stable compared to the corresponding period in 2017.

Net premiums were up \$281 million, or 6.9%, compared to the first half of 2017, to total \$4,339 million as at June 30, 2018.

### Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of \$2,333 million**, up \$93 million, or 4.2%, due to business growth.
  - Premiums up \$93 million, with group insurance accounting for \$63 million, annuities for \$15 million, and individual insurance for \$15 million.

### Property and Casualty Insurance segment

- **Net premiums of \$2,132 million**, up \$186 million, or 9.6%, essentially due to the following:
  - Increase of \$157 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to a change in the rate of cession stipulated in the treaty, which provides for the scaling down, over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offset by a decrease in net premiums resulting from the sale of Western Life Assurance Company on July 1, 2017.

Other operating income stood at \$1,525 million, which is an increase of \$72 million, or 5.0%, compared to the first half of 2017. Excluding the gain, before income taxes, of \$132 million related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P., other operating income would have been \$1,393 million, down \$60 million, or 4.1%, compared to the same period in 2017, mainly on account of the following items:

- Decrease in commission income following the sale of Western Financial Group Inc.
- Lower income related to deposit service charges due to changes in pricing and lower volume.

This decrease was partially offset by:

- Higher income as a result of growth in assets under management.
- Growth in business volumes from card payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
- Smaller increase than in the first half of 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.

### Investment income

Investment income totalled \$608 million, a decrease of \$538 million compared to the first half of 2017, essentially because of the following:

- Decrease primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations.
  - Offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Changes for the most part due to fluctuations in the fair value of the bond portfolio as a result of higher interest rates.
- Lower trading income.
- Reduction in the fair value of bonds in the Property and Casualty Insurance segment on account of higher interest rates on the markets compared to the same period in 2017. 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 a matching strategy.

This decrease was partially offset by the following:

- Higher gains on the disposal of securities and real estate investments in the first six months of 2018.
- Profit related to the restructuring of Interac Corp.

### Total income

Total income amounted to \$8,767 million, a decrease of \$34 million, or 0.4%, compared to the same period in 2017.

### Provision for credit losses

The provision for credit losses totalled \$195 million, up \$27 million, or 16.1%. The increase is mainly due to the change in the risk profile for business loans, the more pessimistic revision of economic scenarios and the seasonal migration of borrower ratings. The adoption of IFRS 9 as at January 1, 2018 made the allowance for credit losses more volatile. In spite of this increase, Desjardins Group's loan portfolio continued to be of high quality in 2018.

- The credit loss provisioning rate was 0.22% for the first half of 2018, compared to 0.20% for the corresponding period of 2017.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.51% compared to 0.28% as at June 30, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered negligible.

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

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$3,383 million, down \$292 million, or 7.9%, compared to the corresponding period of 2017.

### Wealth Management and Life and Health Insurance segment

- **Cost of claims of \$1,834 million**, down \$529 million, or 22.4%. This reduction was basically the result of the following:
  - Decrease of \$566 million in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments, partially offset by less favourable interest margins.
  - Offset by an increase in benefits and actuarial liabilities related to growth in operations.



### Property and Casualty Insurance segment

- **Cost of claims of \$1,549 million**, up \$236 million, or 18.0%, essentially as a result of the following:
  - Increase due to 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 period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Growth in business, which led to a higher cost of claims.
  - The P&C insurers' loss ratio was 74.8% for the six-month period ended June 30, 2018, compared to 69.1% for the corresponding period in 2017.
    - Higher ratio primarily attributable to less positive developments than in the first half of 2017 concerning prior-year claims, (10.9)% vs. (14.2)%, mainly in automobile insurance.
    - Greater impact of catastrophes and major events compared to the first half of 2017 (4.8% compared to 3.3%). The first half of 2018 was marked by two catastrophes, namely wind damage in May and water and wind damage in April, as well as a major event, namely wind damage in April. In the corresponding period of 2017, some major events were noted, but no catastrophes.

### Non-interest expense and productivity index

- Non-interest expense totalled \$3,751 million, up \$26 million, or 0.7%, compared to the first half of 2017, mainly because of:
  - Business growth, particularly in card payment and financing activities and in assets under management.
  - Increase in expense due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Increase in expense related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Offset by a decrease in expense following the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.

**Productivity index at 69.7% for the first half of 2018**, compared to 72.7% for the corresponding period in 2017.

**Adjusted productivity index at 71.4%**, compared to 72.6% for the first half of 2017. The improvement in the productivity index for the first six months of 2018 was due to higher surplus earnings.

### Income taxes

- **Income taxes on surplus earnings before member dividends of \$260 million**, down slightly compared to the corresponding period in 2017.
  - Effective tax rate of 18.1% for the first six months of 2018, down compared to 21.8% for the corresponding period in 2017.
  - Excluding the effect of the specific items, the effective tax rate would have been 19.7% for the first half of 2018 and 21.2% in 2017. The lower rate is mainly due to gains on disposals in the first half of 2018, taxable at 50%.

## RESULTS BY BUSINESS SEGMENT

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

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

Additional information about each business segment, particularly its profile, activities, industry and 2018 strategies and priorities, can be found on pages 39 to 51 of the 2017 annual MD&A.

### Personal and Business Services

The Personal and Business Services segment is central to Desjardins Group's operations. Through a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, Desjardins Group is a leader in financial services in Quebec and a player on the financial services scene in Ontario as well. To serve the constantly-changing needs of its members and clients, Desjardins Group offers its services through the Desjardins caisse network and the Desjardins Business centres as well as through complementary distribution networks and specialized teams, by phone, online, via applications for mobile devices, and at ATMs. The operations of the *Fonds de sécurité Desjardins* and the shared services which the Federation provides to the Personal and Business Services segment are recorded in this segment.



## 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, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017 <sup>(2)</sup>	June 30, 2018 <sup>(1)</sup>	June 30, 2017 <sup>(2)</sup>
Net interest income	\$ 1,056	\$ 1,013	\$ 963	\$ 2,069	\$ 1,895
Other operating income <sup>(3)</sup>	498	503	509	1,001	996
<b>Operating income<sup>(3)</sup></b>	<b>1,554</b>	<b>1,516</b>	<b>1,472</b>	<b>3,070</b>	<b>2,891</b>
Investment income <sup>(3)</sup>	33	72	56	105	146
<b>Total income</b>	<b>1,587</b>	<b>1,588</b>	<b>1,528</b>	<b>3,175</b>	<b>3,037</b>
Provision for credit losses	84	115	76	199	168
Non-interest expense	1,100	1,113	1,089	2,213	2,177
Income taxes on surplus earnings	104	85	91	189	174
<b>Surplus earnings before member dividends</b>	<b>299</b>	<b>275</b>	<b>272</b>	<b>574</b>	<b>518</b>
Member dividends, net of income tax recovery	53	36	29	89	55
<b>Net surplus earnings for the period after member dividends</b>	<b>\$ 246</b>	<b>\$ 239</b>	<b>\$ 243</b>	<b>\$ 485</b>	<b>\$ 463</b>
Of which:					
Group's share	\$ 246	\$ 239	\$ 243	\$ 485	\$ 463
Non-controlling interests' share	-	-	-	-	-
<b>Indicators</b>					
Average gross loans and acceptances <sup>(3)</sup>	\$ 177,849	\$ 174,271	\$ 165,755	\$ 176,388	\$ 164,668
Average deposits <sup>(3)</sup>	146,926	142,600	139,486	144,739	136,948
Credit loss provisioning rate <sup>(3)</sup>	0.19%	0.27%	0.18%	0.23%	0.21%
Gross credit-impaired loans <sup>(4)</sup> /gross loans and acceptances <sup>(3)</sup>	0.52	0.53	0.28	0.52	0.36

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and for the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> Data for 2017 have been reclassified to conform to the current year's presentation, notwithstanding the standards and amendments adopted on January 1, 2018.

<sup>(3)</sup> See "Basis of presentation of financial information".

<sup>(4)</sup> Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

## COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of \$299 million**, up \$27 million, or 9.9%, essentially due to the following:
  - Good performance from the caisse network, related especially to growth in net interest income.
  - Offset by higher acquisition and set-up expenses of new Canada-wide credit card portfolios.
- **Operating income of \$1,554 million**, up \$82 million, or 5.6%.
  - Increase of \$93 million in net interest income mainly as a result of year-over-year growth of \$12.1 billion in the average portfolio of loans and acceptances outstanding, and, to a lesser extent, higher interest rates. This portfolio is comprised of mortgages, consumer loans and business loans.
  - Other operating income of \$498 million, down \$11 million, or 2.2%, mainly due to the following:
    - ♦ Lower income related to deposit service charges due to changes in pricing and lower volume.
    - ♦ Decline in income from new capital market issues.
    - ♦ Offset by growth in business volume as a result of card payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
- **Investment income of \$33 million**, down \$23 million, or 41.1%, mainly due to lower income from derivatives.
- **Total income of \$1,587 million**, up \$59 million, or 3.9%.
- **Provision for credit losses of \$84 million**, up \$8 million, or 10.5%, mainly as a result of the following:
  - Increase in the allowance following the change in the risk profile for business loans.
  - The adoption of IFRS 9 as at January 1, 2018 made the allowance for credit losses more volatile.
- **Non-interest expense of \$1,100 million**, up \$11 million, or 1.0%.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Business growth, especially in card payment and financing activities, which had an effect on bonus programs.
  - Offset by the favourable effect of productivity initiatives implemented.

## COMPARISON OF THE FIRST HALF OF 2018 AND 2017 – PERSONAL AND BUSINESS SERVICES

- **Surplus earnings before member dividends of \$574 million**, up \$56 million, or 10.8%, essentially due to the following:
  - Good performance from the caisse network, related especially to growth in net interest income.
  - Profit related to the restructuring of Interac Corp.
 This increase was partly offset by:
  - Higher expenses for the acquisition and set-up of new Canada-wide credit card portfolios.
  - Lower trading income and decreased income from new capital market issues.
- **Operating income of \$3,070 million**, up \$179 million, or 6.2%.
  - Increase of \$174 million in net interest income mainly as a result of year-over-year growth of \$11.7 billion in the average portfolio of loans and acceptances outstanding, and, to a lesser extent, higher interest rates. This portfolio is comprised of mortgages, consumer loans and business loans.
  - Other operating income of \$1,001 million, up \$5 million, or 0.5%, mainly due to:
    - Growth in business volume as a result of card payment activities, including the acquisition and set-up of new Canada-wide credit card portfolios.
    - Increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds.
 This increase was partly offset by:
    - Lower income related to deposit service charges due to changes in pricing and decreased volume.
    - Decline in income from new capital market issues.
- **Investment income of \$105 million**, down \$41 million, or 28.1%, mainly due to:
  - Lower income from derivatives.
  - Decrease in capital market trading income.
  - Offset by the profit related to the restructuring of Interac Corp.
- **Total income of \$3,175 million**, up \$138 million, or 4.5%.
- **Provision for credit losses of \$199 million**, up \$31 million, or 18.5%, mainly as a result of:
  - Increase in the allowance following the change in the risk profile for business loans.
  - More pessimistic revision of economic scenarios.
  - Seasonal migration of borrower ratings.
  - The adoption of IFRS 9 as at January 1, 2018 made the allowance for credit losses more volatile.
- **Non-interest expense of \$2,213 million**, up \$36 million, or 1.7%.
  - Higher expenses related to the acquisition and set-up of new Canada-wide credit card portfolios.
  - Business growth, especially in card payment and financing activities, which had an effect on bonus programs.
  - Offset by the favourable effect of the productivity initiatives implemented.

## Wealth Management and Life and Health Insurance

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing the assets of Desjardins Group members and clients and helping them protect their financial security. These offers are intended for individuals and businesses, while its group insurance and savings plans meet the needs of employees through their company, or individuals who are part of any other group. The greatest strengths of the Wealth Management and Life and Health Insurance segment include its vast and diversified Canada-wide distribution networks, which are mainly comprised of:

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

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

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit unions (the Centrals) and The CUMIS Group entered into an agreement to combine their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments L.P. This transaction led to the creation of Aviso Wealth, a wealth management company held in equal shares by Desjardins Group and the partnership between the Centrals and The CUMIS Group. Additional information concerning these transactions is found in "Impact of significant transactions", on page 14.

## 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, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Net interest income	\$ 1	\$ 1	\$ -	\$ 2	\$ -
Net premiums	1,190	1,143	1,159	2,333	2,240
Other operating income <sup>(2)</sup>	512	422	378	934	743
<b>Operating income<sup>(2)</sup></b>	<b>1,703</b>	<b>1,566</b>	<b>1,537</b>	<b>3,269</b>	<b>2,983</b>
Investment income <sup>(2)</sup>	250	155	622	405	954
<b>Total income</b>	<b>1,953</b>	<b>1,721</b>	<b>2,159</b>	<b>3,674</b>	<b>3,937</b>
Provision for credit losses	(4)	-	-	(4)	-
Claims, benefits, annuities and changes in insurance contract liabilities	993	841	1,327	1,834	2,363
Non-interest expense	577	623	596	1,200	1,157
Income taxes on surplus earnings	56	51	47	107	85
<b>Net surplus earnings for the period</b>	<b>\$ 331</b>	<b>\$ 206</b>	<b>\$ 189</b>	<b>\$ 537</b>	<b>\$ 332</b>
<b>Specific item, net of income taxes</b>					
Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.	(129)	-	-	(129)	-
<b>Adjusted net surplus earnings for the period<sup>(2)</sup></b>	<b>\$ 202</b>	<b>\$ 206</b>	<b>\$ 189</b>	<b>\$ 408</b>	<b>\$ 332</b>
Of which:					
Group's share	\$ 331	\$ 206	\$ 189	\$ 537	\$ 331
Non-controlling interests' share	-	-	-	-	1
<b>Indicators</b>					
Net sales of savings products	\$ 1,326	\$ 3,490	\$ 2,145	\$ 4,816	\$ 4,579
Insurance sales	94	82	150	176	328
Group insurance premiums	821	830	803	1,651	1,588
Individual insurance premiums	213	212	206	425	410
Annuity premiums	156	101	150	257	242
Segregated fund receipts	474	668	364	1,142	852

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and for the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Interim Combined Financial Statements.

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

## COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of \$331 million**, up \$142 million, or 75.1%, and adjusted net surplus earnings of \$202 million, up \$13 million, or 6.9%, primarily as a result of:
  - Higher income as a result of growth in assets under management.
  - A more favourable claims experience.
  - Offset by gains on the disposal of securities and less favourable interest margins.
- **Operating income of \$1,703 million**, up \$166 million, or 10.8%, basically due to the following:
  - Increase of \$31 million in premiums, with group insurance accounting for \$18 million, individual insurance for \$7 million, and annuities for \$6 million.
  - Other operating income totalled \$512 million, up \$134 million, or 35.4%.
    - ♦ Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
    - ♦ Higher income as a result of growth in assets under management.
    - ♦ Offsetting drop in commission income following the transaction involving Qtrade Canada Inc.
- **Investment income of \$250 million**, down \$372 million, or 59.8%.
  - Decrease primarily due to the changes in the fair value of assets backing liabilities related to life and health insurance operations.
    - ♦ Offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
    - ♦ Differences due for the most part to changes in the fair value of the bond portfolio as a result of higher interest rates.
- **Total income of \$1,953 million**, down \$206 million, or 9.5%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$993 million**, down \$334 million, or 25.2%, essentially due to the following:
  - Decrease of \$336 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, that results from the more favourable claims experience mainly offset by less favourable interest margins.
  - However, benefits increased as the result of growth in operations.
- **Non-interest expense of \$577 million**, down \$19 million, or 3.2%, chiefly as a result of the transaction involving Qtrade Canada Inc.

## COMPARISON OF THE FIRST HALF OF 2018 AND 2017 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net surplus earnings of \$537 million**, up \$205 million, or 61.7%, and adjusted net surplus earnings of \$408 million, up \$76 million, or 22.9%, mainly as a result of:
  - Higher gains on the disposal of securities and real estate investments in 2018.
  - Higher income on account of growth in assets under management.
  - Offset by less favourable interest margins.
- **Operating income of \$3,269 million**, up \$286 million, or 9.6%, basically due to the following:
  - Increase of \$93 million in premiums, with group insurance accounting for \$63 million, annuities for \$15 million, and individual insurance for \$15 million.
  - Other operating income totalled \$934 million, up \$191 million, or 25.7%.
    - ♦ Gain related to the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P.
    - ♦ Higher income as a result of growth in assets under management.
- **Investment income of \$405 million**, down \$549 million, or 57.5%.
  - Decrease primarily due to the changes in the fair value of assets backing liabilities related to life and health insurance operations.
    - ♦ Offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
    - ♦ Differences due for the most part to changes in the fair value of the bond portfolio as a result of higher interest rates.
  - Mitigated by higher gains on the disposal of securities and real estate investments.
- **Total income of \$3,674 million**, down \$263 million, or 6.7%.
- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$1,834 million**, down \$529 million, or 22.4%, essentially due to the following:
  - Decrease of \$566 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments, partly offset by less favourable interest margins.
  - However, benefits and actuarial liabilities increased as a result of growth in operations.
- **Non-interest expense of \$1,200 million**, up \$43 million, or 3.7%, chiefly as a result of higher expenses for assets under management.

## Property and Casualty Insurance

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. and its subsidiaries. Its products are distributed through P&C insurance agents in the Desjardins caisse network in Quebec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network, as well as online and via applications for mobile devices.

On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely Western Financial Group Inc. and Western Life Assurance Company. Additional information concerning these transactions is found under "Impact of significant transactions" on page 14.

## 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, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Net interest income	\$ -	\$ -	\$ -	\$ -	\$ 1
Net premiums	1,073	1,059	981	2,132	1,946
Other operating income (loss) <sup>(2)</sup>	(61)	(21)	11	(82)	6
<b>Operating income<sup>(2)</sup></b>	<b>1,012</b>	<b>1,038</b>	<b>992</b>	<b>2,050</b>	<b>1,953</b>
Investment income <sup>(2)</sup>	58	90	51	148	120
<b>Total income</b>	<b>1,070</b>	<b>1,128</b>	<b>1,043</b>	<b>2,198</b>	<b>2,073</b>
Claims, benefits, annuities and changes in insurance contract liabilities	734	815	594	1,549	1,313
Non-interest expense	280	277	319	557	645
Income taxes on surplus earnings	4	10	32	14	35
<b>Net surplus earnings for the period</b>	<b>\$ 52</b>	<b>\$ 26</b>	<b>\$ 98</b>	<b>\$ 78</b>	<b>\$ 80</b>
<b>Specific item, net of income taxes</b>					
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company	-	-	1	-	14
<b>Adjusted net surplus earnings for the period<sup>(2)</sup></b>	<b>\$ 52</b>	<b>\$ 26</b>	<b>\$ 99</b>	<b>\$ 78</b>	<b>\$ 94</b>
Of which:					
Group's share	\$ 41	\$ 17	\$ 84	\$ 58	\$ 62
Non-controlling interests' share	11	9	14	20	18
<b>Indicators</b>					
Gross written premiums	\$ 1,335	\$ 1,016	\$ 1,288	\$ 2,351	\$ 2,253
Loss ratio <sup>(2)</sup>	70.1%	79.5%	63.8%	74.8%	69.1%
Current year loss ratio <sup>(2)</sup>	78.6	83.3	78.5	80.9	80.0
Loss ratio related to catastrophes and major events <sup>(2)</sup>	8.4	0.9	4.1	4.8	3.3
Ratio of favourable changes in prior year claims <sup>(2)</sup>	(16.9)	(4.7)	(18.8)	(10.9)	(14.2)
Expense ratio <sup>(2)</sup>	25.5	25.8	26.3	25.7	26.6
Combined ratio <sup>(2)</sup>	95.6	105.3	90.1	100.5	95.7

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and for the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

## COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of \$52 million**, down \$46 million compared to the second quarter of 2017, essentially due to the following:
  - Higher claims experience than in the comparative quarter of 2017, particularly due to two catastrophes.
  - Impact resulting from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
- **Operating income of \$1,012 million**, up \$20 million, or 2.0%.
- **Net premiums of \$1,073 million**, up \$92 million, or 9.4%, essentially due to:
  - Increase of \$77 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the rate of cession stipulated in the treaty, which provides for the scaling down over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offset by a decrease in net premiums resulting from the sale of Western Life Assurance Company on July 1, 2017.
- **Losses totalling \$61 million, presented under Other operating income**, while income was recorded for the corresponding quarter of 2017, resulting in a difference of \$72 million, essentially because of:
  - Drop in commission income following the sale of Western Financial Group Inc.
  - Larger increase than in second quarter 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
- **Investment income of \$58 million**, up \$7 million, or 13.7%, mainly as a result of a smaller reduction in the fair value of matched bonds than in second quarter 2017, mainly on account of a smaller increase in interest rates on the market in second quarter 2018, compared to the same period in 2017. 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 a matching strategy. This increase was partly offset by:
  - Lower investment income as a result of the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
- **Total income of \$1,070 million**, up \$27 million, or 2.6%.

- **Cost of claims totalling \$734 million**, up \$140 million, or 23.6%, due to the following:
  - Increase due to 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 period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Business growth leading to a higher cost of claims.
  - P&C insurers' loss ratio of 70.1% for the period ended June 30, 2018, compared to 63.8% for the corresponding period in 2017:
    - Higher ratio attributable to the greater impact of catastrophes and major events compared to the second quarter in 2017 (8.4% vs. 4.1%). The second quarter of 2018 was marked by two catastrophes, namely wind damage in May, and water and wind damage in April, as well as a major event, namely the wind damage in April. In the corresponding quarter of 2017, some major events had been noted, but no catastrophes.
    - Less positive developments than in second quarter 2017 concerning prior-year claims, (16.9)% vs. (18.8)%.
- **Non-interest expense of \$280 million**, down \$39 million, or 12.2%, mainly as a result of:
  - Decrease in expense following the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offsetting increase in expense partly due to the effect of the previously mentioned reinsurance treaty on the charges covered by it.

## COMPARISON OF THE FIRST HALF OF 2018 AND 2017 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of \$78 million**, down \$2 million compared to the first half of 2017, and adjusted net surplus earnings down \$16 million, essentially due to the following:
  - Impact resulting from the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Higher claims experience than in the corresponding half of 2017.
  - Offset by a smaller increase than in the first half of 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
- **Operating income of \$2,050 million**, up \$97 million, or 5.0%.
- **Net premiums of \$2,132 million**, up \$186 million, or 9.6%, primarily as a result of:
  - Increase of \$157 million in net premiums subject to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, mainly due to the change in the rate of cession stipulated in the treaty, which provides for the scaling down, over a five-year period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Increase due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.
  - Offsetting decrease in net premiums following the sale of Western Life Assurance Company on July 1, 2017.
- **Losses totalling \$82 million, presented under Other operating income**, while income was recorded for the corresponding period of 2017, resulting in a difference of \$88 million, essentially because of a decline in commission income following the sale of Western Financial Group Inc. This decline was partly offset by the smaller increase than in first half of 2017 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations.
- **Investment income of \$148 million**, up \$28 million, or 23.3%, primarily as a result of:
  - Net gains, which were higher than those recorded in the first half of 2017, on the disposal of funds and common shares related to the rebalancing of certain portfolios.
  - Unfavourable derivative financial instrument results, which were lower than those recorded in the corresponding period of 2017. This increase was partly offset by:
  - Reduction in the fair value of matched bonds on account of higher interest rates on the market, compared to the same period in 2017. It should be remembered that the reduction in the value of bonds was offset by a similar reduction in the cost of claims because of a matching strategy.
- **Total income of \$2,198 million**, up \$125 million, or 6.0%.
- **Cost of claims totalling \$1,549 million**, up \$236 million, or 18.0%, essentially due to the following:
  - Increase resulting 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 period, of the premiums and claims arising from new business and renewals after the acquisition date.
  - Business growth leading to a higher cost of claims.
  - P&C insurers' loss ratio of 74.8% for the six-month period ended June 30, 2018, compared to 69.1% for the corresponding period in 2017.
    - Higher ratio primarily attributable to less positive developments than in the first half of 2017 concerning prior-year claims, (10.9)% vs. (14.2)%, mainly in automobile insurance.
    - Greater impact of catastrophes and major events than in the corresponding six months of 2017 (4.8% compared to 3.3%). The first half of 2018 was marked by two catastrophes, namely wind damage in May and water and wind damage in April, as well as a major event, namely the wind damage in April. In the corresponding period of 2017, some major events had been noted, but no catastrophes.
- **Non-interest expense of \$557 million**, down \$88 million, or 13.6%, mainly as a result of:
  - Decrease in expense due to the sale of Western Financial Group Inc. and Western Life Assurance Company completed on July 1, 2017.
  - Offsetting increase in expense partly due to the effect of the previously mentioned reinsurance treaty on the charges covered by it.



## Other Category

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between the caisses' liquidity surpluses and needs. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, and the operations of Desjardins Capital Inc. It further includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Combined Financial Statements, this category also contains intersegment balance eliminations.

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

### Other category

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(1)</sup>	March 31, 2018 <sup>(1)</sup>	June 30, 2017	June 30, 2018 <sup>(1)</sup>	June 30, 2017
Treasury activities	\$ 20	\$ 23	\$ 36	\$ 43	\$ 59
Derivatives activities associated with hedging activities	(2)	(5)	1	(7)	-
Other <sup>(2)</sup>	(23)	(24)	(15)	(47)	(25)
<b>Net surplus earnings (deficit) for the period</b>	<b>\$ (5)</b>	<b>\$ (6)</b>	<b>\$ 22</b>	<b>\$ (11)</b>	<b>\$ 34</b>
Of which:					
Group's share	\$ (5)	\$ (6)	\$ 22	\$ (11)	\$ 34
Non-controlling interests' share	-	-	-	-	-

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and for the three-month period ended March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

## COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of \$5 million**, compared to net surplus earnings of \$22 million for the second quarter of 2017.
- **Treasury activities of \$20 million**, compared to a contribution of \$36 million to surplus earnings in 2017.
  - Lower trading income.
  - Offsetting favourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.
- **Activities related to derivatives associated with hedging activities recorded a deficit of \$2 million**, compared to surplus earnings of \$1 million for the corresponding period in 2017.
  - Decline in amortization related to the termination of hedges was unfavourable compared to the corresponding period in 2017.
  - Offset by a less unfavourable fluctuation in the fair value of swaps in 2018 because of an increase in interest rates that was not as high as in the same period in 2017.
- **Other activities recorded a \$23 million deficit**, compared to a \$15 million deficit in 2017.
  - Other activities affected, in 2018 and 2017, by expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms, thereby enhancing the member and client experience and improving productivity.

## COMPARISON OF THE FIRST HALF OF 2018 AND 2017 – CONTRIBUTION OF OTHER CATEGORY TO SURPLUS EARNINGS

- **Net deficit of \$11 million**, compared to net surplus earnings of \$34 million for the first half of 2017.
- **Treasury activities of \$43 million**, compared to a contribution of \$59 million to surplus earnings in 2017.
  - Lower trading income.
  - Offsetting favourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting.
- **Activities related to derivatives associated with hedging activities recorded a deficit of \$7 million**, down \$7 million compared to the first half of 2017.
  - Decline in amortization related to the termination of hedges was unfavourable compared to the corresponding period in 2017.
  - Offset by a less unfavourable fluctuation in the fair value of swaps in 2018 because of an increase in interest rates that was not as high as in the same period in 2017.
- **Other activities recorded a \$47 million deficit**, compared to a \$25 million deficit in 2017.
  - Other activities affected, in 2018 and 2017, by expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms, thereby enhancing the member and client experience and improving productivity.

## SUMMARY OF INTERIM RESULTS

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

## Results of the most recent eight quarters

(in millions of dollars)	2018		2017				2016	
	Q2 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q4	Q3	Q2	Q1	Q4	Q3
Net interest income	\$ 1,160	\$ 1,135	\$ 1,125	\$ 1,136	\$ 1,087	\$ 1,057	\$ 1,087	\$ 1,071
Net premiums	2,200	2,139	2,009	1,982	2,076	1,982	1,834	1,873
Other operating income <sup>(2)</sup>								
Deposit and payment service charges	106	103	107	109	122	120	123	128
Lending fees and credit card service revenues	163	186	180	154	154	172	150	139
Brokerage and investment fund services	239	271	261	241	307	278	282	278
Management and custodial service fees	122	120	117	104	106	101	102	94
Foreign exchange income	21	27	22	16	20	19	12	20
Other	130	37	(100)	295	28	26	(42)	(42)
<b>Operating income<sup>(2)</sup></b>	<b>4,141</b>	<b>4,018</b>	<b>3,721</b>	<b>4,037</b>	<b>3,900</b>	<b>3,755</b>	<b>3,548</b>	<b>3,561</b>
<b>Investment income (loss)<sup>(2)</sup></b>								
Net investment income	308	111	904	(362)	711	435	(1,082)	533
Overlay approach adjustment for insurance operations financial instruments	20	169	N/A	N/A	N/A	N/A	N/A	N/A
	328	280	904	(362)	711	435	(1,082)	533
<b>Total income</b>	<b>4,469</b>	<b>4,298</b>	<b>4,625</b>	<b>3,675</b>	<b>4,611</b>	<b>4,190</b>	<b>2,466</b>	<b>4,094</b>
Provision for credit losses	80	115	89	92	76	92	55	98
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	1,656	2,042	1,000	1,922	1,753	(104)	1,727
Non-interest expense	1,838	1,913	1,938	1,685	1,878	1,847	1,871	1,706
Income taxes on surplus earnings	147	113	127	140	154	115	135	109
<b>Surplus earnings before member dividends</b>	<b>677</b>	<b>501</b>	<b>429</b>	<b>758</b>	<b>581</b>	<b>383</b>	<b>509</b>	<b>454</b>
Member dividends, net of income tax recovery	53	36	49	44	29	26	42	25
<b>Net surplus earnings for the period after member dividends</b>	<b>\$ 624</b>	<b>\$ 465</b>	<b>\$ 380</b>	<b>\$ 714</b>	<b>\$ 552</b>	<b>\$ 357</b>	<b>\$ 467</b>	<b>\$ 429</b>
Of which:								
Group's share	\$ 613	\$ 456	\$ 371	\$ 699	\$ 538	\$ 352	\$ 443	\$ 419
Non-controlling interests' share	11	9	9	15	14	5	24	10

<sup>(1)</sup> The information presented for the three-month periods ended June 30, 2018 and March 31, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

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

Quarterly income, expenses and surplus earnings before member dividends fluctuate based on certain trends, including seasonal variations and changes in general economic conditions and capital market conditions. The results of the third quarter of 2017 were affected by the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, while the results of the second quarter of 2018 were affected by the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018. Additional information concerning these transactions is found under "Impact of significant transactions" on page 14. For more information about quarterly trends, see pages 54 to 56 of the 2017 annual MD&A.

## BALANCE SHEET REVIEW

### BALANCE SHEET MANAGEMENT

#### Combined Balance Sheets

(in millions of dollars and as a percentage)

	As at June 30, 2018 <sup>(1)</sup>		As at December 31, 2017	
<b>Assets</b>				
Cash and deposits with financial institutions	\$ 2,976	1.0%	\$ 2,435	0.9%
Securities	60,282	20.8	56,588	20.6
Securities borrowed or purchased under reverse repurchase agreements	9,522	3.3	8,674	3.2
Net loans and acceptances	184,625	63.7	177,521	64.4
Segregated fund net assets	13,902	4.8	13,379	4.9
Derivative financial instruments	3,559	1.2	3,206	1.2
Other assets	15,207	5.2	13,292	4.8
<b>Total assets</b>	<b>\$ 290,073</b>	<b>100.0%</b>	<b>\$ 275,095</b>	<b>100.0%</b>
<b>Liabilities and equity</b>				
Deposits	\$ 181,523	62.5%	\$ 171,586	62.4%
Commitments related to securities sold short	11,040	3.8	9,112	3.3
Commitments related to securities lent or sold under repurchase agreements	10,729	3.7	10,229	3.7
Derivative financial instruments	3,102	1.1	3,094	1.1
Insurance contract liabilities	28,600	9.9	28,272	10.3
Segregated fund net liabilities	13,880	4.8	13,354	4.9
Other liabilities	14,327	4.9	13,287	4.8
Subordinated notes	1,350	0.5	1,388	0.5
Equity	25,522	8.8	24,773	9.0
<b>Total liabilities and equity</b>	<b>\$ 290,073</b>	<b>100.0%</b>	<b>\$ 275,095</b>	<b>100.0%</b>

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

#### Total assets

As at June 30, 2018, Desjardins Group's total assets stood at \$290.1 billion, up \$15.0 billion, or 5.4%, since December 31, 2017. This growth was due in large part to an increase in net loans and acceptances as well as securities, including those borrowed or purchased under reverse repurchase agreements.

#### Cash and deposits with financial institutions, and securities

As at June 30, 2018, Desjardins Group's cash and deposits with financial institutions amounted to \$3.0 billion, an increase of \$541 million, or 22.2%, since December 31, 2017. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled \$69.8 billion at the end of the second quarter of 2018, compared to \$65.3 billion outstanding at the end of 2017, for an increase of \$4.5 billion, or 7.0%. The increase was due to the large volume of market activities and deposits.

#### Loans and clients' liability under acceptances

As at June 30, 2018, Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was \$184.6 billion, an increase of \$7.1 billion, or 4.0%, since December 31, 2017. This increase was chiefly due to residential mortgages, which accounted for 63.4% of the portfolio at the end of the quarter.

#### Loans and acceptances

(in millions of dollars and as a percentage)

	As at June 30, 2018 <sup>(1)</sup>		As at December 31, 2017	
Residential mortgages	\$ 117,381	63.4%	\$ 113,146	63.6%
Consumer, credit card and other personal loans	25,285	13.6	24,044	13.5
Business and government	42,673	23.0	40,769	22.9
	<b>185,339</b>	<b>100.0%</b>	<b>177,959</b>	<b>100.0%</b>
Allowance for credit losses	(714)		(438)	
<b>Total loans and acceptances by borrower category</b>	<b>\$ 184,625</b>		<b>\$ 177,521</b>	
Loans guaranteed or insured <sup>(2)</sup>	<b>\$ 47,119</b>		<b>\$ 46,952</b>	

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted on January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Outstanding residential mortgages totalled \$117.4 billion as at June 30, 2018, up \$4.2 billion, or 3.7%, since December 31, 2017. Owing to an economic environment that is still favourable, including in the Quebec housing market, Desjardins Group was able to continue to assist its members and clients in buying a home. For instance, in Quebec, home resales were up 4.4% in the first half of 2018 compared to the prior year, while the number of housing starts in the new construction sector jumped 17.5% during the same period. Average sale prices increased by 5.0% annually.

Outstanding business and government loans, including acceptances, amounted to \$42.7 billion as at June 30, 2018, for an increase of \$1.9 billion, or 4.7%, since December 31, 2017. Consumer, credit card and other personal loans outstanding totalled \$25.3 billion as at the same date, up \$1.2 billion, or 5.2%, since the end of 2017. It is noteworthy that Desjardins Group acquired Canada-wide credit card portfolios during the first half of 2018.

#### Credit quality

Information about the quality of Desjardins Group's loan portfolio is presented in the "Risk management" section on pages 35 and 36 of this MD&A.

### Deposits

Desjardins Group's outstanding deposits totalled \$181.5 billion as at June 30, 2018, up \$9.9 billion, or 5.8%, since December 31, 2017, largely as a result of the growth in business and government deposits, which accounted for 41.9% of the total deposit portfolio. In fact, these deposits were up \$6.9 billion, or 10.0%, since the end of 2017, to total \$76.0 billion as at the end of this quarter. This increase was due in particular to the various securities, including commercial paper and covered bonds, issued on 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, 2018		As at December 31, 2017	
Individuals	\$ 103,357	56.9%	\$ 100,578	58.6%
Business and government	76,009	41.9	69,102	40.3
Deposit-taking institutions	2,157	1.2	1,906	1.1
<b>Total deposits</b>	<b>\$ 181,523</b>	<b>100.0%</b>	<b>\$ 171,586</b>	<b>100.0%</b>

Savings from individuals, accounting for 56.9% of Desjardins Group's total deposit portfolio as at the end of second quarter 2018, grew by \$2.8 billion, or 2.8%, since December 31, 2017, to total \$103.4 billion as at June 30, 2018. Deposits from deposit-taking institutions increased by \$251 million, or 13.2%, since the end of 2017, to reach \$2.2 billion as at June 30, 2018.

### Insurance contract liabilities

Desjardins Group's insurance contract liabilities stood at \$28.6 billion as at June 30, 2018, up \$328 million, or 1.2%, since December 31, 2017.

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

### Equity

Equity totalled \$25.5 billion as at June 30, 2018, up \$749 million, or 3.0%, since the prior year-end. Net surplus earnings after member dividends, totalling \$1.1 billion for the first half of 2018, was a source of this growth. In addition, the Federation issued F capital shares for a cash consideration of \$122 million, as well as F capital shares having a value of \$142 million for the payment of interest when the holder has elected to receive remuneration in the form of F capital shares. The redemption of permanent shares for \$186 million, the remuneration of \$210 million on capital stock and the impact of changes in accounting policies in the amount of \$214 million reduced equity.

Note 22, "Capital stock", to the Annual Combined Financial Statements provides additional information about Desjardins Group's capital stock.

## CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of Desjardins Group's 2017 annual MD&A.

### Regulatory framework and internal policies

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

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

Desjardins Group's regulatory capital ratios are calculated according to the AMF's guideline on adequacy of capital base standards 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 Basel III regulatory framework increases capital requirements. Even though it provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, the AMF required Desjardins Group to meet the levels established for 2019 for Tier 1A, Tier 1 and total capital ratios in the first quarter of 2013. The AMF may also set higher target ratios at its discretion when circumstances warrant.

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components. Some of these components are subject to separate requirements regarding regulatory capital, liquidity and financing, which are set by regulatory authorities governing banks, insurers and securities, in particular. Desjardins Group oversees and manages the capital requirements of these entities to ensure efficient use of capital and continuous compliance with the applicable regulation.

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test (MCT) Guideline for federally regulated property and casualty insurance companies. Developments in these guidelines are presented in the "Changes in the regulatory environment" section on pages 10 to 12 of this MD&A.

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

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

#### Summary of ratios regulated by the AMF under Basel III<sup>(1)(2)</sup>

	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs <sup>(3)</sup>	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at June 30, 2018
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	17.5%
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	17.5
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	17.8
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	8.2

<sup>(1)</sup> The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in the guideline.

<sup>(2)</sup> The leverage ratio is calculated according to the guideline and is defined as an independent measure of risk based on 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 exposures, and 4) other off-balance sheet items.

<sup>(3)</sup> In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios.

#### Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in the 2017 annual MD&A on pages 60 and 61. The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) file, or the TLAC guideline project.

On March 29, 2017, the BCBS issued a 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 IAS 39. The BCBS is maintaining the present regulatory treatment of provisions under the Basel Accord framework for a transitional period. Furthermore, on August 21, 2017 the OSFI issued a draft for public consultation on the revision of the Capital Adequacy Requirements Guideline, which was implemented in the first quarter of 2018. The changes applied take up the same principles as the BCBS. 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 impairment model based on expected credit losses under IFRS 9. No transitional measure has been authorized by the AMF following the adoption of IFRS 9.

On December 7, 2017, the BCBS issued a discussion paper on the regulatory treatment of sovereign exposures. Comments on the topic could be sent to the BCBS until March 9, 2018. Because the BCBS did not obtain a consensus in order to make changes to the treatment of exposures to sovereign risk, no consultation has been launched on the topic.

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

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

The BCBS has scheduled the implementation of these reforms for January 1, 2022 and the transitional provisions for applying the output floor based on the revised Basel III standardized approach. The anticipated implementation of the new threshold before January 1, 2022 is left at the discretion of the regulators. The AMF has not yet expressed its intentions in this regard. For its part, the OSFI issued a transitional measure on January 12, 2018 allowing the Basel I output floor to be replaced by a revised capital output floor since the second quarter of 2018.

On March 22, 2018, the BCBS issued a consultative document entitled "Revisions to the minimum capital requirements for market risk", which addresses certain issues raised following the publication on January 14, 2016 of the revised version of the minimum capital requirements for market risk. The consultative document includes proposed changes aimed, in particular, at increasing the risk sensitivity of the standardized approach and recalibrating risk weights for interest risk, equity risk and foreign exchange risk. It also proposes changes to the "Simplified alternative to the standardised approach to market risk capital requirements" issued on June 29, 2017. On December 7, 2017, the BCBS had announced that financial institutions should present information using the standardized approach as of January 1, 2022.

### Compliance with requirements

As at June 30, 2018, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 17.5%, 17.5% and 17.8%, respectively. The leverage ratio was 8.2%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory capital requirements were in compliance with said requirements as at June 30, 2018.

### Regulatory capital

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

#### Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A <sup>(1)</sup>	Tier 1B <sup>(1)</sup>	
<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>Federation's capital shares</li> <li>Permanent shares and surplus shares subject to phase-out</li> </ul>	<ul style="list-style-type: none"> <li>Non-controlling interests<sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>General allowance</li> <li>Subordinated notes subject to phase-out</li> <li>Eligible qualifying shares</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> </ul>		
<b>Deductions</b>	<ul style="list-style-type: none"> <li>Mainly significant investments in financial entities<sup>(3)</sup></li> <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 cooperatives regulated by the AMF.

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

<sup>(3)</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, risk-weighted assets and capital ratios**

(in millions of dollars and as a percentage)

	As at June 30, 2018	As at December 31, 2017
<b>Capital</b>		
Tier 1A capital	\$ 21,514	\$ 20,985
Tier 1 capital	21,514	20,998
Total capital	21,905	21,436
<b>Risk-weighted assets</b>		
Credit risk	\$ 94,215	\$ 88,067
Market risk	2,552	1,965
Operational risk	11,997	11,850
<b>Total risk-weighted assets before the adjustment charge and the threshold</b>	<b>108,764</b>	<b>101,882</b>
Credit valuation adjustment (CVA) charge and transitional threshold adjustment <sup>(1)(2)</sup>	14,426	14,605
<b>Total risk-weighted assets</b>	<b>\$ 123,190</b>	<b>\$ 116,487</b>
<b>Ratios and leverage ratio exposure</b>		
Tier 1A capital	17.5%	18.0%
Tier 1 capital	17.5	18.0
Total capital	17.8	18.4
Leverage	8.2	8.5
Leverage ratio exposure	\$ 261,946	\$ 246,832

<sup>(1)</sup> As prescribed in Section 1.6 of the AMF guideline, the threshold was presented to account for risk-weighted assets after the transitional provisions for the CVA charge for capital.

<sup>(2)</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 80%, 83% and 86%, respectively, in 2018 (72%, 77% and 81% in 2017). They will reach 100% for each capital tier by 2019.

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 measures set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began on January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total \$2.1 billion.

In addition, the subordinated notes issued by Desjardins Capital Inc. are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Desjardins Group has not issued any instruments of this type as discussions concerning the application of these regulations by Desjardins Group are still in progress with the AMF.

On December 21, 2017, the Federation filed a new short form prospectus and obtained a receipt to issue F capital shares for a maximum of \$125 million during the 12 months following the date of the receipt. This new issue started on January 23, 2018. During the first half of 2018, the Federation issued F capital shares for a cash consideration of \$122 million. In addition, the Federation issued F capital shares having a value of \$142 million for payment of interest when the holder has elected to receive remuneration in F capital shares.

As at June 30, 2018, the Tier 1A capital ratio was down 50 basis points compared to December 31, 2017. Growth in surplus earnings and reserves was offset by an increase in risk-weighted assets, the switch to IFRS 9 and the decrease in accumulated other comprehensive income.

**Change in regulatory capital**

For the six-month period ended

(in millions of dollars)	June 30, 2018
<b>Tier 1A capital</b>	
Balance at beginning of period	\$ 20,985
Increase in reserves and undistributed surplus earnings <sup>(1)</sup>	1,003
Eligible accumulated other comprehensive income	(233)
Federation's capital shares <sup>(2)</sup>	264
Permanent shares and surplus shares subject to phase-out	(195)
Deductions	(310)
Balance at end of period	21,514
<b>Tier 1B capital</b>	
Balance at beginning of period	13
Non-controlling interests	(13)
Balance at end of period	-
<b>Total Tier 1 capital</b>	<b>21,514</b>
<b>Tier 2 capital</b>	
Balance at beginning of period	438
Eligible qualifying shares	(1)
Senior notes subject to phase-out	(215)
General allowance	117
Deductions	52
Balance at end of period	391
<b>Total capital</b>	<b>\$ 21,905</b>

<sup>(1)</sup> Amount including the change in defined benefit pension plan liabilities.<sup>(2)</sup> Amount net of issuance expenses.**Risk-weighted assets (RWA)**

Desjardins Group calculates the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using the Internal Ratings-Based Approach for credit risk related to retail loan portfolios – Personal. Other exposures to credit and market risk are measured according to the Standardized Approach. On June 19, 2017, Desjardins Group received the AMF's authorization to use the Standardized Approach for calculating operational risk as of June 30, 2017. Desjardins is also subject to a threshold defined under Basel I, where the threshold is determined by the difference between the minimum regulatory capital requirement in accordance with the rules of the latest version of the AMF guideline based on Basel I, multiplied by an adjustment factor set by the AMF, and the minimum regulatory capital requirement calculated under Basel III.

RWA totalled \$123.2 billion as at June 30, 2018, up \$3.0 billion from the previous quarter.

Credit risk is comprised of two separate items, namely credit risk and counterparty risk. Changes in RWA with regard to credit risk for the second quarter of 2018 are mainly due to the changes in the portfolio's size, which resulted in an increase of \$2.3 billion in RWA; the deterioration in portfolio quality, which caused an increase of \$38 million; and the completion of the transaction involving Qtrade Canada Inc. and the interest in Northwest & Ethical Investments L.P. by Desjardins Group on April 1, 2018, which led to a credit risk decrease of \$892 million. In counterparty risk, the increase of \$24 million in RWA is mainly due to the deterioration in portfolio quality and the changes in the portfolio's size.

In market risk, a \$120 million increase in RWA was observed due to a change in the risk level. An increase of \$107 million was also noted in operational risk as a result of fluctuations in the income generated.

The threshold adjustment, as defined earlier, has increased by \$938 million of RWA since March 31, 2018, partly as a result of the increase in the portfolio's size and the deterioration in portfolio quality.

**OFF-BALANCE SHEET ARRANGEMENTS**

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization. Additional information can be found in the "Off-balance sheet arrangements" section of Desjardins Group's 2017 annual MD&A.

**Assets under management and under administration**

As at June 30, 2018, Desjardins Group administered, for the account of its members and clients, assets worth \$400.9 billion, for a decrease of \$10.7 billion, or 2.6%, following the transaction involving Qtrade Canada Inc., as described in the section "Significant event in 2018". The financial assets entrusted to Desjardins Group as wealth manager totalled \$58.6 billion as at June 30, 2018, up \$384 million, or 0.7%, since December 31, 2017.

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

### Structured entities

In the normal course of operations, Desjardins Group 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 Desjardins Group's Combined Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities not included in Desjardins Group's Combined Balance Sheets is provided below. Note 13, "Interests in other entities", to the Annual Combined Financial Statements provides more information on structured entities.

### Securitization of Desjardins Group's financial assets

Desjardins Group 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 Combined Financial Statements provides more information about the securitization of Desjardins Group's loans.

## RISK MANAGEMENT

### RISK MANAGEMENT

Desjardins Group's objective in risk management is to optimize the risk-return trade-off, in accordance with its risk appetite, 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.

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

Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial 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 half of fiscal 2018, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which it is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 70 to 107 of the 2017 annual MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group's control, could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 67 to 69 of the 2017 annual MD&A.

### CREDIT RISK

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

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

### Quality of loan portfolio

On January 1, 2018, Desjardins Group adopted IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". Contrary to the approach used by IAS 39, which was based on an "Incurred Loss" impairment model, IFRS 9 uses an "Expected Credit Loss" model. The IFRS 9 impairment model is therefore more forward-looking in nature. For more information, refer to Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

As at June 30, 2018, according to Note 5, "Loans and allowance for credit losses", to the Interim Combined Financial Statements, the allowance for credit losses totalled \$714 million, up \$276 million compared to December 31, 2017. This increase was due mainly to the change in the risk profile for business loans, the more pessimistic revision of economic scenarios and the seasonal migration of borrowers to higher risk ratings. The adoption of IFRS 9 as at January 1, 2018 made the allowance for credit losses more volatile.

Gross credit-impaired loans outstanding are now considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.51% for the second quarter of 2018, compared to 0.25% as at December 31, 2017. This increase was due to the fact that under IFRS 9, all default loans are now considered credit-impaired unless the detrimental impact on the estimated future cash flows is considered negligible. The allowance for credit losses on credit-impaired loans totalled \$209 million as at June 30, 2018, resulting in a provisioning rate for credit-impaired loans of 22.3%.

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

#### Gross credit-impaired loans<sup>(1)</sup> by borrower category

(in millions of dollars and as a percentage)	As at June 30, 2018 <sup>(2)</sup>					As at December 31, 2017	
	Gross carrying amount			Allowance for credit losses on credit-impaired loans		Gross impaired loans	Net impaired loans
	Gross loans and acceptances	Gross credit-impaired loans			Net credit-impaired loans		
Residential mortgages	\$ 117,381	\$ 336	0.29%	\$ 14	\$ 322	\$ 141	\$ 122
Consumer, credit card and other personal loans	25,285	225	0.89	110	115	89	54
Business and government	42,673	376	0.88	85	291	212	139
<b>Total loans</b>	<b>\$ 185,339</b>	<b>\$ 937</b>	<b>0.51%</b>	<b>\$ 209</b>	<b>\$ 728</b>	<b>\$ 442</b>	<b>\$ 315</b>

<sup>(1)</sup> Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted as at January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

#### Change in gross credit-impaired loans<sup>(1)</sup>

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2018 <sup>(2)</sup>	March 31, 2018 <sup>(2)</sup>	June 30, 2017	June 30, 2018 <sup>(2)</sup>	June 30, 2017
<b>Gross impaired loans at the beginning of the period under IAS 39</b>	<b>N/A</b>	<b>\$ 442</b>	<b>\$ 544</b>	<b>\$ 442</b>	<b>\$ 532</b>
Impact of adopting IFRS 9 as at January 1, 2018	N/A	492	N/A	492	N/A
<b>Gross credit-impaired loans at the beginning of the last period under IFRS 9</b>	<b>\$ 936</b>	<b>934</b>	<b>N/A</b>	<b>934</b>	<b>N/A</b>
Gross credit-impaired loans since the last period	576	152	202	728	467
Loans returned to unimpaired status	(453)	(82)	(180)	(535)	(349)
Write-offs and recoveries	(89)	(90)	(103)	(179)	(194)
Other changes	(33)	22	15	(11)	22
<b>Gross credit-impaired loans at the end of the period</b>	<b>\$ 937</b>	<b>\$ 936</b>	<b>\$ 478</b>	<b>\$ 937</b>	<b>\$ 478</b>

<sup>(1)</sup> Further to the adoption of IFRS 9 on January 1, 2018, all loans included in Stage 3 of the impairment model are considered to be credit-impaired. The criteria for considering a loan to be impaired were different under IAS 39. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 and the three-month period ended March 31, 2018 takes into account the standards and amendments adopted as at January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

#### 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. In addition, limits are set for certain financial instruments. The amounts are then allocated to different components based on their needs.

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

## MARKET RISK

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

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

### Governance

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

### Connection between market risk and the Combined Balance Sheets

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

#### Connection between market risk and the Combined Balance Sheets

As at June 30, 2018<sup>(1)</sup>

	Exposed to market risk				Principal risks associated with non-trading activities
	Combined Balance Sheets	Trading activities <sup>(2)</sup>	Non-trading activities <sup>(3)</sup>	Not exposed to market risk	
(in millions of dollars)					
<b>Assets</b>					
Cash and deposits with financial institutions	\$ 2,976	\$ -	\$ 2,976	\$ -	Interest rate
Securities					
Securities at fair value through profit or loss	37,936	16,272	21,664	-	Interest rate
Securities at fair value through other comprehensive income	20,711	-	20,711	-	Interest rate, FX, price
Securities at amortized cost	1,635	-	1,635	-	Interest rate
Securities borrowed or purchased under reverse repurchase agreements	9,522	8,661	861	-	Interest rate
Net loans and acceptances	184,625	-	184,625	-	Interest rate
Segregated fund net assets	13,902	-	13,902	-	Interest rate, price
Derivative financial instruments	3,559	447	3,112	-	Interest rate, FX, price
Other assets	15,207	-	-	15,207	
<b>Total assets</b>	<b>\$ 290,073</b>	<b>\$ 25,380</b>	<b>\$ 249,486</b>	<b>\$ 15,207</b>	
<b>Liabilities and equity</b>					
Deposits	\$ 181,523	\$ -	\$ 181,523	\$ -	Interest rate
Commitments related to securities sold short	11,040	10,927	113	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,729	10,149	580	-	Interest rate
Derivative financial instruments	3,102	326	2,776	-	Interest rate, FX, price
Insurance contract liabilities	28,600	-	28,600	-	Interest rate
Segregated fund net liabilities	13,880	-	13,880	-	Interest rate, price
Other liabilities	14,327	-	2,239	12,088	Interest rate
Subordinated notes	1,350	-	1,350	-	Interest rate
Equity	25,522	-	-	25,522	
<b>Total liabilities and equity</b>	<b>\$ 290,073</b>	<b>\$ 21,402</b>	<b>\$ 231,061</b>	<b>\$ 37,610</b>	

See next page for footnotes.

**Connection between market risk and the Combined Balance Sheets (continued)**

As at December 31, 2017

	Combined	Exposed to market risk		Not exposed	Principal risks
(in millions of dollars)	Balance Sheets	Trading activities <sup>(2)</sup>	Non-trading activities <sup>(3)</sup>	to market risk	associated with non-trading activities
<b>Assets</b>					
Cash and deposits with financial institutions	\$ 2,435	\$ -	\$ 2,435	\$ -	Interest rate
Securities					
Securities at fair value through profit or loss	31,654	13,112	18,542	-	Interest rate
Available-for-sale securities	24,934	-	24,934	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	8,674	8,320	354	-	Interest rate
Net loans and acceptances	177,521	-	177,521	-	Interest rate
Segregated fund net assets	13,379	-	13,379	-	Interest rate, price
Derivative financial instruments	3,206	248	2,958	-	Interest rate, FX, price
Other assets	13,292	-	-	13,292	
<b>Total assets</b>	<b>\$ 275,095</b>	<b>\$ 21,680</b>	<b>\$ 240,123</b>	<b>\$ 13,292</b>	
<b>Liabilities and equity</b>					
Deposits	\$ 171,586	\$ -	\$ 171,586	\$ -	Interest rate
Commitments related to securities sold short	9,112	9,112	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,229	9,566	663	-	Interest rate
Derivative financial instruments	3,094	296	2,798	-	Interest rate, FX, price
Insurance contract liabilities	28,272	-	28,272	-	Interest rate
Segregated fund net liabilities	13,354	-	13,354	-	Interest rate, price
Other liabilities	13,287	-	2,624	10,663	Interest rate
Subordinated notes	1,388	-	1,388	-	Interest rate
Equity	24,773	-	-	24,773	
<b>Total liabilities and equity</b>	<b>\$ 275,095</b>	<b>\$ 18,974</b>	<b>\$ 220,685</b>	<b>\$ 35,436</b>	

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted as at January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Interim Combined Financial Statements.

<sup>(2)</sup> Trading activity positions for which the risk measure is VaR and SVaR.

<sup>(3)</sup> Positions mainly related to non-trading banking activities and insurance activities.

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

The market risk of trading portfolios is managed on a daily basis under 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 Desjardins Group is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.



## VaR by risk category (Trading portfolio)

(in millions of dollars)	For the quarter ended June 30, 2018				For the quarters ended			
					March 31, 2018		June 30, 2017	
	As at June 30, 2018	Average	High	Low	As at March 31, 2018	Average	As at June 30, 2017	Average
Equities	\$ 0.4	\$ 0.4	\$ 0.6	\$ 0.2	\$ 0.4	\$ 0.4	\$ 0.5	\$ 0.3
Foreign exchange	0.9	0.4	1.1	0.1	0.4	0.4	0.3	0.4
Interest rate	4.6	4.6	6.0	3.4	4.6	3.4	2.8	3.4
Specific interest rate risk <sup>(1)</sup>	7.1	7.0	9.6	5.6	8.4	6.3	5.7	6.2
Diversification effect <sup>(2)</sup>	(8.3)	(7.9)	N/A <sup>(3)</sup>	N/A <sup>(3)</sup>	(9.1)	(7.0)	(6.4)	(6.8)
Aggregate VaR	\$ 4.7	\$ 4.7	\$ 6.0	\$ 3.3	\$ 4.7	\$ 3.5	\$ 2.9	\$ 3.5
Aggregate SVaR	\$ 17.4	\$ 18.4	\$ 26.1	\$ 12.4	\$ 22.5	\$ 14.2	\$ 9.6	\$ 12.4

<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 \$4.7 million for the quarter ended June 30, 2018, up \$1.2 million compared to the quarter ended March 31, 2018, primarily as a result of an increase in the average of the VaR related to the interest rate and specific interest rate risk. The average of the aggregate SVaR was \$18.4 million for the quarter ended June 30, 2018, up \$4.2 million compared to the quarter ended March 31, 2018. 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

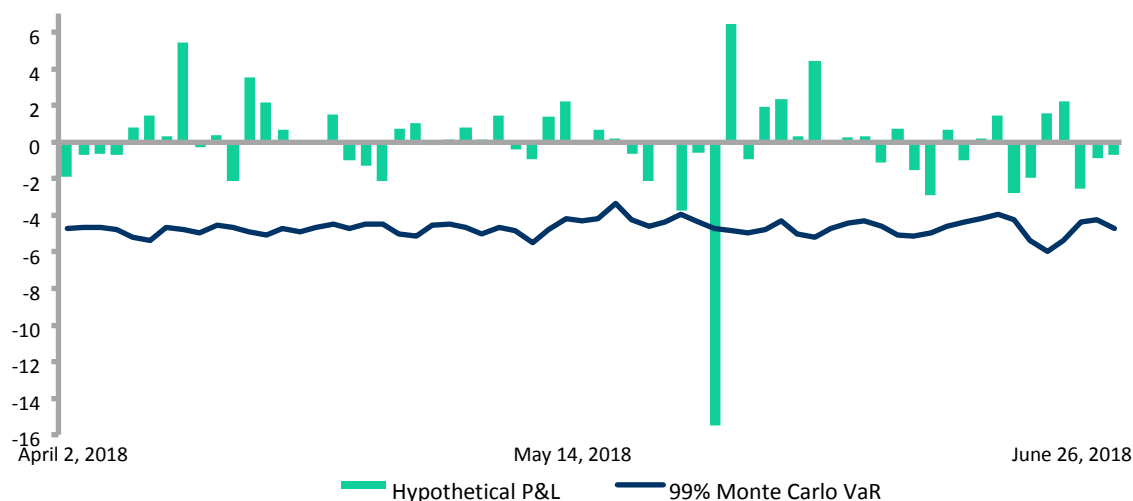
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that hypothetical results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the 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 2018, hypothetical P&L was observed to be exceeded by \$10.7 million on May 28 due to interest rate fluctuations caused by investors' fears concerning Italy's political crisis.

## VaR compared to hypothetical P&amp;L for trading activities

(in millions of dollars)



## Stress testing

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

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

## Structural Interest rate risk management

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

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

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

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

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

In order to mitigate risk factors, sound and prudent management is applied to optimize net interest income while 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 Desjardins Group. The impact on insurance activities is presented in Note 1 of this table.

### Interest rate sensitivity (before income taxes)<sup>(1)</sup>

(in millions of dollars)	As at June 30, 2018		As at March 31, 2018		As at June 30, 2017	
	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	\$ 17	\$ 262	\$ 16	\$ 232	\$ 143	\$ 34
Impact of a 100-basis-point decrease in interest rates <sup>(4)</sup>	(66)	(314)	(56)	(317)	(135)	(35)

<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 \$254 million decrease in the economic value of equity before taxes as at June 30, 2018, and in a \$233 million and \$222 million decrease as at March 31, 2018 and June 30, 2017, respectively. A 100-basis-point decrease in interest rates would result in a \$229 million increase in the economic value of equity before taxes as at June 30, 2018, and in a \$211 million and \$199 million increase as at March 31, 2018 and June 30, 2017, 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 foreign exchange forward contracts and currency swaps. Desjardins Group's residual exposure to this risk is low because it reduces its foreign exchange risk by using derivative financial instruments.

## LIQUIDITY RISK

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

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

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

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

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

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

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 119.8% for the quarter ended June 30, 2018, compared to 119.1% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

## Liquidity risk measurement and monitoring

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

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

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

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

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

## Liquid assets

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

### Liquid assets<sup>(1)</sup>

As at June 30, 2018

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
<b>Cash and deposits with financial institutions</b>	\$ 1,663	\$ -	\$ 1,663	\$ -	\$ 1,663
<b>Securities</b>					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	29,311	9,335	38,646	22,052	16,594
Other securities in Canada	4,930	57	4,987	27	4,960
Issued or guaranteed by foreign issuers	30	-	30	-	30
<b>Loans</b>					
Insured residential mortgage-backed securities	6,744	-	6,744	927	5,817
<b>Total</b>	<b>\$ 42,678</b>	<b>\$ 9,392</b>	<b>\$ 52,070</b>	<b>\$ 23,006</b>	<b>\$ 29,064</b>

As at December 31, 2017

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
<b>Cash and deposits with financial institutions</b>	\$ 1,453	\$ -	\$ 1,453	\$ -	\$ 1,453
<b>Securities</b>					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	27,112	8,644	35,756	19,773	15,983
Other securities in Canada	3,441	82	3,523	49	3,474
Issued or guaranteed by foreign issuers	58	-	58	-	58
<b>Loans</b>					
Insured residential mortgage-backed securities	6,733	-	6,733	1,240	5,493
<b>Total</b>	<b>\$ 38,797</b>	<b>\$ 8,726</b>	<b>\$ 47,523</b>	<b>\$ 21,062</b>	<b>\$ 26,461</b>

<sup>(1)</sup> Excluding assets held by insurance subsidiaries.

### Unencumbered liquid assets by entity<sup>(1)</sup>

(in millions of dollars)	As at June 30, 2018	As at December 31, 2017
Federation	\$ 8,487	\$ 7,556
Caisse network	14,600	14,456
Desjardins Securities <sup>(2)</sup>	2,160	1,217
Other entities	3,817	3,232
<b>Total</b>	<b>\$ 29,064</b>	<b>\$ 26,461</b>

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

<sup>(2)</sup> Does not take into consideration amounts payable and receivable related to the settlement of securities lending and borrowing transactions.

## Encumbered assets

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

### Encumbered assets

As at June 30, 2018<sup>(1)</sup>

	Breakdown of total assets						
	Encumbered assets			Unencumbered assets			
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other <sup>(2)</sup>	Available as collateral	Other <sup>(3)</sup>
Cash and deposits with financial institutions	\$ 2,976	\$ -	\$ 2,976	\$ -	\$ 380	\$ 1,405	\$ 1,191
Securities	60,282	3,993	64,275	25,045	2,516	13,219	23,495
Securities borrowed or purchased under reverse repurchase agreements	9,522	-	9,522	-	-	9,242	280
Net loans and acceptances	184,625	-	184,625	20,584	-	65,961	98,080
Segregated fund net assets	13,902	-	13,902	-	-	-	13,902
Other assets	18,766	-	18,766	-	-	-	18,766
<b>Total</b>	<b>\$ 290,073</b>	<b>\$ 3,993</b>	<b>\$ 294,066</b>	<b>\$ 45,629</b>	<b>\$ 2,896</b>	<b>\$ 89,827</b>	<b>\$ 155,714</b>

As at December 31, 2017<sup>(4)</sup>

	Breakdown of total assets						
	Encumbered assets			Unencumbered assets			
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other <sup>(2)</sup>	Available as collateral	Other <sup>(3)</sup>
Cash and deposits with financial institutions	\$ 2,435	\$ -	\$ 2,435	\$ -	\$ 42	\$ 1,499	\$ 894
Securities	56,588	2,255	58,843	21,371	2,614	11,494	23,364
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	8,674	-	-	8,532	142
Net loans and acceptances	177,521	-	177,521	19,477	-	64,025	94,019
Segregated fund net assets	13,379	-	13,379	-	-	-	13,379
Other assets	16,498	-	16,498	-	-	-	16,498
<b>Total</b>	<b>\$ 275,095</b>	<b>\$ 2,255</b>	<b>\$ 277,350</b>	<b>\$ 40,848</b>	<b>\$ 2,656</b>	<b>\$ 85,550</b>	<b>\$ 148,296</b>

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted as at January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Interim Combined Financial Statements.

<sup>(2)</sup> Assets that cannot be used for legal or other reasons.

<sup>(3)</sup> "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

<sup>(4)</sup> Amounts have been revised to make them comparable to the current presentation, as a result of a methodology refinement.

## Liquidity coverage ratio

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

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

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

### Liquidity coverage ratio<sup>(1)</sup>

	For the quarter ended June 30, 2018		For the quarter ended March 31, 2018
	Total non-weighted value <sup>(2)</sup> (average) <sup>(4)</sup>	Total weighted value <sup>(3)</sup> (average) <sup>(4)</sup>	Total weighted value <sup>(3)</sup> (average) <sup>(4)</sup>
(in millions of dollars and as a percentage)			
<b>High-quality liquid assets</b>			
Total high-quality liquid assets	N/A	\$ 23,016	\$ 21,921
<b>Cash outflows</b>			
Retail deposits and small business deposits, including:	\$ 69,340	\$ 4,567	\$ 4,527
Stable deposits	33,810	1,014	994
Less stable deposits	35,530	3,553	3,533
Unsecured wholesale funding, including:	22,377	13,298	12,658
Operational deposits (all counterparties) and deposits in cooperative bank networks	5,102	1,192	1,007
Non-operational deposits (all counterparties)	8,767	3,598	3,597
Unsecured debt	8,508	8,508	8,054
Secured wholesale funding	N/A	-	1
Additional requirements, including:	11,656	2,799	2,934
Outflows related to exposures on derivatives and other collateral required	1,235	1,117	1,366
Outflows related to funding loss on debt products	186	186	132
Credit and liquidity facilities	10,235	1,496	1,436
Other contractual funding liabilities	1,457	133	104
Other contingent funding liabilities	67,459	1,847	1,771
<b>Total cash outflows</b>	N/A	\$ 22,644	\$ 21,995
<b>Cash inflows</b>			
Secured loans (e.g. reverse repurchase agreements)	\$ 5,611	\$ 87	\$ 35
Inflows related to completely effective exposures	2,829	1,415	1,509
Other cash inflows	1,925	1,925	2,051
<b>Total cash inflows</b>	\$ 10,365	\$ 3,427	\$ 3,595
		<b>Total adjusted value<sup>(5)</sup></b>	<b>Total adjusted value<sup>(5)</sup></b>
<b>Total high-quality liquid assets</b>		\$ 23,016	\$ 21,921
<b>Total net cash outflows</b>		\$ 19,217	\$ 18,400
<b>Liquidity coverage ratio</b>		<b>119.8%</b>	<b>119.1%</b>

<sup>(1)</sup> Excluding the insurance subsidiaries.

<sup>(2)</sup> The non-weighted values of cash inflows and outflows represent unpaid balances either maturing or falling due and payable within 30 days.

<sup>(3)</sup> Weighted values are calculated after the "haircuts" prescribed for high-quality liquid assets and the rates prescribed for cash inflows and outflows have been applied.

<sup>(4)</sup> The ratio is presented based on the average of daily data for the quarter.

<sup>(5)</sup> The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

### Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to \$181.5 billion as at June 30, 2018, up \$9.9 billion since December 31, 2017. 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, and these strategies are regulated by policies. In the first half of 2018, 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, 2018

	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\$15 billion
Medium-term notes (multi-currency)	€7 billion

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

### Remaining contractual terms to maturity of wholesale funding

(in millions of dollars)	As at June 30, 2018								As at December 31, 2017
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total – Less than 1 year	1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 2,203	\$ 785	\$ 12	\$ 14	\$ 3,014	\$ -	\$ -	\$ 3,014	\$ 2,802
Commercial paper	7,449	3,116	1,112	2,103	13,780	-	-	13,780	9,276
Medium-term notes	-	-	1,236	-	1,236	3,332	3,815	8,383	11,030
Mortgage loan securitization	-	331	483	828	1,642	1,391	6,408	9,441	9,130
Covered bonds	-	-	-	1,535	1,535	1,533	2,680	5,748	4,517
Subordinated notes	-	-	-	1	1	851	498	1,350	1,388
<b>Total</b>	<b>\$ 9,652</b>	<b>\$ 4,232</b>	<b>\$ 2,843</b>	<b>\$ 4,481</b>	<b>\$ 21,208</b>	<b>\$ 7,107</b>	<b>\$ 13,401</b>	<b>\$ 41,716</b>	<b>\$ 38,143</b>
Including:									
Secured	\$ -	\$ 331	\$ 483	\$ 2,364	\$ 3,178	\$ 3,775	\$ 9,586	\$ 16,539	\$ 15,035
Unsecured	9,652	3,901	2,360	2,117	18,030	3,332	3,815	25,177	23,108

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up \$3.6 billion compared to December 31, 2017, mainly because of an increase in commercial paper and covered bonds, partially offset by a decrease in medium-term notes.

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

### Wholesale funding by currency

(in millions of dollars and as a percentage)	As at June 30, 2018		As at December 31, 2017	
Canadian dollars	\$ 18,733	44.9%	\$ 18,311	48.0%
U.S. dollars	15,276	36.6	12,105	31.7
Other	7,707	18.5	7,727	20.3
	<b>\$ 41,716</b>	<b>100.0%</b>	<b>\$ 38,143</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 half of 2018. During the same period, the Federation also made an issue of covered bonds totalling 750 million euros on the European market.

Outstanding notes issued under the Federation's medium-term financing programs amounted to \$23.6 billion as at June 30, 2018, compared to \$24.7 billion as at December 31, 2017. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Combined Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled \$1.4 billion as at June 30, 2018, unchanged from December 31, 2017. Furthermore, to round out its financing and increase its capital base, in the first half of 2018, Desjardins Group, through the Federation, issued F capital shares for a cash consideration of \$122 million, as well as F capital shares having a value of \$142 million for the payment of interest when the holder has elected to receive remuneration in the form of 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. They are also a factor considered in certain Desjardins Group transactions involving counterparties.

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

During the first half of 2018, the credit ratings and outlooks assigned to Desjardins Group's securities remained unchanged and were affirmed by the rating agencies Moody's and Standard & Poor's (S&P).

After the publication, on April 18, 2018, of the Department of Finance Canada's final version of regulations to implement the main features of the Bank Recapitalization (Bail-in) Regime and of the OSFI's final version of its guideline on Total Loss Absorbing Capacity (TLAC), DBRS and Moody's issued press releases with a number of ratings decisions. In April 2018, DBRS revised, in particular, the credit ratings outlook for four Canadian banks from negative to stable and downgraded the subordinated debt ratings for the six major Canadian banks. In July 2018, Moody's also revised the credit ratings outlook for the six major Canadian banks from negative to stable. In addition, the agency changed several long-term credit ratings for these banks. Given that the Bail-in Regime is not applicable to AMF-regulated Desjardins Group, it was not mentioned in DBRS's and Moody's press release.

The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks for Desjardins Group are negative. DBRS's and Moody's assignment of a negative ratings outlook to Desjardins Group can be explained by the uncertainty about the application of a Bail-in Regime for Desjardins. However, Moody's ratings outlook for Desjardins Capital Inc. is stable.

The Federation and Desjardins Capital 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	<b>R-1 (high)</b>	<b>A-1</b>	<b>P-1</b>	<b>F1+</b>
Medium- and long-term, senior	<b>AA</b>	<b>A+</b>	<b>Aa2</b>	<b>AA-</b>
Desjardins Capital Inc.				
Medium- and long-term, senior	<b>AA (low)</b>	<b>A</b>	<b>A2</b>	<b>A+</b>

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

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

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

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

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

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments**As at June 30, 2018<sup>(1)</sup>

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 2,510	\$ 332	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 133	\$ 2,976
<b>Securities</b>										
Securities at fair value through profit or loss <sup>(2)</sup>	150	187	1,408	670	1,093	3,267	9,523	16,883	4,755	37,936
Securities at fair value through other comprehensive income <sup>(2)</sup>	2,228	263	971	176	839	2,509	10,533	3,149	43	20,711
Securities at amortized cost <sup>(2)</sup>	1,388	57	43	-	115	2	4	23	3	1,635
Securities borrowed or purchased under reverse repurchase agreements	9,197	310	15	-	-	-	-	-	-	9,522
<b>Loans</b>										
Residential mortgages <sup>(3)</sup>	2,897	3,590	5,877	5,017	6,515	23,591	61,366	1,696	6,832	117,381
Consumer, credit card and other personal loans <sup>(3)</sup>	81	107	186	222	328	1,190	5,418	7,639	10,114	25,285
Business and government <sup>(3)</sup>	9,790	3,988	4,010	3,263	3,789	3,716	6,745	2,124	5,206	42,631
Allowance for credit losses	-	-	-	-	-	-	-	-	(714)	(714)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,902	13,902
Clients' liability under acceptances	-	-	42	-	-	-	-	-	-	42
Premiums receivable	176	63	13	3	-	-	-	-	1,955	2,210
Derivative financial instruments	212	181	208	140	171	688	1,791	149	19	3,559
Amounts receivable from clients, brokers and financial institutions	4,072	2	-	-	-	-	-	-	29	4,103
Reinsurance assets	37	73	73	67	61	202	366	1,075	94	2,048
Investment property	-	-	-	-	-	-	-	-	952	952
Property, plant and equipment	-	-	-	-	-	-	-	-	1,375	1,375
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	480	480
Deferred tax assets	-	-	-	-	-	-	-	-	1,007	1,007
Other assets	707	71	(107)	4	10	26	32	1	2,167	2,911
<b>Total assets</b>	<b>\$ 33,445</b>	<b>\$ 9,224</b>	<b>\$ 12,739</b>	<b>\$ 9,562</b>	<b>\$ 12,921</b>	<b>\$ 35,191</b>	<b>\$ 95,779</b>	<b>\$ 32,739</b>	<b>\$ 48,473</b>	<b>\$ 290,073</b>

See page 50 for footnotes.

**Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)**As at June 30, 2018<sup>(1)</sup>

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits</b>										
Individuals <sup>(4)</sup>	\$ 4,233	\$ 3,838	\$ 5,156	\$ 3,978	\$ 6,688	\$ 11,766	\$ 15,312	\$ 517	\$ 51,869	\$ 103,357
Business and government <sup>(4)</sup>	12,219	4,698	3,480	3,175	2,519	7,425	12,440	2,109	27,944	76,009
Deposit-taking institutions <sup>(4)</sup>	94	130	3	-	2	5	9	-	1,914	2,157
Acceptances	-	-	42	-	-	-	-	-	-	42
Commitments related to securities sold short <sup>(5)</sup>	321	876	117	2	69	1,692	2,993	4,964	6	11,040
Commitments related to securities lent or sold under repurchase agreements	10,576	138	15	-	-	-	-	-	-	10,729
Derivative financial instruments	91	51	27	31	46	219	798	208	1,631	3,102
Amounts payable to clients, brokers and financial institutions	4,954	1	-	-	-	-	-	-	2,170	7,125
Insurance contract liabilities	423	753	888	844	765	1,905	4,092	16,575	2,355	28,600
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,880	13,880
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,239	2,239
Deferred tax liabilities	-	-	-	-	-	-	-	-	158	158
Other liabilities	1,931	218	146	245	189	173	172	108	1,581	4,763
Subordinated notes	-	-	-	-	-	851	-	499	-	1,350
Total equity	-	-	-	-	-	-	-	-	25,522	25,522
<b>Total liabilities and equity</b>	<b>\$ 34,842</b>	<b>\$ 10,703</b>	<b>\$ 9,874</b>	<b>\$ 8,275</b>	<b>\$ 10,278</b>	<b>\$ 24,036</b>	<b>\$ 35,816</b>	<b>\$ 24,980</b>	<b>\$ 131,269</b>	<b>\$ 290,073</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(6)</sup>	\$ 3,992	\$ 59	\$ 281	\$ 235	\$ 946	\$ 2,375	\$ 6,950	\$ 274	\$ 86,236	\$ 101,348
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,461	2,461
Commitments under lease contracts	8	16	24	22	22	81	183	270	-	626
Documentary letters of credit	9	3	3	3	3	-	-	-	1	22
Guarantees and standby letters of credit	158	117	313	170	112	97	25	98	107	1,197
Credit default swaps	-	-	-	-	-	-	421	-	-	421

See page 50 for footnotes.

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

As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Assets</b>										
Cash and deposits with financial institutions	\$ 2,038	\$ 378	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19	\$ 2,435
<b>Securities</b>										
Securities at fair value through profit or loss <sup>(2)</sup>	45	541	1,152	835	2,112	2,195	7,181	15,881	1,712	31,654
Available-for-sale securities <sup>(2)</sup>	2,361	625	948	520	1,576	2,291	10,481	2,854	3,278	24,934
Securities borrowed or purchased under reverse repurchase agreements	8,279	257	123	15	-	-	-	-	-	8,674
<b>Loans</b>										
Residential mortgages <sup>(3)</sup>	1,793	2,580	6,467	7,356	6,417	20,878	58,935	1,645	7,075	113,146
Consumer, credit card and other personal loans <sup>(3)</sup>	70	100	221	239	304	1,264	5,007	7,116	9,723	24,044
Business and government <sup>(3)</sup>	9,360	3,852	4,166	3,807	3,894	3,014	5,749	2,019	4,877	40,738
Allowance for credit losses	-	-	-	-	-	-	-	-	(438)	(438)
Segregated fund net assets	-	-	-	-	-	-	-	-	13,379	13,379
Clients' liability under acceptances	31	-	-	-	-	-	-	-	-	31
Premiums receivable	170	62	13	3	-	-	-	-	1,847	2,095
Derivative financial instruments	100	115	172	153	158	652	1,723	133	-	3,206
Amounts receivable from clients, brokers and financial institutions	1,518	3	-	-	-	-	-	-	33	1,554
Reinsurance assets	35	71	72	63	60	213	423	1,038	227	2,202
Investment property	-	-	-	-	-	-	-	-	832	832
Property, plant and equipment	-	-	-	-	-	-	-	-	1,411	1,411
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	466	466
Deferred tax assets	-	-	-	-	-	-	-	-	992	992
Other assets	540	57	163	3	5	8	21	-	1,941	2,738
Assets of the Disposal Group held to be transferred	-	-	-	-	-	-	-	-	881	881
<b>Total assets</b>	<b>\$ 26,340</b>	<b>\$ 8,641</b>	<b>\$ 13,497</b>	<b>\$ 12,994</b>	<b>\$ 14,526</b>	<b>\$ 30,515</b>	<b>\$ 89,520</b>	<b>\$ 30,686</b>	<b>\$ 48,376</b>	<b>\$ 275,095</b>

See page 50 for footnotes.

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

As at December 31, 2017

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
<b>Liabilities and equity</b>										
<b>Deposits</b>										
Individuals <sup>(4)</sup>	\$ 5,288	\$ 2,916	\$ 5,291	\$ 4,671	\$ 5,225	\$ 12,145	\$ 14,424	\$ 565	\$ 50,053	\$ 100,578
Business and government <sup>(4)</sup>	11,096	4,047	2,110	2,126	2,727	6,523	13,507	1,878	25,088	69,102
Deposit-taking institutions <sup>(4)</sup>	482	2	3	-	1	4	7	-	1,407	1,906
Acceptances	31	-	-	-	-	-	-	-	-	31
Commitments related to securities sold short <sup>(5)</sup>	155	595	114	108	21	1,366	2,225	4,526	2	9,112
Commitments related to securities lent or sold under repurchase agreements	10,229	-	-	-	-	-	-	-	-	10,229
Derivative financial instruments	151	117	176	126	146	431	1,809	138	-	3,094
Amounts payable to clients, brokers and financial institutions	2,628	1	-	-	-	-	-	-	1,618	4,247
Insurance contract liabilities	411	730	893	831	763	1,879	4,113	16,378	2,274	28,272
Segregated fund net liabilities	-	-	-	-	-	-	-	-	13,354	13,354
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	2,624	2,624
Deferred tax liabilities	-	-	-	-	-	-	-	-	155	155
Other liabilities	1,944	518	771	80	61	168	177	747	1,102	5,568
<b>Liabilities of the Disposal</b>										
Group held to be transferred	-	-	-	-	-	-	-	-	662	662
Subordinated notes	-	-	-	-	-	-	898	490	-	1,388
Total equity	-	-	-	-	-	-	-	-	24,773	24,773
<b>Total liabilities and equity</b>	<b>\$ 32,415</b>	<b>\$ 8,926</b>	<b>\$ 9,358</b>	<b>\$ 7,942</b>	<b>\$ 8,944</b>	<b>\$ 22,516</b>	<b>\$ 37,160</b>	<b>\$ 24,722</b>	<b>\$ 123,112</b>	<b>\$ 275,095</b>
<b>Off-balance sheet commitments</b>										
Credit commitments <sup>(6)</sup>	\$ 3,568	\$ 110	\$ 149	\$ 225	\$ 337	\$ 2,957	\$ 7,031	\$ 243	\$ 83,850	\$ 98,470
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	2,024	2,024
Commitments under lease contracts	8	16	23	23	22	82	185	287	-	646
Documentary letters of credit	1	2	2	-	2	-	-	-	-	7
Guarantees and standby letters of credit	64	128	134	268	289	15	20	84	1	1,003
Credit default swaps	-	-	-	-	-	-	540	-	-	540

<sup>(1)</sup> The information presented as at June 30, 2018 takes into account the standards and amendments adopted as at January 1, 2018. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements.

<sup>(2)</sup> Equity securities are classified under "No stated maturity".

<sup>(3)</sup> Amounts repayable on demand are classified under "No stated maturity".

<sup>(4)</sup> Deposits payable on demand or after notice are considered as having "No stated maturity".

<sup>(5)</sup> Amounts are presented by remaining contractual maturity of the underlying security.

<sup>(6)</sup> Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at Desjardins Group's discretion.



## ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

### Asset-backed securities

(in millions of dollars)	As at June 30, 2018		As at December 31, 2017	
	Notional amounts	Fair value	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities <sup>(1)</sup>	\$ 147	\$ 148	\$ 146	\$ 148

<sup>(1)</sup> None of the securities held is directly backed by subprime residential mortgage loans. Following the adoption of IFRS 9 as at January 1, 2018, these securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Combined Balance Sheets. As at December 31, 2017, they were presented 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, 2018			As at December 31, 2017		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps <sup>(1)</sup>	\$ 421	\$ 6	\$ -	\$ 616	\$ 13	\$ 2
Total return swaps <sup>(2)</sup>	106	-	1	86	-	1

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

### Leveraged finance loans and subprime loans

(in millions of dollars)	As at June 30, 2018	As at December 31, 2017
Leveraged finance loans <sup>(1)</sup>	\$ 168	\$ 149
Alt-A mortgage loans <sup>(2)</sup>	23	19
Subprime residential mortgage loans <sup>(3)</sup>	2	1

<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 mortgage loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

<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 Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

## ADDITIONAL INFORMATION

### CONTROLS AND PROCEDURES

During the interim period ended June 30, 2018, Desjardins Group did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. On January 1, 2018, the adoption of IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", did not have a significant impact on internal control over financial reporting. The parties involved and their responsibilities regarding internal control are described on pages 108 and 109 of the 2017 annual MD&A.

### RELATED PARTY DISCLOSURES

In the normal course of operations, Desjardins Group 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.

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

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2017.

Additional information on related party transactions is provided in Note 34, "Related party disclosures", to the Annual Combined Financial Statements.

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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 131 to 148 of the 2017 Annual Report, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies", to the Interim Combined Financial Statements as a result of the adoption of IFRS 9, "Financial Instruments", IFRS 15, "Revenue from Contracts with Customers", and the amendments to IFRS 4, "Insurance Contracts", on January 1, 2018.

Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 109 to 113 of the 2017 annual MD&A as well in Note 2, "Basis of presentation and significant accounting policies", and Note 5, "Loans and allowance for credit losses", to these Interim Combined Financial Statements.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first half of 2018, except for the changes regarding the accounting standards adopted on January 1, 2018.

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## FUTURE ACCOUNTING CHANGES

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Accounting standards issued by the IASB but not yet effective for Desjardins Group are presented in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements, on pages 146 to 148 of the 2017 Annual Report. Additional information is also presented under "Future accounting changes" on pages 113 to 117 of the 2017 annual MD&A. Since then, the IASB has issued the following changes:

### **Conceptual Framework for Financial Reporting**

In March 2018, the IAS issued the "Conceptual Framework for Financial Reporting", which replaces the existing "Conceptual Framework for Financial Reporting". The "Conceptual Framework for Financial Reporting" includes new concepts, updates definitions and recognition criteria for assets and liabilities, and clarifies certain key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

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**Combined Balance Sheets**

(unaudited)

(in millions of Canadian dollars)

	Notes	As at June 30, 2018 <sup>(1)</sup>	As at December 31, 2017
<b>ASSETS</b>			
<b>Cash and deposits with financial institutions</b>		\$ 2,976	\$ 2,435
<b>Securities</b>			
Securities at fair value through profit or loss		37,936	31,654
Available-for-sale securities		N/A	24,934
Securities at fair value through other comprehensive income		20,711	N/A
Securities at amortized cost		1,635	N/A
		60,282	56,588
<b>Securities borrowed or purchased under reverse repurchase agreements</b>		9,522	8,674
<b>Loans</b>	5		
Residential mortgages		117,381	113,146
Consumer, credit card and other personal loans		25,285	24,044
Business and government		42,631	40,738
		185,297	177,928
Allowance for credit losses	5	(714)	(438)
		184,583	177,490
<b>Segregated fund net assets</b>		13,902	13,379
<b>Other assets</b>			
Clients' liability under acceptances		42	31
Premiums receivable		2,210	2,095
Derivative financial instruments		3,559	3,206
Amounts receivable from clients, brokers and financial institutions		4,103	1,554
Reinsurance assets		2,048	2,202
Investment property		952	832
Property, plant and equipment		1,375	1,411
Goodwill		121	121
Intangible assets		480	466
Deferred tax assets		1,007	992
Other		2,911	2,738
Assets of the disposal group held to be transferred		-	881
		18,808	16,529
<b>TOTAL ASSETS</b>		\$ 290,073	\$ 275,095
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Deposits</b>	7		
Individuals		\$ 103,357	\$ 100,578
Business and government		76,009	69,102
Deposit-taking institutions		2,157	1,906
		181,523	171,586
<b>Other liabilities</b>			
Acceptances		42	31
Commitments related to securities sold short		11,040	9,112
Commitments related to securities lent or sold under repurchase agreements		10,729	10,229
Derivative financial instruments		3,102	3,094
Amounts payable to clients, brokers and financial institutions		7,125	4,247
Insurance contract liabilities		28,600	28,272
Segregated fund net liabilities		13,880	13,354
Net defined benefit plan liabilities		2,239	2,624
Deferred tax liabilities		158	155
Other		4,763	5,568
Liabilities of the disposal group held to be transferred		-	662
		81,678	77,348
<b>Subordinated notes</b>		1,350	1,388
<b>TOTAL LIABILITIES</b>		264,551	250,322
<b>EQUITY</b>			
Capital stock	9	5,428	5,361
Share capital		91	90
Undistributed surplus earnings		1,447	1,360
Accumulated other comprehensive income	10	178	445
Reserves		17,616	16,707
<b>Equity – Group's share</b>		24,760	23,963
<b>Non-controlling interests</b>		762	810
<b>TOTAL EQUITY</b>		25,522	24,773
<b>TOTAL LIABILITIES AND EQUITY</b>		\$ 290,073	\$ 275,095

<sup>(1)</sup> The information presented as at June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

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

**Guy Cormier**  
Chair of the Board

**Serge Rousseau**  
Vice-Chair of the Board

**Combined Statements of Income**

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2018 <sup>(1)</sup>	2017	2018 <sup>(1)</sup>	2017
<b>INTEREST INCOME</b>					
Loans		\$ 1,648	\$ 1,444	\$ 3,232	\$ 2,862
Securities		89	78	182	155
		1,737	1,522	3,414	3,017
<b>INTEREST EXPENSE</b>					
Deposits		553	416	1,072	836
Subordinated notes and other		24	19	47	37
		577	435	1,119	873
<b>NET INTEREST INCOME</b>	12	1,160	1,087	2,295	2,144
<b>NET PREMIUMS</b>		2,200	2,076	4,339	4,058
<b>OTHER INCOME</b>					
Deposit and payment service charges		106	122	209	242
Lending fees and credit card service revenues		163	154	349	326
Brokerage and investment fund services		239	307	510	585
Management and custodial service fees		122	106	242	207
Net investment income	12	308	711	419	1,146
Overlay approach adjustment for insurance operations financial assets		20	N/A	189	N/A
Foreign exchange income		21	20	48	39
Other		130	28	167	54
		1,109	1,448	2,133	2,599
<b>TOTAL INCOME</b>		4,469	4,611	8,767	8,801
<b>PROVISION FOR CREDIT LOSSES</b>	5	80	76	195	168
<b>CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES</b>		1,727	1,922	3,383	3,675
<b>NON-INTEREST EXPENSE</b>					
Salaries and fringe benefits		887	919	1,777	1,812
Premises, equipment and furniture, including depreciation		171	169	344	337
Service agreements and outsourcing		88	73	167	143
Communications		69	74	133	140
Other		623	643	1,330	1,293
		1,838	1,878	3,751	3,725
<b>OPERATING SURPLUS EARNINGS</b>		824	735	1,438	1,233
Income taxes on surplus earnings		147	154	260	269
<b>SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS<sup>(2)</sup></b>		677	581	1,178	964
Member dividends		71	40	121	75
Tax recovery on member dividends		(18)	(11)	(32)	(20)
<b>NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS</b>		\$ 624	\$ 552	\$ 1,089	\$ 909
<b>of which:</b>					
Group's share		\$ 613	\$ 538	\$ 1,069	\$ 890
Non-controlling interests' share		11	14	20	19

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

<sup>(2)</sup> The Group's share of "Surplus earnings before member dividends" is presented in Note 13, "Segmented information".

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

## Combined Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2018 <sup>(1)</sup>	2017	2018 <sup>(1)</sup>	2017
<b>Net surplus earnings for the period after member dividends</b>	<b>\$ 624</b>	<b>\$ 552</b>	<b>\$ 1,089</b>	<b>\$ 909</b>
<b>Other comprehensive income, net of income taxes</b>				
<b>Items that will not be reclassified subsequently to the Combined Statements of Income</b>				
Remeasurement of net defined benefit plan liabilities	227	(160)	303	(182)
Share of associates and joint ventures accounted for using the equity method	1	(1)	1	(1)
	<b>228</b>	<b>(161)</b>	<b>304</b>	<b>(183)</b>
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses)	N/A	(26)	N/A	135
Reclassification of net gains to the Combined Statements of Income	N/A	(102)	N/A	(133)
	<b>N/A</b>	<b>(128)</b>	<b>N/A</b>	<b>2</b>
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized losses	(10)	N/A	(47)	N/A
Reclassification of net (gains) losses to the Combined Statements of Income	(3)	N/A	5	N/A
	<b>(13)</b>	<b>N/A</b>	<b>(42)</b>	<b>N/A</b>
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	17	N/A	(23)	N/A
Reclassification of net gains to the Combined Statements of Income	(37)	N/A	(132)	N/A
	<b>(20)</b>	<b>N/A</b>	<b>(155)</b>	<b>N/A</b>
Net change in cash flow hedges				
Net losses on derivative financial instruments designated as cash flow hedges	(6)	(10)	(13)	(9)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(15)	(19)	(31)	(36)
	<b>(21)</b>	<b>(29)</b>	<b>(44)</b>	<b>(45)</b>
	<b>(54)</b>	<b>(157)</b>	<b>(241)</b>	<b>(43)</b>
<b>Total other comprehensive income, net of income taxes</b>	<b>174</b>	<b>(318)</b>	<b>63</b>	<b>(226)</b>
<b>COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>\$ 798</b>	<b>\$ 234</b>	<b>\$ 1,152</b>	<b>\$ 683</b>
<b>of which:</b>				
Group's share	\$ 784	\$ 225	\$ 1,137	\$ 664
Non-controlling interests' share	14	9	15	19

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

### 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	
	2018 <sup>(1)</sup>	2017	2018 <sup>(1)</sup>	2017
<b>Item that will not be reclassified subsequently to the Combined Statements of Income</b>				
Remeasurement of net defined benefit plan liabilities	\$ 82	\$ (56)	\$ 109	\$ (65)
	<b>82</b>	<b>(56)</b>	<b>109</b>	<b>(65)</b>
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses)	N/A	(14)	N/A	29
Reclassification of net gains to the Combined Statements of Income	N/A	(23)	N/A	(25)
	<b>N/A</b>	<b>(37)</b>	<b>N/A</b>	<b>4</b>
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income				
Net unrealized losses	(3)	N/A	(16)	N/A
Reclassification of net (gains) losses to the Combined Statements of Income	(1)	N/A	2	N/A
	<b>(4)</b>	<b>N/A</b>	<b>(14)</b>	<b>N/A</b>
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets				
Net unrealized gains (losses)	8	N/A	(11)	N/A
Reclassification of net gains to the Combined Statements of Income	(8)	N/A	(23)	N/A
	<b>-</b>	<b>N/A</b>	<b>(34)</b>	<b>N/A</b>
Net change in cash flow hedges				
Net losses on derivative financial instruments designated as cash flow hedges	(2)	(4)	(6)	(4)
Reclassification to the Combined Statements of Income of net gains on derivative financial instruments designated as cash flow hedges	(6)	(6)	(12)	(12)
	<b>(8)</b>	<b>(10)</b>	<b>(18)</b>	<b>(16)</b>
	<b>(12)</b>	<b>(47)</b>	<b>(66)</b>	<b>(12)</b>
<b>Total income tax expense (recovery)</b>	<b>\$ 70</b>	<b>\$ (103)</b>	<b>\$ 43</b>	<b>\$ (77)</b>

<sup>(1)</sup> The information presented for the three-month and six-month periods ended June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".



## Combined Statements of Changes in Equity

For the six-month periods ended June 30

(unaudited)

(in millions of Canadian dollars)

		Capital		Undistributed surplus earnings	Accumulated other comprehensive income (Note 10)	Reserves				Equity - Group's share	Non-controlling interests	Total equity	
		Capital stock (Note 9)	Share capital			Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves				
(in millions of Canadian dollars)	Note												
<b>BALANCE AS AT DECEMBER 31, 2017</b>		<b>\$ 5,361</b>	<b>\$ 90</b>	<b>\$ 1,360</b>	<b>\$ 445</b>	<b>\$ 1,014</b>	<b>\$ 447</b>	<b>\$ 15,246</b>	<b>\$ 16,707</b>	<b>\$ 23,963</b>	<b>\$ 810</b>	<b>\$ 24,773</b>	
Impact of changes in accounting policies	2	-	-	-	(34)	-	-	(180)	(180)	(214)	-	(214)	
<b>OPENING BALANCE AS AT JANUARY 1, 2018<sup>(1)</sup></b>		<b>5,361</b>	<b>90</b>	<b>1,360</b>	<b>411</b>	<b>1,014</b>	<b>447</b>	<b>15,066</b>	<b>16,527</b>	<b>23,749</b>	<b>810</b>	<b>24,559</b>	
Net surplus earnings for the period after member dividends		-	-	1,069	-	-	-	-	-	1,069	20	1,089	
Other comprehensive income for the period		-	-	301	(233)	-	-	-	-	68	(5)	63	
Comprehensive income for the period		-	-	1,370	(233)	-	-	-	-	1,137	15	1,152	
Issuance of F capital shares		264	-	-	-	-	-	-	-	264	-	264	
Other net change in capital stock		(197)	-	-	-	-	-	-	-	(197)	-	(197)	
Issuance of share capital		-	1	-	-	-	-	-	-	1	-	1	
Redemption of share capital		-	-	-	-	-	-	-	-	-	(9)	(9)	
Remuneration on capital stock		-	-	(210)	-	-	-	-	-	(210)	-	(210)	
Dividends		-	-	(3)	-	-	-	-	-	(3)	(20)	(23)	
Transfer from undistributed surplus earnings (to reserves)		-	-	(1,067)	-	97	(16)	986	1,067	-	-	-	
Transactions related to buy-out options		-	-	-	-	-	-	30	30	30	(19)	11	
Buy-out of non-controlling interests		-	-	-	-	-	-	(13)	(13)	(13)	(15)	(28)	
Other		-	-	(3)	-	-	-	5	5	2	-	2	
<b>BALANCE AS AT JUNE 30, 2018<sup>(1)</sup></b>		<b>\$ 5,428</b>	<b>\$ 91</b>	<b>\$ 1,447</b>	<b>\$ 178</b>	<b>\$ 1,111</b>	<b>\$ 431</b>	<b>\$ 16,074</b>	<b>\$ 17,616</b>	<b>\$ 24,760</b>	<b>\$ 762</b>	<b>\$ 25,522</b>	
<b>BALANCE AS AT DECEMBER 31, 2016</b>		<b>\$ 5,292</b>	<b>\$ 88</b>	<b>\$ 1,529</b>	<b>\$ 514</b>	<b>\$ 983</b>	<b>\$ 459</b>	<b>\$ 13,610</b>	<b>\$ 15,052</b>	<b>\$ 22,475</b>	<b>\$ 818</b>	<b>\$ 23,293</b>	
Net surplus earnings for the period after member dividends		-	-	890	-	-	-	-	-	890	19	909	
Other comprehensive income for the period		-	-	(180)	(46)	-	-	-	-	(226)	-	(226)	
Comprehensive income for the period		-	-	710	(46)	-	-	-	-	664	19	683	
Issuance of F capital shares		322	-	-	-	-	-	-	-	322	-	322	
Other net change in capital stock		(226)	-	-	-	-	-	-	-	(226)	-	(226)	
Issuance of share capital		-	4	-	-	-	-	-	-	4	-	4	
Redemption of share capital		-	-	-	-	-	-	-	-	-	(4)	(4)	
Remuneration on capital stock		-	-	(209)	-	-	-	-	-	(209)	-	(209)	
Dividends		-	-	(4)	-	-	-	-	-	(4)	(20)	(24)	
Transfer from undistributed surplus earnings (to reserves)		-	-	(950)	-	31	(12)	931	950	-	-	-	
Transactions related to put options		-	-	-	-	-	-	1	1	1	-	1	
Other		-	-	3	-	-	-	-	-	3	-	3	
<b>BALANCE AS AT JUNE 30, 2017</b>		<b>\$ 5,388</b>	<b>\$ 92</b>	<b>\$ 1,079</b>	<b>\$ 468</b>	<b>\$ 1,014</b>	<b>\$ 447</b>	<b>\$ 14,542</b>	<b>\$ 16,003</b>	<b>\$ 23,030</b>	<b>\$ 813</b>	<b>\$ 23,843</b>	

<sup>(1)</sup> The information presented for the six-month period ended June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

**Combined Statements of Cash Flows**

(unaudited)

(in millions of Canadian dollars)	For the six-month periods ended June 30	
	2018 <sup>(1)</sup>	2017
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Operating surplus earnings	\$ 1,438	\$ 1,233
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property, and amortization of intangible assets	127	125
Net change in insurance contract liabilities	328	821
Provision for credit losses	195	168
Net realized losses on securities classified as at fair value through other comprehensive income	6	N/A
Net realized gains on available-for-sale securities	N/A	(164)
Overlay approach adjustment for insurance operations financial assets	(189)	N/A
Impairment on available-for-sale securities recognized in net income	N/A	4
Other	(41)	101
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	(2,904)	(2,925)
Securities borrowed or purchased under reverse repurchase agreements	(848)	1,460
Loans	(7,543)	(5,526)
Derivative financial instruments, net amount	(406)	790
Net amounts receivable from and payable to clients, brokers and financial institutions	274	(452)
Deposits	9,936	12,189
Commitments related to securities sold short	1,928	(756)
Commitments related to securities lent or sold under repurchase agreements	500	(2,436)
Other	(406)	(173)
Payment of the contingent consideration	(250)	(243)
Income taxes paid on surplus earnings	(253)	(339)
Payment of member dividends	(196)	(145)
	<b>1,696</b>	<b>3,732</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Purchase of debt securities and subordinated notes from third parties on the market	(37)	(4)
Issuance of F capital shares	122	197
Other net change in capital stock	(197)	(226)
Remuneration on capital stock	(68)	(84)
Issuance of share capital	1	4
Redemption of share capital	(9)	(4)
Dividends paid	(23)	(24)
Buy-out of non-controlling interests	(28)	-
Transactions related to put options and buy-out options	(63)	(4)
	<b>(302)</b>	<b>(145)</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Purchase of available-for-sale securities	N/A	(30,925)
Proceeds from disposals of available-for-sale securities	N/A	13,576
Proceeds from maturities of available-for-sale securities	N/A	14,816
Purchase of securities at fair value through other comprehensive income and at amortized cost	(34,810)	N/A
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	7,083	N/A
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	26,972	N/A
Acquisitions of property, plant and equipment, intangible assets and investment property	(97)	(136)
Business disposal, net of cash and cash equivalents sold	-	44
Payment of the contingent consideration recognized at acquisition date	(27)	(23)
	<b>(879)</b>	<b>(2,648)</b>
<b>Net increase in cash and cash equivalents</b>	<b>515</b>	<b>939</b>
Cash and cash equivalents at beginning of period	2,461	1,876
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,976</b>	<b>2,815</b>
Less:		
Cash and cash equivalents of the disposal group held to be transferred	-	78
<b>CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS AT END OF PERIOD</b>	<b>\$ 2,976</b>	<b>\$ 2,737</b>
<b>Supplemental information on cash flows from (used in) operating activities</b>		
Interest paid	\$ 1,176	\$ 980
Interest and dividends received	3,966	3,682

<sup>(1)</sup> The information presented for the six-month period ended June 30, 2018 reflects the standards and amendments adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

# Notes to the Condensed Interim Combined Financial Statements

(unaudited)

## NOTE 1 – INFORMATION ON DESJARDINS GROUP

### Nature of operations

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

### Basis of presentation of the Combined Financial Statements

As an integrated financial services group, Desjardins Group is a complete economic entity. These unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements) have been prepared to present the financial position, the financial performance and the cash flows of this economic entity. The Desjardins caisses exercise a collective power over the Federation, which is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members.

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

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

### BASIS OF PRESENTATION

#### Statement of Compliance

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

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2017, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Combined Financial Statements, except for the changes described in the "Changes in accounting policies" section of this note.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on August 13, 2018.

#### Presentation and functional currency

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

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

### CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Desjardins Group adopted IFRS 9, “Financial Instruments”, IFRS 15, “Revenue from Contracts with Customers”, and the amendments to IFRS 4, “Insurance Contracts”.

IFRS 9 replaces IAS 39, “Financial Instruments: Recognition and Measurement”, and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets, as well as requirements for hedge accounting. As permitted by IFRS 9, Desjardins Group decided to continue applying the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9.

The amendments to IFRS 4 are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9 and new IFRS 17, “Insurance Contracts”. The amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options in connection with adopting IFRS 9: deferring the initial application date of IFRS 9 to January 1, 2021 or applying the overlay approach. Desjardins Group elected to apply the overlay approach, which is the only option proposed by these amendments that it may apply, to financial assets that are eligible and designated in accordance with certain specific criteria.

IFRS 15 introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The core principle of this standard is that revenue recognition should depict the transfer of control over a good or a service in an amount that reflects the consideration received or expected to be received in exchange for such good or service.

The significant accounting policies set out below arise from the adoption of these new standards and amendments and are applicable retrospectively as of January 1, 2018 without restatement of comparative periods. Consequently, the information presented for fiscal 2017 is in accordance with the accounting policies described in the Annual Combined Financial Statements for the year ended December 31, 2017.

#### a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Group becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument. Regular-way purchases and sales of financial assets are recognized on a trade-date basis.

#### Classification and measurement

The classification of financial assets and liabilities in the classes defined in the financial instrument standard is presented in Note 3, “Carrying amount of financial instruments”.

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

#### Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

#### Business model

Desjardins Group’s business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Group manages its financial assets in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to Desjardins Group at the date of the assessment.

Desjardins Group’s business models are defined as follows:

- Held to collect contractual cash flows: The objective of holding financial assets is achieved by collecting contractual cash flows.
- Held to collect contractual cash flows and sell: The objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other business models: The objective is not consistent with any of the above-mentioned business models.

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

The classification and measurement of financial assets can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial assets	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	At fair value through other comprehensive income (iv)	Classified as at fair value through other comprehensive income (v)	Fair value	Fair value
		Designated as at fair value through other comprehensive income (vi)	Fair value	Fair value
	Amortized cost (vii)		Fair value	Amortized cost

(i) Financial assets included in the “At fair value through profit or loss” class comprise financial assets “Classified as at fair value through profit or loss” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of financial assets included in this class are recorded in the Combined Statements of Income under “Net investment income”.
- Interest income – calculated using the effective interest method – and dividend income from securities included in the “At fair value through profit or loss” class of the Personal and Business Services segment and the Other category is recognized under “Interest income – Securities” and, for the other segments, such income is mainly recognized under “Net investment income”. Interest income from derivative financial instruments is recognized under “Net investment income”.

(ii) Financial assets “Classified as at fair value through profit or loss” include the following:

- Debt instruments that are managed either for trading purposes or on a fair value basis or do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.
- Equity instruments.
- Derivative financial instruments.

Certain financial assets “Classified as at fair value through profit or loss” are designated for the overlay approach. For more information, see the “Application of the overlay approach to insurance operations financial assets” section of this note.

(iii) Financial assets “Designated as at fair value through profit or loss” are debt securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset.

Desjardins Group’s financial assets included in this measurement category comprise mainly securities (debt instruments) that back the life and health insurance actuarial liabilities and the property and casualty insurance provisions for claims.

(iv) Financial assets included in the “At fair value through other comprehensive income” class comprise financial assets “Classified as at fair value through other comprehensive income” and “Designated as at fair value through other comprehensive income”. Therefore:

- Changes in fair value of financial assets included in this class are recorded in the Combined Statements of Comprehensive Income as “Net unrealized losses”. For financial assets “Classified as at fair value through other comprehensive income”, gains and losses are reclassified to the Combined Statements of Income when the asset is derecognized, while for financial assets “Designated as at fair value through other comprehensive income”, gains and losses are never reclassified subsequently to the Combined Statements of Income and are reclassified immediately to undistributed surplus earnings.
- Premiums and discounts on the purchase of financial assets “At fair value through other comprehensive income” are amortized over the life of the securities using the effective interest method and recognized under “Interest income – Securities” for the Personal and Business Services segment and the Other category and, for the other segments, are mainly recognized under “Net investment income”.

(v) Financial assets “Classified as at fair value through other comprehensive income” include debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

(vi) Financial assets “Designated as at fair value through other comprehensive income” include equity securities for which an irrevocable election was made, on an instrument-by-instrument basis. Financial assets included in this measurement category comprise investments in private companies that will be held on a long-term basis.

(vii) Securities included in the “Amortized cost” class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal or interest.

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

Securities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the “Amortized cost” class is presented under “Interest income – Loans” in the Combined Statements of Income when it is recognized by the Personal and Business Services segment and the Other category, while for the other segments, it is recognized mainly under “Net investment income”.

Financial assets are not reclassified following their initial recognition, except when the business model for managing those financial assets is changed.

### Application of the overlay approach to insurance operations financial assets

Desjardins Group elected to designate certain eligible financial assets for the overlay approach to reduce the volatility in profit or loss arising from the different effective dates of IFRS 9, “Financial Instruments”, and IFRS 17, “Insurance Contracts”. To be eligible, a financial asset must meet the following criteria:

- It is measured at fair value through profit or loss applying IFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying IAS 39, “Financial Instruments: Recognition and Measurement”.
- It is held in respect of an activity connected with contracts within the scope of IFRS 4.

The overlay approach involves reclassifying between net surplus earnings and other comprehensive income, for designated financial assets, the difference between the amount reported in the Combined Statements of Income under IFRS 9 and the amount that would have been reported if Desjardins Group had continued to apply IAS 39 in such a way that net surplus earnings related to designated financial instruments reported in the Combined Statements of Income correspond to the amount that would have been reported if Desjardins Group had continued to apply IAS 39. In determining the amount that would have been reported in the Combined Statements of Income if IAS 39 had been applied, Desjardins Group considers gains (losses) on sales of securities, foreign currency fair value hedge accounting for equity instruments as well as impairment losses on equity instruments using accounting policies consistent with IAS 39.

Reclassifications to other comprehensive income are presented under “Overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Income and under “Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets” in the Combined Statements of Comprehensive Income. The overlay approach may be used for the years beginning before January 1, 2021 or until the adoption of IFRS 17, if earlier.

Financial liabilities are classified based on their characteristics and the intention of management upon their issuance.

The classification and measurement of financial liabilities can be summarized as follows:

Classes		Categories	Recognition	
			Initial	Subsequent
Financial liabilities	At fair value through profit or loss (i)	Classified as at fair value through profit or loss (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Amortized cost (iv)		Fair value	Amortized cost

(i) Financial liabilities included in the “At fair value through profit or loss” class comprise financial liabilities “Classified as at fair value through profit or loss” and “Designated as at fair value through profit or loss”. Therefore:

- Changes in fair value of financial liabilities included in this class are recorded in the Combined Statements of Income under “Net investment income”, except for financial liabilities designated as at fair value, for which the change in fair value that is attributable to Desjardins Group’s own credit risk is recognized in other comprehensive income with no subsequent reclassification to profit or loss.
- Interest expense related to financial liabilities included in the “At fair value through profit or loss” class is recognized under “Net investment income”.

(ii) Financial liabilities “Classified as at fair value through profit or loss” are securities held for trading and include debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as “Commitments related to securities sold short”. Derivative financial instruments are also classified as “Held for trading”.

(iii) Financial liabilities “Designated as at fair value through profit or loss” are designated as such by management upon initial recognition, on an instrument-by-instrument basis, and are essentially debt securities. Management may make this irrevocable designation if doing so eliminates or significantly reduces a measurement or recognition inconsistency for the financial liability, if a group of financial liabilities is managed and its performance is evaluated on a fair value basis, or if the liabilities are hybrid financial liabilities including at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group held no financial liabilities classified in this measurement category at the reporting date.



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

(iv) Financial liabilities that are not in the “At fair value through profit or loss” class are included in the “Amortized cost” class.

Financial liabilities included in this class are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the “Amortized cost” class is recognized under “Interest expense” in the Combined Statements of income for the Personal and Business Services segment and the Other category. Interest expense for the other segments is recognized mainly under “Net investment income” in the Combined Statements of Income.

### b) Impairment of financial instruments

At each reporting date, Desjardins Group recognizes a loss allowance for expected credit losses for debt instruments classified as at amortized cost or as at fair value through other comprehensive income, as well as certain off-balance sheet items, namely loan commitments and financial guarantees. The loss allowance for expected credit losses is estimated based on an impairment model that comprises three different stages:

- Stage 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as credit-impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized.
- Stage 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as credit-impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized.
- Stage 3: For financial instruments considered as credit impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk and the level of expected credit losses. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

#### Determination of significant increases in credit risk

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Group bases its assessment on the change in default risk over the expected life of the financial instrument, which requires significant judgment.

To this end, Desjardins Group compares the probability of default (PD) of the financial instrument at the reporting date with the PD at the date of initial recognition. In addition, reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition is considered, including qualitative information and information about future economic conditions to the extent that it affects the assessment of the instrument's PD. The criteria used to determine a significant increase in credit risk are mainly based on a relative change combined with an absolute change in the PD and vary depending of the type of client base. All instruments that are more than 30 days past due are also transferred to Stage 2 of the impairment model.

#### Definition of default and credit-impaired financial asset

The definition of default used in the impairment model corresponds to the definition used for internal credit risk management purposes and for regulatory purposes. This definition considers relevant quantitative and qualitative factors. In particular, a loan is in default when contractual payments are over 90 days past due. A financial asset is considered credit-impaired when it is in default, unless the detrimental impact on estimated future cash flows is considered insignificant.

#### Measurement of the loss allowance for expected credit losses

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due, or the amount of the commitment that may be used under the terms and conditions of a contract, and total cash flows that Desjardins Group expects to receive. For credit-impaired financial assets, expected credit losses are calculated based on the difference between the gross carrying amount of the asset and estimated cash flows.

The measurement of the loss allowance for expected credit losses is estimated for each exposure at the reporting date and is based on the result of multiplying the three credit risk parameters, namely PD, loss given default (LGD) and exposure at default (EAD). The result of this multiplication is then discounted using the effective interest rate. The parameters are estimated using an appropriate segmentation that considers common credit risk characteristics. For financial instruments in Stage 1 of the impairment model, credit risk parameters are projected over a maximum horizon of 12 months, while for those in Stage 2 or Stage 3, they are projected over the remaining life of the instrument.

The loss allowance for expected credit losses also considers information about future economic conditions. To incorporate forward-looking information relevant to the determination of significant increases in credit risk and the measurement of the loss allowance for expected credit losses, Desjardins Group uses the econometric models for credit risk projection. These models estimate the impact of macroeconomic variables on the various credit risk parameters. Desjardins Group uses three scenarios (base, upside and downside) to determine the loss allowance for expected credit losses and assigns to each scenario a probability of occurrence. Desjardins Group may also make adjustments to take into account the relevant information that affects the measurement of the loss allowance for expected credit losses and that has not been incorporated into the credit risk parameters. Incorporating forward-looking information is based on a set of assumptions and methodologies specific to credit risk and economic projections and therefore requires a high degree of judgment.

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

For credit-impaired financial assets that are individually material, measuring the loss allowance for expected credit losses does not require using credit risk parameters, but is based on an extensive review of the borrower's situation and the realization of collateral held. The measurement represents a probability-weighted present value, calculated using the effective interest rate, of cash flow shortfalls that takes into consideration the impact of various scenarios that may materialize and information about future economic conditions.

### Expected life

The expected life of most financial instruments is equal to the maximum contractual term during which Desjardins Group is exposed to credit risk, including extension options that may be exercised solely by the borrower. The exception to this rule concerns revolving exposures, which consist of personal and business lines of credit and credit card loans, for which the life is estimated as being the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions.

### Recognition of the loss allowance for expected credit losses

The loss allowance for expected credit losses on loans is recorded under "Allowance for credit losses" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

The loss allowance for expected credit losses on loan commitments and financial guarantees is recorded under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

Loss allowances for expected credit losses on securities at "amortized cost" are recorded against "Securities – Securities at amortized cost" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income, while loss allowances for expected credit losses on securities "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized losses on debt securities classified as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income and under "Provision for credit losses" in the Combined Statements of Income.

### Foreclosed assets

Assets foreclosed to settle credit-impaired loans are recognized on the date of the foreclosure at their fair value less costs to sell. Any difference between the carrying amount of the loan and the fair value recorded for the foreclosed assets is recognized under "Provision for credit losses".

### Loan write-off

A loan is written off, in whole or in part, when recovery is no longer reasonably expected, which is when all attempts at restructuring or collection have been made and, based on an assessment of the file in its entirety, there are no other means to recover the loan. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days. These balances could however still be subject to enforcement actions.

## **c) Derivative financial instruments and hedging activities**

### **Hybrid financial instruments**

When a hybrid contract contains a host that is an asset within the scope of IFRS 9, the entire hybrid contract is classified and recognized based on the characteristics of the hybrid contract.

An embedded derivative is separated from the host and accounted for separately as a derivative when the host is not an asset within the scope of IFRS 9 and the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in the Combined Statements of Income.

Desjardins Group does not hold any hybrid financial instruments containing a host that is not an asset within the scope of IFRS 9.

## **d) Revenue recognition**

Revenue is recognized when Desjardins Group has transferred control of a good or service. In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

### Net interest income

Interest income and expense are mainly earned or incurred by the Personal and Business Services segment and the Other category. They are recognized using the effective interest method for all financial instruments measured at amortized cost, for interest-bearing financial assets "Classified as at fair value through other comprehensive income" and for financial instruments included in the "At fair value through profit or loss" class.

The effective interest method is a method used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

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

For financial assets that are not considered credit-impaired (Stages 1 and 2), interest income is calculated on the gross carrying amount of the financial instrument. For credit-impaired financial assets (Stage 3), interest income is calculated by applying the effective interest rate to the amortized cost of the asset, which corresponds to the gross carrying amount less the loss allowance for expected credit losses.

### IMPACT OF CHANGES IN ACCOUNTING POLICIES

The retrospective impact of applying IFRS 9, IFRS 15 and amendments to IFRS 4 have been recognized in the opening balances of the Combined Balance Sheet as at January 1, 2018.

The following table presents the impact of adopting these standards and amendments on Desjardins Group's Combined Balance Sheet as at January 1, 2018.

	Balance as at December 31, 2017	IFRS 9	IFRS 15	IFRS 4	Opening balance as at January 1, 2018
<b>ASSETS</b>					
Cash and deposits with financial institutions	\$ 2,435	\$ -	\$ -	\$ -	\$ 2,435
Securities	56,588	-	-	-	56,588
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	-	8,674
Loans	177,928	-	-	-	177,928
Allowance for credit losses	(438)	(256)	-	-	(694)
Segregated fund net assets	13,379	-	-	-	13,379
Other assets	16,529	65	13	-	16,607
<b>TOTAL ASSETS</b>	<b>\$ 275,095</b>	<b>\$ (191)</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ 274,917</b>
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES</b>					
Deposits	\$ 171,586	\$ -	\$ -	\$ -	\$ 171,586
Other liabilities	77,348	(12)	48	-	77,384
Subordinated notes	1,388	-	-	-	1,388
<b>TOTAL LIABILITIES</b>	<b>250,322</b>	<b>(12)</b>	<b>48</b>	<b>-</b>	<b>250,358</b>
<b>EQUITY</b>					
Capital stock	5,361	-	-	-	5,361
Share capital	90	-	-	-	90
Undistributed surplus earnings	1,360	-	-	-	1,360
Accumulated other comprehensive income	445	(410)	-	376	411
Reserves	16,707	231	(35)	(376)	16,527
<b>Equity – Group's share</b>	<b>23,963</b>	<b>(179)</b>	<b>(35)</b>	<b>-</b>	<b>23,749</b>
<b>Non-controlling interests</b>	<b>810</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>810</b>
<b>TOTAL EQUITY</b>	<b>24,773</b>	<b>(179)</b>	<b>(35)</b>	<b>-</b>	<b>24,559</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 275,095</b>	<b>\$ (191)</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ 274,917</b>

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

The following table presents additional information on the impact of adopting these standards and amendments on Desjardins Group's "Equity – Group's share" as at January 1, 2018.

	Group's share
<b>Accumulated other comprehensive income</b>	
Balance as at December 31, 2017	\$ 445
Adoption of the IFRS 9 measurement categories	(411)
Recognition of expected credit losses on debt securities at fair value through other comprehensive income	1
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	376
<b>Opening balance as at January 1, 2018</b>	<b>\$ 411</b>
<b>Reserves</b>	
Balance as at December 31, 2017	\$ 16,707
Adoption of the IFRS 9 measurement categories	411
Recognition of expected credit losses on financial instruments	(180)
Impact of the adoption of IFRS 15	(35)
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	(376)
<b>Opening balance as at January 1, 2018</b>	<b>\$ 16,527</b>

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

The following table presents the impact of adopting of IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018.

	Note	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
<b>Financial assets</b>					
<b>Cash and deposits with financial institutions</b>					
	(1)	At fair value through profit or loss – held for trading	Amortized cost	\$ 23	\$ 23
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	298	298
		Available for sale	Classified as at fair value through other comprehensive income	639	639
		Loans and receivables	Amortized cost	1,475	1,475
<b>Securities</b>					
<b>Debt instruments</b>					
		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	13,271	13,271
		At fair value through profit or loss – designated as at fair value through profit or loss	Designated as at fair value through profit or loss	16,665	16,665
	(2)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	6	6
	(3)	Available for sale	Classified as at fair value through profit or loss	23	23
		Available for sale	Classified as at fair value through other comprehensive income	20,543	20,543
	(4)	Available for sale	Amortized cost	1,091	1,091
<b>Equity instruments</b>					
		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	41	41
	(5)	At fair value through profit or loss – designated as at fair value through profit or loss	Classified as at fair value through profit or loss	1,671	1,671
	(6)	Available for sale	Classified as at fair value through profit or loss	3,275	3,275
	(7)	Available for sale	Designated as at fair value through other comprehensive income	2	2
<b>Securities borrowed or purchased under reverse repurchase agreements</b>					
		Loans and receivables	Amortized cost	\$ 8,674	\$ 8,674

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

The following table presents the impact of adopting IFRS 9 on the classification and measurement of financial instruments as at January 1, 2018 (continued).

	Note	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39 as at December 31, 2017	Carrying amount under IFRS 9 as at January 1, 2018
<b>Financial assets (continued)</b>					
<b>Loans</b>		Loans and receivables	Amortized cost	\$ 177,490	\$ 177,234
<b>Other financial assets</b>					
Clients' liability under acceptances		Loans and receivables	Amortized cost	31	31
Premiums receivable		Loans and receivables	Amortized cost	2,095	2,095
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	3,206	3,206
Amounts receivable from clients, brokers and financial institutions		Loans and receivables	Amortized cost	1,554	1,554
Other		Loans and receivables	Amortized cost	1,249	1,249
<b>Total financial assets</b>				<b>\$ 253,322</b>	<b>\$ 253,066</b>
<b>Financial liabilities</b>					
<b>Deposits</b>		Financial liabilities at amortized cost	Amortized cost	\$ 171,586	\$ 171,586
<b>Other financial liabilities</b>					
Acceptances		Financial liabilities at amortized cost	Amortized cost	31	31
Commitments related to securities sold short		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	9,112	9,112
Commitments related to securities lent or sold under repurchase agreements		Financial liabilities at amortized cost	Amortized cost	10,229	10,229
Derivative financial instruments		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	3,094	3,094
Amounts payable to clients, brokers and financial institutions		Financial liabilities at amortized cost	Amortized cost	4,247	4,247
Other		Financial liabilities at amortized cost	Amortized cost	3,508	3,508
		At fair value through profit or loss – held for trading	Classified as at fair value through profit or loss	452	452
<b>Subordinated notes</b>		Financial liabilities at amortized cost	Amortized cost	<b>1,388</b>	<b>1,388</b>
<b>Total financial liabilities</b>				<b>\$ 203,647</b>	<b>\$ 203,647</b>



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

- (1) Certain items in cash and deposits with financial institutions were classified as “Held for trading” under IAS 39 as at December 31, 2017. As at January 1, 2018, Desjardins Group classified these debt instruments as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. All these securities matured or were sold during the first quarter of 2018. The effective interest rate on these debt instruments ranged from 0.59% and 1.73% as at January 1, 2018, and interest income recognized on these securities following the adoption of IFRS 9 was insignificant.
- (2) These debt instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, these debt instruments were “Classified as at fair value through profit or loss” as the contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding.
- (3) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, under IFRS 9, these debt instruments were “Classified as at fair value through profit or loss” either because they are held within a business model whose objective is achieved by selling financial assets or because they do not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest.
- (4) These debt instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, Desjardins Group classified these debt instruments as at “Amortized cost” under IFRS 9 as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. The fair value of the securities still held as at June 30, 2018 was \$91 million. If these securities had not been reclassified to be measured at “Amortized cost” under IFRS 9 as at January 1, 2018, an insignificant loss would have been recognized in the Combined Statements of Comprehensive Income for the three-month period ended June 30, 2018 and an insignificant loss would have been recognized for the six-month period ended June 30, 2018.
- (5) These equity instruments were classified as “Designated as at fair value through profit or loss” under IAS 39 as at December 31, 2017. As at January 1, 2018, these equity instruments were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.
- (6) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these equity instruments were “Classified as at fair value through profit or loss” as, under IFRS 9, all investments in equity instruments other than those designated as at fair value through other comprehensive income have to be included in this measurement category.
- (7) These equity instruments were classified as “Available for sale” under IAS 39 as at December 31, 2017. They were recognized at fair value and changes in fair value were recognized in the Combined Statements of Comprehensive Income. As at January 1, 2018, these equity instruments, which consist of an investment in a private company that will be held on a long-term basis, were irrevocably “Designated as at fair value through other comprehensive income”. Gains and losses on these instruments will therefore never be reclassified subsequently to the Combined Statements of Income.

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

The following table reconciles the carrying amounts of financial instruments recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018.

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
<b>Financial assets</b>				
<b>Classified as at fair value through profit or loss<sup>(1)</sup></b>				
Cash and deposits with financial institutions	\$ 23	\$ -	\$ -	\$ 23
To securities at amortized cost	-	(23)	-	(23)
	23	(23)	-	-
Securities				
Debt instruments	13,271	-	-	13,271
From securities designated as at fair value through profit or loss	-	6	-	6
From available-for-sale securities	-	23	-	23
Equity instruments	41	-	-	41
From securities designated as at fair value through profit or loss	-	1,671	-	1,671
From available-for-sale securities	-	3,275	-	3,275
	13,312	4,975	-	18,287
Derivative financial instruments	3,206	-	-	3,206
<b>Total financial assets classified as at fair value through profit or loss</b>	<b>16,541</b>	<b>4,952</b>	<b>-</b>	<b>21,493</b>
<b>Designated as at fair value through profit or loss<sup>(2)</sup></b>				
Cash and deposits with financial institutions	298	-	-	298
Securities				
Debt instruments	16,671	-	-	16,671
To securities classified as at fair value through profit or loss	-	(6)	-	(6)
Equity instruments	1,671	-	-	1,671
To securities classified as at fair value through profit or loss	-	(1,671)	-	(1,671)
	18,342	(1,677)	-	16,665
<b>Total financial assets designated as at fair value through profit or loss</b>	<b>18,640</b>	<b>(1,677)</b>	<b>-</b>	<b>16,963</b>
<b>Available for sale</b>				
Cash and deposits with financial institutions	639	-	-	639
To securities classified as at fair value through other comprehensive income	-	(639)	-	(639)
	639	(639)	-	-
Securities				
Debt instruments	21,657	-	-	21,657
To securities classified as at fair value through profit or loss	-	(23)	-	(23)
To securities classified as at fair value through other comprehensive income	-	(20,543)	-	(20,543)
To securities at amortized cost	-	(1,091)	-	(1,091)
Equity instruments	3,277	-	-	3,277
To securities classified as at fair value through profit or loss	-	(3,275)	-	(3,275)
To securities designated as at fair value through other comprehensive income	-	(2)	-	(2)
	24,934	(24,934)	-	-
<b>Total available-for-sale financial assets</b>	<b>\$ 25,573</b>	<b>\$ (25,573)</b>	<b>\$ -</b>	<b>\$ -</b>

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

The following table reconciles the carrying amounts of financial instruments recognized under IAS 39 as at December 31, 2017 to the carrying amounts under IFRS 9 as at January 1, 2018 (continued).

	Carrying amount under IAS 39 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
<b>Financial assets (continued)</b>				
<b>Classified as at fair value through other comprehensive income</b>				
Cash and deposits with financial institutions	\$ -	\$ -	\$ -	\$ -
From available-for-sale securities	-	639	-	639
	-	639	-	639
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	20,543	-	20,543
	-	20,543	-	20,543
<b>Total financial assets classified as at fair value through other comprehensive income</b>	-	21,182	-	21,182
<b>Designated as at fair value through other comprehensive income</b>				
Securities				
Equity instruments	-	-	-	-
From available-for-sale securities	-	2	-	2
<b>Total financial assets designated as at fair value through other comprehensive income</b>	-	2	-	2
<b>Amortized cost<sup>(3)</sup></b>				
Cash and deposits with financial institutions	1,475	-	-	1,475
From securities held for trading	-	23	-	23
	1,475	23	-	1,498
Securities				
Debt instruments	-	-	-	-
From available-for-sale securities	-	1,091	-	1,091
	-	1,091	-	1,091
Securities borrowed or purchased under reverse repurchase agreements	8,674	-	-	8,674
Loans	177,490	-	(256)	177,234
Other financial assets	4,929	-	-	4,929
<b>Total financial assets at amortized cost</b>	<b>\$ 192,568</b>	<b>\$ 1,114</b>	<b>\$ (256)</b>	<b>\$ 193,426</b>

<sup>(1)</sup> For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "At fair value through profit or loss – held for trading" category.

<sup>(2)</sup> For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "At fair value through profit or loss – designated as at fair value through profit or loss" category.

<sup>(3)</sup> For the carrying amount under IAS 39 as at December 31, 2017, corresponds to the "Loans and receivables" category.

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

The following table reconciles allowances determined under IAS 39 and IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, as at December 31, 2017 to the allowance determined using the IFRS 9 expected credit losses model as at January 1, 2018.

	Carrying amount under IAS 39 and IAS 37 as at December 31, 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at January 1, 2018
<b>Allowance on financial assets at amortized cost</b>				
Loans and receivables reclassified as at amortized cost	\$ 438	\$ -	\$ 256	\$ 694
	438	-	256	694
<b>Allowance on securities at fair value through other comprehensive income</b>				
Available-for-sale securities reclassified as at fair value through other comprehensive income	-	-	1	1
	-	-	1	1
<b>Allowance on off-balance sheet items</b>	49	-	(12)	37
<b>Total allowances</b>	<b>\$ 487</b>	<b>\$ -</b>	<b>\$ 245</b>	<b>\$ 732</b>

## FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2017, are described in Note 2, “Basis of presentation and significant accounting policies”, to the Annual Combined Financial Statements. The IASB has since issued the following amendments:

### Conceptual Framework for Financial Reporting

In March 2018, the IASB issued the “Conceptual Framework for Financial Reporting”, which replaces the current version of the conceptual framework. The “Conceptual Framework for Financial Reporting” includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies some key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

## 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 classes defined in the financial instrument standards.

	At fair value through profit or loss		At fair value through other comprehensive income			
	Classified as at fair value through profit or loss	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income <sup>(4)</sup>	Designated as at fair value through other comprehensive income	Amortized cost <sup>(4)</sup>	Total
<b>As at June 30, 2018</b>						
<b>Financial assets<sup>(1)</sup></b>						
Cash and deposits with financial institutions	\$ -	\$ 176	\$ 1,088	\$ -	\$ 1,712	\$ 2,976
Securities	21,358	16,578	20,668	43	1,635	60,282
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	9,522	9,522
Loans <sup>(2)</sup>	-	-	-	-	184,583	184,583
Other financial assets						
Clients' liability under acceptances	-	-	-	-	42	42
Premiums receivable	-	-	-	-	2,210	2,210
Derivative financial instruments <sup>(3)</sup>	3,559	-	-	-	-	3,559
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	4,103	4,103
Other	-	-	-	-	1,188	1,188
<b>Total financial assets</b>	<b>\$ 24,917</b>	<b>\$ 16,754</b>	<b>\$ 21,756</b>	<b>\$ 43</b>	<b>\$ 204,995</b>	<b>\$ 268,465</b>
<b>Financial liabilities</b>						
Deposits	\$ -	\$ -	\$ -	\$ -	\$ 181,523	\$ 181,523
Other financial liabilities						
Acceptances	-	-	-	-	42	42
Commitments related to securities sold short	11,040	-	-	-	-	11,040
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,729	10,729
Derivative financial instruments <sup>(3)</sup>	3,102	-	-	-	-	3,102
Amounts payable to clients, brokers and financial institutions	-	-	-	-	7,125	7,125
Other	195	-	-	-	3,087	3,282
Subordinated notes	-	-	-	-	1,350	1,350
<b>Total financial liabilities</b>	<b>\$ 14,337</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 203,856</b>	<b>\$ 218,193</b>

<sup>(1)</sup> An amount of \$2,963 million corresponds to financial assets designated for the overlay approach.

<sup>(2)</sup> For more information, see Note 5, "Loans and allowance for credit losses".

<sup>(3)</sup> Include derivative financial instruments designated as hedging instruments amounting to \$445 million in assets and \$275 million in liabilities.

<sup>(4)</sup> As at June 30, 2018, the allowance for credit losses on securities at "Amortized cost" totalled \$1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled \$2 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".

During the six-month period ended June 30, 2018, no financial instruments have been reclassified.

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

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

As at December 31, 2017	At fair value through profit or loss		Available for sale <sup>(1)</sup>	Loans and receivables, and financial liabilities at amortized cost	Total
	Held for trading	Designated as at fair value through profit or loss			
<b>Financial assets</b>					
Cash and deposits with financial institutions	\$ 23	\$ 298	\$ 639	\$ 1,475	\$ 2,435
Securities	13,312	18,342	24,934	-	56,588
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,674	8,674
Loans <sup>(2)</sup>	-	-	-	177,490	177,490
Other financial assets					
Clients' liability under acceptances	-	-	-	31	31
Premiums receivable	-	-	-	2,095	2,095
Derivative financial instruments <sup>(3)</sup>	3,206	-	-	-	3,206
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,554	1,554
Other	-	-	-	1,249	1,249
<b>Total financial assets</b>	<b>\$ 16,541</b>	<b>\$ 18,640</b>	<b>\$ 25,573</b>	<b>\$ 192,568</b>	<b>\$ 253,322</b>
<b>Financial liabilities</b>					
Deposits	\$ -	\$ -	\$ -	\$ 171,586	\$ 171,586
Other financial liabilities					
Acceptances	-	-	-	31	31
Commitments related to securities sold short	9,112	-	-	-	9,112
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,229	10,229
Derivative financial instruments <sup>(3)</sup>	3,094	-	-	-	3,094
Amounts payable to clients, brokers and financial institutions	-	-	-	4,247	4,247
Other	452	-	-	3,508	3,960
Subordinated notes	-	-	-	1,388	1,388
<b>Total financial liabilities</b>	<b>\$ 12,658</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 190,989</b>	<b>\$ 203,647</b>

<sup>(1)</sup> During the year ended December 31, 2017, Desjardins Group concluded that there was no objective evidence of material impairment.

<sup>(2)</sup> For more information, see Note 5, "Loans and allowance for credit losses".

<sup>(3)</sup> Include derivative financial instruments designated as hedging instruments amounting to \$325 million in assets and \$411 million in liabilities.



## NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

### DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

### Financial instruments whose fair value equals carrying amount

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

### FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at June 30, 2018		As at December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Securities at amortized cost	\$ 1,635	\$ 1,635	N/A	N/A
Loans	184,583	183,760	\$ 177,490	\$ 177,178
<b>Financial liabilities</b>				
Deposits	181,523	180,764	171,586	169,626
Subordinated notes	1,350	1,423	1,388	1,488

### FAIR VALUE HIERARCHY

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

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

### Transfers between levels

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

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

### HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at June 30, 2018	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	\$ 23	\$ 153	\$ -	\$ 176
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	10,071	1,150	-	11,221
Provincial governmental entities and municipal corporations in Canada	15,471	1,219	-	16,690
School or public corporations in Canada	14	89	-	103
Foreign public administrations	673	-	-	673
Other securities				
Financial institutions	30	881	57	968
Other issuers	1	2,739	788	3,528
Equity securities	3,538	638	577	4,753
	29,821	6,869	1,422	38,112
Derivative financial instruments				
Interest rate contracts	-	1,063	-	1,063
Foreign exchange contracts	-	768	-	768
Other contracts	-	1,728	-	1,728
	-	3,559	-	3,559
<b>Total financial assets at fair value through profit or loss</b>	<b>29,821</b>	<b>10,428</b>	<b>1,422</b>	<b>41,671</b>
<b>Financial assets at fair value through other comprehensive income</b>				
Cash and deposits with financial institutions	8	1,080	-	1,088
Securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,861	2,343	-	8,204
Provincial governmental entities and municipal corporations in Canada	7,606	961	-	8,567
Foreign public administrations	8	-	-	8
Other securities				
Financial institutions	99	3,105	-	3,204
Other issuers	-	594	91	685
Equity securities	-	43	-	43
<b>Total financial assets at fair value through other comprehensive income</b>	<b>13,582</b>	<b>8,126</b>	<b>91</b>	<b>21,799</b>
Financial instruments of segregated funds	5,973	7,863	71	13,907
<b>Total financial assets</b>	<b>\$ 49,376</b>	<b>\$ 26,417</b>	<b>\$ 1,584</b>	<b>\$ 77,377</b>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Other liabilities				
Commitments related to securities sold short	\$ 10,920	\$ 120	\$ -	\$ 11,040
Other	-	-	195	195
	10,920	120	195	11,235
Derivative financial instruments				
Interest rate contracts	-	1,210	-	1,210
Foreign exchange contracts	-	216	-	216
Other contracts	-	1,676	-	1,676
	-	3,102	-	3,102
<b>Total financial liabilities</b>	<b>\$ 10,920</b>	<b>\$ 3,222</b>	<b>\$ 195</b>	<b>\$ 14,337</b>

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

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

As at December 31, 2017	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	\$ 8	\$ 313	\$ -	\$ 321
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,620	1,247	-	8,867
Provincial governmental entities and municipal corporations in Canada	15,232	1,176	-	16,408
School or public corporations in Canada	14	94	-	108
Foreign public administrations	312	-	-	312
Other securities				
Financial institutions	29	800	58	887
Other issuers	-	2,497	867	3,364
Equity securities	1,236	236	236	1,708
	24,451	6,363	1,161	31,975
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	399	-	399
Other contracts	-	1,758	-	1,758
	-	3,206	-	3,206
<b>Total financial assets at fair value through profit or loss</b>	24,451	9,569	1,161	35,181
<b>Available-for-sale financial assets</b>				
Cash and deposits with financial institutions	36	603	-	639
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,760	2,262	-	8,022
Provincial governmental entities and municipal corporations in Canada	8,039	1,426	-	9,465
School or public corporations in Canada	15	-	-	15
Foreign public administrations	7	28	-	35
Other securities				
Financial institutions	-	3,268	-	3,268
Other issuers	5	752	95	852
Equity securities	2,367	631	279	3,277
<b>Total available-for-sale financial assets</b>	16,229	8,970	374	25,573
Financial instruments of segregated funds	5,859	7,456	60	13,375
<b>Total financial assets</b>	\$ 46,539	\$ 25,995	\$ 1,595	\$ 74,129
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading</b>				
Other liabilities				
Commitments related to securities sold short	\$ 8,951	\$ 161	\$ -	\$ 9,112
Other	-	-	452	452
	8,951	161	452	9,564
Derivative financial instruments				
Interest rate contracts	-	1,052	-	1,052
Foreign exchange contracts	-	349	-	349
Other contracts	-	1,693	-	1,693
	-	3,094	-	3,094
<b>Total financial liabilities</b>	\$ 8,951	\$ 3,255	\$ 452	\$ 12,658

During the six-month period ended June 30, 2018 and the year ended December 31, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

### FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

#### Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect. During the six-month period ended June 30, 2018, no significant changes were made to the key controls and procedures as well as the valuation techniques for financial instruments categorized within Level 3. For more information on the valuation process for financial instruments categorized within Level 3, refer to Note 4, "Fair value of financial instruments", to the Annual Combined Financial Statements.

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

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

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

During the six-month period ended June 30, 2018, no changes were made to valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3.

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

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

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

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

	Balance as at December 31, 2017	Impact of changes in accounting policies (Note 2)	Balance as at January 1, 2018	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 / Other	Balance at end of period
<b>For the six-month period ended June 30, 2018</b>										
<b>Financial assets</b>										
<b>Financial assets at fair value through profit or loss</b>										
Securities										
Other securities										
Financial institutions										
Mortgage bonds	\$ 58	\$ -	\$ 58	\$ -	\$ (1)	\$ -	\$ -	\$ -	\$ -	\$ 57
Other issuers										
Hedge funds	4	-	4	3	-	-	-	-	-	7
Asset-backed term notes	6	-	6	-	1	-	-	-	(2)	5
Mortgage bonds	857	-	857	-	(23)	-	-	-	(58)	776
Equity securities	236	279	515	-	20	-	-	50	(8)	577
<b>Total financial assets at fair value through profit or loss</b>	<b>1,161</b>	<b>279</b>	<b>1,440</b>	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>(68)</b>	<b>1,422</b>
<b>Available-for-sale financial assets</b>										
Available-for-sale securities										
Other securities										
Other issuers										
Mortgage bonds	95	(95)	-	-	-	-	-	-	-	-
Equity securities	279	(279)	-	-	-	-	-	-	-	-
<b>Total available-for-sale financial assets</b>	<b>374</b>	<b>(374)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial assets at fair value through other comprehensive income</b>										
Securities										
Other securities										
Other issuers										
Mortgage bonds	-	95	95	-	-	(3)	-	-	(1)	91
<b>Total financial assets at fair value through other comprehensive income</b>	<b>-</b>	<b>95</b>	<b>95</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>91</b>
Financial instruments of segregated funds	60	-	60	-	-	-	-	69	(58)	71
<b>Total financial assets</b>	<b>\$ 1,595</b>	<b>\$ -</b>	<b>\$ 1,595</b>	<b>\$ 3</b>	<b>\$ (3)</b>	<b>\$ (3)</b>	<b>\$ -</b>	<b>\$ 119</b>	<b>\$ (127)</b>	<b>\$ 1,584</b>
<b>Financial liabilities</b>										
<b>Financial liabilities at fair value through profit or loss</b>										
Other liabilities – Other										
Financial liability related to put options	\$ 64	\$ -	\$ 64	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (64)	\$ -
Financial liability related to the contingent consideration	388	-	388	-	84	-	-	-	(277)	195
<b>Total financial liabilities</b>	<b>\$ 452</b>	<b>\$ -</b>	<b>\$ 452</b>	<b>\$ -</b>	<b>\$ 84</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (341)</b>	<b>\$ 195</b>

<sup>(1)</sup> Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income".

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

<sup>(3)</sup> Unrealized gains or losses on financial assets "Classified as at fair value through other comprehensive income" are recognized under "Net unrealized losses" on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets "Designated as at fair value through other comprehensive income" are recognized under "Net change in unrealized gains and losses on equity securities designated as at fair value through other comprehensive income" in the Combined Statements of Comprehensive Income.

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

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

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

	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 / Other	Balance at end of period
For the six-month period ended June 30, 2017								
<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 investment income".

<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 investment income".

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

## NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The information presented in the following tables has been prepared in accordance with IFRS 9 as at June 30, 2018 and in accordance with IAS 39 as at December 31, 2017. For more information, see Note 2, "Basis of presentation and significant accounting policies".

### LOANS, OFF-BALANCE SHEET ITEMS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the carrying amount of loans, the exposure amount for off-balance sheet items for which Desjardins Group estimates a loss allowance for expected credit losses and the balance of their respective allowance according to the stage in which they are classified.

	Non-credit impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount and exposure	Allowance for credit losses	Gross carrying amount and exposure	Allowance for credit losses	Gross carrying amount and exposure	Allowance for credit losses	Gross carrying amount and exposure	Allowance for credit losses
As at June 30, 2018								
Loans								
Residential mortgages	\$ 112,963	\$ 23	\$ 4,082	\$ 22	\$ 336	\$ 14	\$ 117,381	\$ 59
Consumer, credit card and other personal loans	21,855	100	3,205	296	225	110	25,285	506
Business and government	38,525	29	3,730	35	376	85	42,631	149
	\$ 173,343	\$ 152	\$ 11,017	\$ 353	\$ 937	\$ 209	\$ 185,297	\$ 714
Off-balance sheet items	\$ 97,658	\$ 23	\$ 4,743	\$ 18	\$ 166	\$ -	\$ 102,567	\$ 41

### ALLOWANCE FOR CREDIT LOSSES

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

	Non-credit impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Allowance for credit losses
<b>As at January 1, 2018</b>	\$ 130	\$ 358	\$ 206	\$ 694
Transfers to <sup>(1)</sup> :				
Stage 1	187	(174)	(13)	-
Stage 2	(24)	47	(23)	-
Stage 3	-	(23)	23	-
Net remeasurement due to transfers <sup>(2)</sup>	(90)	39	99	48
New originations <sup>(3)</sup>	30	16	-	46
Change in outstanding amounts (excluding new originations) <sup>(4)</sup>	(27)	(35)	(77)	(139)
Changes in model inputs <sup>(5)</sup>	(54)	125	(6)	65
<b>As at June 30, 2018</b>	\$ 152	\$ 353	\$ 209	\$ 714

<sup>(1)</sup> Represents transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represents the increase in the allowance for new originations during the period, excluding loans for which there was derecognition and recognition of a new asset following a modification of terms.

<sup>(4)</sup> Represents changes in the allowance attributable to changes in outstanding amounts other than new originations, including drawdowns and repayments on outstanding loans and write-offs.

<sup>(5)</sup> Represents the change in the allowance resulting from changes in credit risk parameters and other model inputs.



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

### ALLOWANCE FOR CREDIT LOSSES *(continued)*

The following table presents the changes in the balance of the loss allowance for expected credit losses on off-balance sheet items.

	Non-credit-impaired		Credit-impaired		Allowance for credit losses
	Stage 1	Stage 2	Stage 3		
<b>As at January 1, 2018</b>	<b>\$ 21</b>	<b>\$ 16</b>	<b>\$ -</b>		<b>\$ 37</b>
Transfers to <sup>(1)</sup> :					
Stage 1	8	(8)	-		-
Stage 2	(3)	3	-		-
Stage 3	-	-	-		-
Net remeasurement due to transfers <sup>(2)</sup>	(4)	4	-		-
New exposures <sup>(3)</sup>	3	1	-		4
Change in exposures (excluding new exposures) <sup>(4)</sup>	1	(1)	-		-
Changes in model inputs <sup>(5)</sup>	(3)	3	-		-
<b>As at June 30, 2018<sup>(6)</sup></b>	<b>\$ 23</b>	<b>\$ 18</b>	<b>\$ -</b>		<b>\$ 41</b>

<sup>(1)</sup> Represents transfers between stages before the remeasurement of expected credit losses.

<sup>(2)</sup> Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.

<sup>(3)</sup> Represents the increase in the allowance for new exposures during the period, excluding off-balance sheet items for which there was a change in the original date following a modification of terms.

<sup>(4)</sup> Represents changes in the allowance attributable to changes in exposures other than new exposures, including drawdowns and repayments.

<sup>(5)</sup> Represents the change in the allowance resulting from changes in credit risk parameters and other model inputs.

<sup>(6)</sup> The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Combined Balance Sheets.

### KEY DATA AND ASSUMPTIONS

Determining the loss allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions. Significant judgment must therefore be exercised to determine the loss allowance for expected credit losses. The main items affecting its measurement as at June 30, 2018 are the following:

- Changes in the borrowers' credit risk rating (or probability of default).
- Incorporation of forward-looking information.
- Estimated life of revolving exposures.

#### Changes in the borrowers' credit risk rating or probability of default

The borrowers' credit risk rating is the foundation of the credit risk assessment model. The rating of a borrower is directly related to the estimated PD of such borrower. Many variables are taken into consideration in credit risk assessment models. For more information about these models, see section 4.2, "Risk management", of the 2017 Annual Management's Discussion and Analysis. Changes in the borrowers' credit risk have an impact on determining significant increases in credit risk (as this is mainly based on the change in the borrower's PD) and measuring the loss allowance for expected credit losses.

Changes in the borrowers' credit risk rating may increase or decrease the loss allowance for expected credit losses. Generally, a deterioration in a borrower's credit risk rating gives rise to an increase in the loss allowance for expected credit losses, while an improvement in a borrower's credit risk rating results in a decrease in the loss allowance for expected credit losses.

#### Incorporation of forward-looking information

Desjardins Group uses three different scenarios to determine the loss allowances for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The macroeconomic variables projected under each scenario and the related probability of occurrence have a significant impact on determining significant increases in credit risk and measuring the loss allowance for expected credit losses. The main variables used are gross domestic product, unemployment rate, the Consumer Price Index, housing prices and the corporate financing spread. The macroeconomic variable projection and the determination of the probabilities of occurrence are reviewed quarterly.

The incorporation of forward-looking information may increase or decrease the loss allowance for expected credit losses. Generally, an improvement in the outlook will give rise to a decrease in the loss allowance for expected credit losses, while a deterioration in the outlook will result in an increase in the loss allowance for expected credit losses.

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

### KEY DATA AND ASSUMPTIONS *(continued)*

#### Estimated life of revolving exposures

To determine the life of revolving exposures, Desjardins Group determines the period over which there is exposure to credit risk but for which expected credit losses would not be mitigated by normal credit risk management actions, which considers the following:

- The period over which Desjardins Group was exposed to credit risk on similar financial instruments.
- The length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk.
- The credit risk management action that it expects to take once the credit risk on the financial instruments has increased.

The determination of the estimated life of revolving exposures has a significant impact on estimating the loss allowance for expected credit losses, mainly for revolving exposures in Stage 2 of the impairment model. Generally, an increase in the estimated life of revolving exposures gives rise to an increase in expected credit losses.

Comparative figures presented in the following tables have been prepared in accordance with IAS 39.

### LOANS, CREDIT-IMPAIRED LOANS<sup>(1)</sup> AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the credit quality of loans.

	Gross loans neither past due nor credit-impaired	Gross loans past due but not credit-impaired	Gross credit-impaired loans	Individual allowances	Collective allowance <sup>(2)</sup>	Net loans
As at December 31, 2017 <sup>(1)</sup>						
Residential mortgages	\$ 110,812	\$ 2,193	\$ 141	\$ 19	\$ 47	\$ 113,080
Consumer, credit card and other personal loans	23,081	874	89	12	157	23,875
Business and government	40,228	298	212	73	130	40,535
	\$ 174,121	\$ 3,365	\$ 442	\$ 104	\$ 334	\$ 177,490

<sup>(1)</sup> Following the adoption of IFRS 9 as at January 1, 2018, all loans included in Stage 3 of the impairment model are considered credit-impaired. Under IAS 39, the criteria applied to determine whether a loan is credit-impaired were different.

<sup>(2)</sup> Includes the collective allowance on impaired loans of \$23 million.

### GROSS LOANS PAST DUE BUT NOT CREDIT-IMPAIRED

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

	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
As at December 31, 2017					
Residential mortgages	\$ 1,887	\$ 167	\$ 52	\$ 87	\$ 2,193
Consumer, credit card and other personal loans	644	150	58	22	874
Business and government	160	73	13	52	298
	\$ 2,691	\$ 390	\$ 123	\$ 161	\$ 3,365

### ALLOWANCE FOR CREDIT LOSSES

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

For the six-month period ended June 30, 2017	Residential mortgages	Consumer, credit card and other personal loans	Business and government	Total
<b>Balance at beginning of period</b>	\$ 68	\$ 191	\$ 254	\$ 513
Provision for credit losses	14	154	-	168
Write-offs and recoveries	(19)	(162)	(13)	(194)
<b>Balance at end of period</b>	\$ 63	\$ 183	\$ 241	\$ 487
<b>Composed of:</b>				
Allowance for credit losses	\$ 62	\$ 166	\$ 210	\$ 438
Allowance on off-balance sheet items <sup>(1)</sup>	1	17	31	49

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

## NOTE 6 – INTERESTS IN OTHER ENTITIES

### COVERED BONDS

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling \$6,739 million as at June 30, 2018 (\$6,197 million as at December 31, 2017) are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to \$5,748 million as at June 30, 2018 (\$4,517 million as at December 31, 2017), are presented under "Deposits – Business and government" in the Combined Balance Sheets.

## NOTE 7 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at June 30, 2018				As at December 31, 2017			
	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	\$ 48,124	\$ 3,746	\$ 51,487	\$ 103,357	\$ 46,399	\$ 3,695	\$ 50,484	\$ 100,578
Business and government	27,429	396	48,184	76,009	24,551	452	44,099	69,102
Deposit-taking institutions	1,914	-	243	2,157	1,407	-	499	1,906
	<b>\$ 77,467</b>	<b>\$ 4,142</b>	<b>\$ 99,914</b>	<b>\$ 181,523</b>	<b>\$ 72,357</b>	<b>\$ 4,147</b>	<b>\$ 95,082</b>	<b>\$ 171,586</b>

## NOTE 8 – SIGNIFICANT TRANSACTIONS

On April 1, 2018, Desjardins Group and a partnership comprised of five provincial credit union centrals (the Centrals) and The CUMIS Group completed the merger of their investments in Credential Financial Inc., Qtrade Canada Inc. and Northwest & Ethical Investments LP. This transaction resulted in the creation of Aviso Wealth, a wealth management company, in which Desjardins Group and the partnership formed by the Centrals and The CUMIS Group each hold a 50% interest.

The interest in Aviso Wealth, amounting to \$332 million as at April 1, 2018, is an interest in a joint venture for Desjardins Group and is accounted for using the equity method in the Wealth Management and Life and Health Insurance segment.

The assets and liabilities transferred by Desjardins Group at the time Aviso Wealth was created were as follows:

	As at April 1 <sup>st</sup> , 2018
<b>Assets disposed of</b>	
Cash and deposits with financial institutions	\$ 14
Securities at fair value through profit or loss	82
Amounts receivable from clients, brokers and financial institutions	630
Property, plant and equipment	2
Goodwill	32
Intangible assets	61
Deferred tax assets	1
Other assets	96
<b>Total assets disposed of</b>	<b>\$ 918</b>
<b>Liabilities disposed of</b>	
Deferred tax liabilities	\$ 14
Amounts payable to clients, brokers and financial institutions	682
Other liabilities	22
<b>Total liabilities disposed of</b>	<b>\$ 718</b>

A gain of \$132 million on this transaction was recognized under "Other income – Other" in the Combined Statement of Income for the six-month period ended June 30, 2018.

The operations of this subsidiary and interest in the associate were presented in the Wealth Management and Life and Health Insurance segment.

## NOTE 9 – CAPITAL STOCK

### ISSUANCE OF SHARES

During the six-month period ended June 30, 2018, the Federation issued 12,165,529 F capital shares for a cash consideration of \$122 million. In addition, the Federation issued 14,208,755 F capital shares having a value of \$142 million as interest payments when the holders elected to receive their remuneration in F capital shares.

## NOTE 10 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 2018		As at December 31, 2017	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
<b>Items that will be reclassified subsequently to the Combined Statements of Income</b>				
Net unrealized gains on available-for-sale securities	N/A	N/A	\$ 389	\$ 21
Net unrealized losses on debt securities classified as at fair value through other comprehensive income <sup>(1)</sup>	\$ (56)	\$ (1)	N/A	N/A
Net unrealized gains related to the overlay approach adjustment for insurance operations financial assets	229	14	N/A	N/A
Net gains on derivative financial instruments designated as cash flow hedges	4	-	55	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	1	-	1	-
<b>Accumulated other comprehensive income</b>	<b>\$ 178</b>	<b>\$ 13</b>	<b>\$ 445</b>	<b>\$ 21</b>

<sup>(1)</sup> Including an allowance for credit losses of \$2 million on securities classified as at fair value through other comprehensive income.

## NOTE 11 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

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

Designated by the AMF as a domestic systemically important financial institution, Desjardins Group must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3.0%.

As mentioned in Note 9, "Capital stock", the Federation issued F capital shares in the first six month period of 2018 for a gross amount of \$264 million.

As at June 30, 2018, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents Desjardins Group's regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at June 30, 2018	As at December 31, 2017
<b>Capital</b>		
Tier 1A capital	\$ 21,514	\$ 20,985
Tier 1 capital	21,514	20,998
Total capital	21,905	21,436
<b>Risk-weighted assets for capital ratio calculation purposes<sup>(1)</sup></b>		
For Tier 1A capital	123,190	116,487
For Tier 1 capital	123,190	116,487
For total capital	123,190	116,487
<b>Risk-weighted assets for total capital calculation purposes<sup>(1)</sup></b>		
Credit risk	108,641	102,672
Market risk	2,552	1,965
Operational risk	11,997	11,850
<b>Total risk-weighted assets</b>	<b>\$ 123,190</b>	<b>\$ 116,487</b>
<b>Ratios and leverage ratio exposure</b>		
Tier 1A capital	17.5%	18.0%
Tier 1 capital	17.5	18.0
Total capital	17.8	18.4
Leverage	8.2	8.5
Leverage ratio exposure	<b>\$ 261,946</b>	<b>\$ 246,832</b>

<sup>(1)</sup> Takes into account the requirements of the CVA charge that have been phased in since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios, which are 80%, 83% and 86%, respectively. They will reach 100% for each category by 2019.

## NOTE 12 – NET INTEREST INCOME AND NET INVESTMENT INCOME

The information presented in the following tables has been prepared in accordance with IFRS 9 for the three-month and six-month periods ended June 30, 2018 and in accordance with IAS 39 for the three-month and six-month periods ended June 30, 2017. For more information, see Note 2, "Basis of presentation and significant accounting policies".

### NET INTEREST INCOME

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

2018	For the three-month period ended June 30	For the six-month period ended June 30
<b>Interest income on financial assets</b>		
At amortized cost	\$ 1,652	\$ 3,241
At fair value through other comprehensive income	74	155
At fair value through profit or loss	11	18
	<b>1,737</b>	<b>3,414</b>
<b>Interest expense on financial liabilities at amortized cost</b>	<b>577</b>	<b>1,119</b>
	<b>\$ 1,160</b>	<b>\$ 2,295</b>

### NET INVESTMENT INCOME

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

2018	For the three-month period ended June 30			For the six-month period ended June 30		
	Interest income and expense	Fair value gains (losses) and other	Total	Interest income and expense	Fair value gains (losses) and other	Total
<b>Net investment income on financial assets and liabilities</b>						
Classified as at fair value through profit or loss	\$ 45	\$ 28	\$ 73	\$ 90	\$ (18)	\$ 72
Designated as at fair value through profit or loss	125	27	152	245	(112)	133
Classified as at fair value through other comprehensive income	34	4	38	66	(4)	62
At amortized cost and other	37	8	45	73	79	152
	<b>\$ 241</b>	<b>\$ 67</b>	<b>\$ 308</b>	<b>\$ 474</b>	<b>\$ (55)</b>	<b>\$ 419</b>

Comparative figures presented in the following tables have been prepared in accordance with IAS 39.

### FINANCIAL INSTRUMENTS HELD FOR TRADING

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

2017	For the three-month period ended June 30	For the six-month period ended June 30
<b>Income</b>		
Net interest income	\$ 10	\$ 21
Net investment income	(12)	(8)
	<b>\$ (2)</b>	<b>\$ 13</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 Combined Statements of Income.

2017	For the three-month period ended June 30	For the six-month period ended June 30
<b>Income</b>		
Net interest income	\$ 4	\$ 6
Net investment income	488	785
	<b>\$ 492</b>	<b>\$ 791</b>

Net income on available-for-sale securities of \$181 million for the three-month period ended June 30, 2017 and \$261 million for the six-month period ended June 30, 2017 are included in profit or loss under "Net investment income" in the Combined Statements of Income.



## NOTE 13 – SEGMENTED INFORMATION

### RESULTS BY BUSINESS SEGMENT

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

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the three-month periods ended June 30	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	\$ 1,056	\$ 963	\$ 1	\$ -	\$ -	\$ -	\$ 103	\$ 124	\$ 1,160	\$ 1,087
Net premiums	-	-	1,190	1,159	1,073	981	(63)	(64)	2,200	2,076
Other income	531	565	762	1,000	(3)	62	(181)	(179)	1,109	1,448
<b>Total income</b>	<b>1,587</b>	<b>1,528</b>	<b>1,953</b>	<b>2,159</b>	<b>1,070</b>	<b>1,043</b>	<b>(141)</b>	<b>(119)</b>	<b>4,469</b>	<b>4,611</b>
Provision for credit losses	84	76	(4)	-	-	-	-	-	80	76
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	993	1,327	734	594	-	1	1,727	1,922
Non-interest expense	1,100	1,089	577	596	280	319	(119)	(126)	1,838	1,878
<b>Operating surplus earnings</b>	<b>403</b>	<b>363</b>	<b>387</b>	<b>236</b>	<b>56</b>	<b>130</b>	<b>(22)</b>	<b>6</b>	<b>824</b>	<b>735</b>
Income taxes on surplus earnings	104	91	56	47	4	32	(17)	(16)	147	154
<b>Surplus earnings before member dividends<sup>(1)</sup></b>	<b>299</b>	<b>272</b>	<b>331</b>	<b>189</b>	<b>52</b>	<b>98</b>	<b>(5)</b>	<b>22</b>	<b>677</b>	<b>581</b>
Member dividends, net of income tax recovery	53	29	-	-	-	-	-	-	53	29
<b>Net surplus earnings for the period after member dividends</b>	<b>\$ 246</b>	<b>\$ 243</b>	<b>\$ 331</b>	<b>\$ 189</b>	<b>\$ 52</b>	<b>\$ 98</b>	<b>\$ (5)</b>	<b>\$ 22</b>	<b>\$ 624</b>	<b>\$ 552</b>
<b>of which:</b>										
Group's share	\$ 246	\$ 243	\$ 331	\$ 189	\$ 41	\$ 84	\$ (5)	\$ 22	\$ 613	\$ 538
Non-controlling interests' share	-	-	-	-	11	14	-	-	11	14

<sup>(1)</sup> For the three-month periods ended June 30, 2018 and 2017, the Group's share of "Surplus earnings before member dividends" was respectively \$299 million and \$272 million for the Personal and Business Services segment, \$331 million and \$189 million for the Wealth Management and Life and Health Insurance segment, \$41 million and \$84 million for the Property and Casualty Insurance segment and \$(5) million and \$22 million for the Other category.

## NOTE 13 – SEGMENTED INFORMATION (continued)

### RESULTS BY BUSINESS SEGMENT (continued)

	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
For the six-month periods ended June 30	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	\$ 2,069	\$ 1,895	\$ 2	\$ -	\$ -	\$ 1	\$ 224	\$ 248	\$ 2,295	\$ 2,144
Net premiums	-	-	2,333	2,240	2,132	1,946	(126)	(128)	4,339	4,058
Other income	1,106	1,142	1,339	1,697	66	126	(378)	(366)	2,133	2,599
<b>Total income</b>	<b>3,175</b>	<b>3,037</b>	<b>3,674</b>	<b>3,937</b>	<b>2,198</b>	<b>2,073</b>	<b>(280)</b>	<b>(246)</b>	<b>8,767</b>	<b>8,801</b>
Provision for credit losses	199	168	(4)	-	-	-	-	-	195	168
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,834	2,363	1,549	1,313	-	(1)	3,383	3,675
Non-interest expense	2,213	2,177	1,200	1,157	557	645	(219)	(254)	3,751	3,725
<b>Operating surplus earnings</b>	<b>763</b>	<b>692</b>	<b>644</b>	<b>417</b>	<b>92</b>	<b>115</b>	<b>(61)</b>	<b>9</b>	<b>1,438</b>	<b>1,233</b>
Income taxes on surplus earnings	189	174	107	85	14	35	(50)	(25)	260	269
<b>Surplus earnings before member dividends<sup>(1)</sup></b>	<b>574</b>	<b>518</b>	<b>537</b>	<b>332</b>	<b>78</b>	<b>80</b>	<b>(11)</b>	<b>34</b>	<b>1,178</b>	<b>964</b>
Member dividends, net of income tax recovery	89	55	-	-	-	-	-	-	89	55
<b>Net surplus earnings for the period after member dividends</b>	<b>\$ 485</b>	<b>\$ 463</b>	<b>\$ 537</b>	<b>\$ 332</b>	<b>\$ 78</b>	<b>\$ 80</b>	<b>\$ (11)</b>	<b>\$ 34</b>	<b>\$ 1,089</b>	<b>\$ 909</b>
<b>of which:</b>										
Group's share	\$ 485	\$ 463	\$ 537	\$ 331	\$ 58	\$ 62	\$ (11)	\$ 34	\$ 1,069	\$ 890
Non-controlling interests' share	-	-	-	1	20	18	-	-	20	19

<sup>(1)</sup> For the six-month periods ended June 30, 2018 and 2017, the Group's share of "Surplus earnings before member dividends" was respectively \$574 million and \$518 million for the Personal and Business Services segment, \$537 million and \$331 million for the Wealth Management and Life and Health Insurance segment, \$58 million and \$62 million for the Property and Casualty Insurance segment and \$(11) million and \$34 million for the Other category.

### SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
<b>As at June 30, 2018</b>	<b>\$ 223,648</b>	<b>\$ 43,115</b>	<b>\$ 12,730</b>	<b>\$ 10,580</b>	<b>\$ 290,073</b>
As at December 31, 2017	\$ 211,447	\$ 42,005	\$ 13,138	\$ 8,505	\$ 275,095

## GENERAL INFORMATION

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