Capital Desjardins inc.
Financial Report
Second quarter of 2017

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated August 11, 2017 presents the analysis of the results of and main changes in the balance sheet of *Capital Desjardins inc.* (Capital Desjardins) for the period ended June 30, 2017, in comparison to previous periods. Capital Desjardins reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Information on Capital Desjardins'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 Financial Statements (the Interim Financial Statements), including the notes thereto, as at June 30, 2017 and the 2016 Capital Desjardins Annual Report (the 2016 Annual Report), which contains the MD&A and the audited Annual Financial Statements (the Annual Financial Statements).

Additional information about Capital Desjardins is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. Further information is also available on the Desjardins Group (hereinafter also referred to as Desjardins) website at **www.desjardins.com/ca/about-us/investor-relations**. None of the information presented on these sites is incorporated by reference into this MD&A.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Capital Desjardins'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 Capital Desjardins's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include, among others, those appearing in the "Economic environment and outlook", "Review of financial results", "Balance sheet review" and "Additional information" sections of this MD&A. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, these predictions, forecasts or other forward-looking statements as well as Capital Desjardins's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Capital Desjardins 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 Capital Desjardins's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0, "Risk management", of the 2016 Annual MD&A, such as credit, market, liquidity and operational 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.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to foreign exchange rates; the critical accounting estimates and accounting standards applied by Capital Desjardins; the ability to recruit and retain key management personnel, including senior management; and credit ratings.

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 Capital Desjardins's results. Additional information about these and other factors is found in section 4.0, "Risk management" of the 2016 Annual MD&A. Although Capital Desjardins believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Capital Desjardins cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Capital Desjardins'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. Capital Desjardins 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 Capital Desjardins, except as required under applicable securities legislation.

CAPITAL DESJARDINS IN BRIEF

Capital Desjardins is a wholly owned subsidiary of the *Fédération des caisses Desjardins du Québec* (the Federation), and is responsible for issuing securities on capital markets and investing the proceeds thereof in subordinated notes issued by the Desjardins caisses of Quebec (the caisses of Quebec).

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Financial Statements have been prepared by Capital Desjardins'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 Financial Statements of Capital Desjardins have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". For further information about the accounting policies applied, see the Annual and Interim 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 Capital Desjardins's Annual and Interim Financial Statements.

CHANGES IN THE REGULATORY ENVIRONMENT

This section presents the changes in the regulatory environment applicable to Desjardins Group as a whole, including Capital Desjardins.

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

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

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

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

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

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

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

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

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

ECONOMIC ENVIRONMENT AND OUTLOOK

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

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

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

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

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

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

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS

(In thousands of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2017	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Interest income					
Subordinated notes issued by Desjardins caisses of Quebec	**$ 18,563**	$ 18,564	$ 23,389	**$ 37,127**	$ 49,192
Cash	**25**	25	21	**50**	44
	18,588	18,589	23,410	**37,177**	49,236
Interest expense					
Senior notes	**18,054**	18,052	22,739	**36,106**	47,822
	18,054	18,052	22,739	**36,106**	47,822
Net interest income	**534**	537	671	**1,071**	1,414
Non-interest expense					
Professional fees	**216**	213	314	**429**	597
Income before income taxes	**318**	324	357	**642**	817
Income tax expense	**86**	77	95	**163**	219
Net income for the period	**$ 232**	$ 247	$ 262	**$ 479**	$ 598

ANALYSIS OF RESULTS

Comparison of the second quarters of 2017 and 2016

For the second quarter ended June 30, 2017, Capital Desjardins recorded $232,000 in net income, down $30,000 from the same period of 2016. Net interest income was $534,000 compared to $671,000 in the same period of 2016. This decrease was essentially due to lower net interest income as a result of the prepayment of senior notes and the redemption of Series F subordinated notes on June 1, 2016. It should be recalled that net interest income arises from the spread between the interest rate on the subordinated notes and that on the senior notes used to finance Capital Desjardins's operating expenses.

Comparison of the first six months of 2017 and 2016

For the six-month period ended June 30, 2017, Capital Desjardins recorded $479,000 in net income, compared to $598,000 for the same period of 2016. Net interest income was $1,071,000, down $343,000 from the net interest income reported for the same period of 2016. This decrease was essentially due to lower net interest income as a result of the prepayment of senior notes and the redemption of Series F subordinated notes on June 1, 2016.

SUMMARY OF INTERIM RESULTS

The table below summarizes Capital Desjardins's results for the most recent eight quarters.

RESULTS FOR THE PREVIOUS EIGHT QUARTERS

(in thousands of dollars)	**2017**		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Interest income	**$ 18,588**	$ 18,589	$ 18,589	$ 18,588	$ 23,410	$ 25,826	$ 29,910	$ 32,905
Interest expense	**18,054**	18,052	18,050	18,047	22,739	25,083	29,011	31,898
Net interest income	**534**	537	539	541	671	743	899	1,007
Non-interest expense	**216**	213	219	117	314	283	241	241
Income before income taxes	**318**	324	320	424	357	460	658	766
Income tax expense	**86**	77	87	115	95	124	177	206
Net income	**$ 232**	$ 247	$ 233	$ 309	$ 262	$ 336	$ 481	$ 560

BALANCE SHEET REVIEW

TOTAL ASSETS

As at June 30, 2017, Capital Desjardins had total assets of $1.4 billion, unchanged from December 31, 2016. These assets consisted primarily of subordinated notes issued by the caisses of Quebec.

As at June 30, 2017, the subordinated notes issued by the caisses of Quebec were comprised of:

	Series G	**Series J**
Carrying amount	$900.0 million	$500.0 million
Acquisition date	May 5, 2010	December 15, 2011
Maturity date	May 5, 2020	December 15, 2026
Fixed annual interest rate	5.387% May 5, 2010 to May 4, 2020	5.154% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until May 5, 2020	Biannual until December 15, 2021
Variable annual interest rate	N/A	90-day bankers' acceptance rate plus 2.8665% December 15, 2021 to December 14, 2026
Variable interest payments	N/A	Quarterly March 15, 2022 to December 15, 2026
Total or partial early redemption at the option of Capital Desjardins to finance the early redemption of the corresponding senior notes	Early redemption subject to prior approval from the AMF	No early redemption before December 15, 2021 On or after December 15, 2021, early redemption subject to prior approval from the AMF
Interest receivable	$7.5 million	$1.2 million

TOTAL LIABILITIES

As at June 30, 2017, Capital Desjardins's total liabilities stood at $1.4 billion, unchanged from December 31, 2016. These liabilities consisted mainly of senior notes.

As at June 30, 2017, Capital Desjardins's senior notes were comprised of:

	Series G	**Series J**
Nominal value	$900.0 million	$500.0 million
Issuing date	May 5, 2010	December 15, 2011
Maturity date	May 5, 2020	December 15, 2026
Fixed annual interest rate	5.187% May 5, 2010 to May 4, 2020	4.954% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until May 5, 2020	Biannual until December 15, 2021
Variable annual interest rate	N/A	90-day bankers' acceptance rate plus 2.67% December 15, 2021 to December 14, 2026
Variable interest payments	N/A	Quarterly March 15, 2022 to December 15, 2026
Early redemption	Callable in whole or in part subject to prior approval from the AMF	Not callable before December 15, 2021 On or after December 15, 2021, callable in whole or in part subject to prior approval from the AMF
Interest payable	$7.3 million	$1.1 million

These senior notes are secured by a first hypothec on the corresponding subordinated notes of each of the above-mentioned series.

RISK MANAGEMENT

Capital Desjardins was created exclusively for the purpose of offering securities on the financial markets and investing the proceeds thereof in securities issued by the caisses of Quebec to meet their liquidity and capital needs. Capital Desjardins therefore acts as a link between external investors and the caisses of Quebec in order to provide easier access to institutional capital.

Capital Desjardins's Board of Directors is responsible for guiding, planning, coordinating and monitoring all of its operations. The Board of Directors is supported in some of its responsibilities, specifically in the area of risk management, by its Management Committee and its Audit Committee.

Capital Desjardins is exposed to different types of risks in its normal course of operations, including credit risk, market risk, liquidity risk and operational risk.

CREDIT RISK

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

Capital Desjardins is exposed to credit risk primarily through the subordinated notes issued to it by the caisses of Quebec.

The securities issued by the caisses of Quebec to Capital Desjardins are, in fact, subordinated, as to right of payment, to all the other obligations of the caisses of Quebec. However, this risk is considered minimal, given that Desjardins Group has implemented certain intervention mechanisms designed to help caisses of Quebec in financial difficulty. Moreover, the *Act respecting financial services cooperatives* grants the Federation all the powers necessary to cover the operating deficits of any caisse whose general reserve is insufficient.

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.

Capital Desjardins is exposed to market risk primarily through to its positions resulting from its intermediation operations between the caisses of Quebec and institutional investors. More specifically, Capital Desjardins is exposed to interest rate risk, which corresponds to the potential impact of rate fluctuations on net interest income and on the economic value of equity.

Capital Desjardins applies sound and conservative management practices in order to achieve intermediation between lenders and the caisses of Quebec with a view to achieving the matching required to mitigate interest rate risk. To avoid any sensitivity to changing interest rates, Capital Desjardins seeks to match the terms of the related senior notes with the terms of the subordinated notes. In addition, when debt securities are issued, Capital Desjardins sets a sufficient profit margin to finance its operating costs by fixing an interest rate on the subordinated notes. Moreover, Capital Desjardins has no trading portfolio.

Since cash flows resulting from Capital Desjardins's operations are matched, the impact of interest rate changes on the economic value of capital is negligible.

LIQUIDITY RISK

Liquidity risk refers to Capital Desjardins'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 Balance Sheets.

Capital Desjardins carefully manages liquidity risk by matching maturities between senior notes and subordinated notes. Capital Desjardins can also require the caisses of Quebec to pay, in whole or in part, the subordinated notes in order to redeem senior notes in advance.

Furthermore, Capital Desjardins ensures that the contractual maturities of senior notes and subordinated notes are staggered in order to avoid an excessive concentration of these maturities on specific dates. Such concentration could lead to a liquidity risk when there is turbulence in financial markets.

Sources of financing

Capital Desjardins's borrowing programs, which are established by prospectus, matured in previous years and were not renewed. Depending on changes in the regulatory environment, Capital Desjardins may at some time in the future launch issues of securities on capital markets in Canada, the U.S. and Europe.

Basel III

Capital Desjardins's senior notes fully qualified, for Desjardins Group, as Tier 2 regulatory capital until December 31, 2012. On January 1, 2013, the AMF adopted the provisions stipulated by the Basel Committee with respect to requirements to ensure that losses are absorbed at the point of non-viability. Consequently, since January 1, 2013, these notes no longer fully qualify as Tier 2 regulatory capital since they do not satisfy the requirements for non-viability contingent capital.

As a result, Capital Desjardins's senior notes are being gradually eliminated from Desjardins Group's capital at a rate of 10% per year over a nine-year period that began on January 1, 2013 under the transitional measures set out in the AMF guideline.

Credit ratings of securities issued

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

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

During the first six months of 2017, Standard & Poor's (S&P), Fitch and Moody's made no changes to and confirmed the credit ratings and related outlooks assigned to the securities issued by Capital Desjardins.

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

S&P's and Moody's ratings outlooks for Capital Desjardins were stable, but DBRS's outlook for Capital Desjardins, the Federation and the six major Canadian banks has remained negative since May 20, 2015. DBRS justified its decision to assign a negative ratings outlook for Capital Desjardins, the Federation and the six major Canadian banks due to uncertainty about continued government support to systemically important financial institutions on account of the "bail-in" regime proposed by the Canadian government. Since the Department of Finance Canada issued draft regulations on the implementation of the Bank Recapitalization (Bail-in) Regime and the OSFI issued a draft guideline on Total Loss Absorbing Capacity (TLAC) on June 16, 2017, there have been no comments issued by the four ratings agencies that have affected the ratings of Desjardins Group and the six major Canadian banks.

Capital Desjardins's credit ratings are among the best of the major Canadian and international banking institutions.

CREDIT RATINGS OF SECURITIES ISSUED

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Medium and long-term, senior	AA (low)	A	A2	A+

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended June 30, 2017, Capital Desjardins did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on pages 13 and 14 of the 2016 Annual MD&A.

RELATED PARTY DISCLOSURES

In the normal course of business, Capital Desjardins carries out transactions with Desjardins Group entities. All transactions were entered into under normal market terms and conditions. Capital Desjardins does not carry out financial transactions with its management personnel.

Additional information on Capital Desjardins's related party transactions is provided in Note 11, "Related party disclosures", to the Annual Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Capital Desjardins is essential to understanding the Annual and Interim Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Capital Desjardins's Annual Financial Statements on pages 32 to 34 of the 2016 Annual Report.

Some of these policies are of particular importance in presenting Capital Desjardins'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 14 and 15 of the 2016 Annual MD&A.

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

FUTURE ACCOUNTING CHANGE

The accounting standard that was issued by the IASB and will affect Capital Desjardins, but was not yet effective as at December 31, 2016, is presented in Note 2, "Basis of presentation and significant accounting policies", to the Annual Financial Statements of Capital Desjardins on pages 34 and 35 of the 2016 Annual Report. The IASB did not issue any new accounting standards in the six-month period ended June 30, 2017 that will affect Capital Desjardins.

BALANCE SHEETS

(unaudited)

(in thousands of Canadian dollars)	**As at June 30, 2017**	As at December 31, 2016
ASSETS		
Current assets		
Cash and deposits with financial institutions	**$ 15,703**	$ 14,657
Interest receivable	**8,698**	8,697
Other receivables	**14**	-
Income taxes receivable	**267**	380
Total current assets	**24,682**	23,734
Non-current assets		
Subordinated notes issued by Desjardins caisses of Quebec, at cost		
Series G	**900,000**	900,000
Series J	**500,000**	500,000
Total non-current assets	**1,400,000**	1,400,000
TOTAL ASSETS	**$ 1,424,682**	$ 1,423,734
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Current liabilities		
Interest payable	**$ 8,363**	$ 8,363
Other accrued liabilities	**327**	128
Total current liabilities	**8,690**	8,491
Non-current liabilities		
Senior notes		
Series G	**898,500**	898,257
Series J	**498,616**	498,478
	1,397,116	1,396,735
Deferred tax liabilities	**767**	878
Total non-current liabilities	**1,397,883**	1,397,613
TOTAL LIABILITIES	**1,406,573**	1,406,104
SHAREHOLDER'S EQUITY		
Capital stock	**1,010**	1,010
Retained earnings	**17,099**	16,620
TOTAL SHAREHOLDER'S EQUITY	**18,109**	17,630
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 1,424,682**	$ 1,423,734

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

On behalf of the Board of Directors of *Capital Desjardins inc.,*

Guy Cormier
Chair of the Board of Directors and Chief Executive Officer

Yvon Vinet, LL.L., D.D.N.
Vice-Chair of the Board of Directors

STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2017	2016	**2017**	2016
INTEREST INCOME				
Subordinated notes issued by Desjardins caisses of Quebec				
Series F	**$ -**	$ 4,826	**$ -**	$ 12,065
Series G	**12,121**	12,121	**24,242**	24,242
Series J	**6,442**	6,442	**12,885**	12,885
Cash	**25**	21	**50**	44
	18,588	23,410	**37,177**	49,236
INTEREST EXPENSE				
Senior notes				
Series F	**-**	4,695	**-**	11,735
Series G	**11,792**	11,786	**23,583**	23,571
Series J	**6,262**	6,258	**12,523**	12,516
	18,054	22,739	**36,106**	47,822
NET INTEREST INCOME	**534**	671	**1,071**	1,414
NON-INTEREST EXPENSE				
Professional fees	**216**	314	**429**	597
INCOME BEFORE INCOME TAXES	**318**	357	**642**	817
Income tax expense	**86**	95	**163**	219
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	**$ 232**	$ 262	**$ 479**	$ 598

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

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(unaudited)

For the six-month periods ended June 30

(in thousands of Canadian dollars)	Capital stock	Retained earnings	Total shareholder's equity
BALANCE AS AT DECEMBER 31, 2016	**$ 1,010**	**$ 16,620**	**$ 17,630**
Net income and comprehensive income for the period	**-**	**479**	**479**
BALANCE AS AT JUNE 30, 2017	**$ 1,010**	**$ 17,099**	**$ 18,109**
BALANCE AS AT DECEMBER 31, 2015	$ 1,010	$ 15,520	$ 16,530
Net income and comprehensive income for the period	-	598	598
BALANCE AS AT JUNE 30, 2016	$ 1,010	$ 16,118	$ 17,128

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

STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	For the six-month periods ended June 30 2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Income before income taxes	**$ 642**	$ 817
Non-cash adjustments:		
Net change in interest receivable and payable	**(1)**	102
Net change in other receivables and other accrued liabilities	**185**	306
Capitalized expenses on senior notes	**381**	549
Income taxes paid	**(161)**	(792)
	1,046	982
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Redemption of Series F senior notes	**-**	(500,000)
	-	(500,000)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Redemption of Desjardins caisses of Quebec Series F subordinated notes	**-**	500,000
	-	500,000
Net increase in cash and cash equivalents	**1,046**	982
Cash and cash equivalents at beginning of period	**14,657**	13,456
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 15,703**	$ 14,438
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 35,725**	$ 49,582
Interest received	**37,176**	51,647

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – INFORMATION ON *CAPITAL DESJARDINS INC.*

NATURE OF OPERATIONS

Capital Desjardins inc. (Capital Desjardins), incorporated under Part 1A of the *Companies Act* (Quebec) and continued under the *Business Corporations Act* (Quebec), was established to issue its own senior notes on capital markets and invest the proceeds thereof in subordinated notes issued by the Desjardins caisses of Quebec. The Desjardins caisses of Quebec are governed by the *Act respecting financial services cooperatives* and are affiliated with the *Fédération des caisses Desjardins du Québec* (the Federation), the parent company of Capital Desjardins. The address of Capital Desjardins' head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These unaudited Condensed Interim Financial Statements (the Interim Financial Statements) have been prepared by Capital Desjardins' 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.

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

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

PRESENTATION AND FUNCTIONAL CURRENCY

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

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2016, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Financial Statements. During the six-month period ended June 30, 2017, the IASB has not issued any new accounting standards nor any new amendments to existing accounting standards.

NOTE 3 – FAIR VALUE OF FINANCIAL INTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

There is little subjectivity in the determination of the fair value of financial instruments 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 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 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”, “Interest receivable”, “Other receivables”, “Interest payable” and “Other accrued liabilities”.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at June 30, 2017		As at December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Subordinated notes	**$ 1,400,000**	**$ 1,529,645**	$ 1,400,000	$ 1,541,192
Financial liabilities				
Senior notes	**1,397,116**	**1,530,157**	1,396,735	1,541,813

NOTE 4 – CAPITAL MANAGEMENT

The goal of capital management at Capital Desjardins is to ensure that a sufficient level of high-quality capital is maintained to ensure the continuity of its operations, to pay regular dividends to its shareholder, and to maintain favourable credit ratings and the confidence of financial markets.

As a wholly-owned subsidiary of the Federation, Capital Desjardins is not itself bound by regulatory capital requirements, such requirements applying instead to Desjardins Group as a whole. The assets of Capital Desjardins are consolidated for the purposes of evaluating the composition and adequacy of Desjardins Group’s capital, which is conducted according to the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

GENERAL INFORMATION

Capital Desjardins inc.

100 Des Commandeurs Street
Lévis, Quebec
G6V 7N5 Canada
Telephone: 514 281-7000
www.desjardins.com

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