Desjardins

Cooperating in building the future

Caisse centrale Desjardins
Financial Report
Third Quarter of 2016

MESSAGE FROM MANAGEMENT

Montreal, November 10, 2016 — At the end of the third quarter ended September 30, 2016, *Caisse centrale Desjardins* (CCD) recorded net income of $74.0 million, an increase of $21.8 million or 41.7% from the same quarter of 2015. This increase was primarily due to growth in income generated by the Desjardins Group Treasury segment, since portfolio managers were able to take full advantage of market conditions during the quarter.

Total income amounted to $125.9 million for the three-month period ended September 30, 2016. This result reflects the contributions of the Desjardins Group Treasury segment and the Business and Institutional Services segment, which were $66.2 million and $56.8 million, respectively.

“These excellent results show CCD’s ability to stand out in a sometimes difficult market,” said Guy Cormier, Chair of the Board of Directors and Chief Executive Officer. “We recently announced a project to merge CCD with the *Fédération des caisses Desjardins du Québec* (the Federation). If approved at the special general meetings to be held November 28, the merger will mean that CCD will continue to operate within the Federation, so the various clients of CCD will continue to be served by highly professional teams that are attentive to their needs. I would like to pay tribute to L.-Daniel Gauvin, CCD’s General Manager, who has announced his desire to take on new challenges and retire from Desjardins Group. I would like to thank him for his contribution to Desjardins’s success in Canada and elsewhere in the world.”

CCD had Tier 1A and total capital ratios of 14.4% and 14.9%, respectively, as at September 30, 2016 compared to 15.0% and 15.5%, respectively, as at December 31, 2015.

Guy Cormier
Chair of the Board of Directors
and Chief Executive Officer of *Caisse centrale Desjardins*

Réal Bellemare
Executive Vice-President
and Chief Financial Officer of *Caisse centrale Desjardins*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated November 10, 2016 presents the analysis of the results of and main changes to CCD's balance sheet for the period ended September 30, 2016, in comparison to previous periods. CCD 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 CCD's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements), including the notes thereto, as at September 30, 2016 and CCD's 2015 Annual Report (the 2015 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

Additional information about CCD is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com.** The Annual Information Form of CCD can also be found on SEDAR. More 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 websites is incorporated by reference into this report.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

CCD'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 CCD'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 CCD's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. CCD 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 CCD'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 2015 Annual Report, such as credit, market, liquidity, operational, 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 and liquidity regulatory guidance, or interpretations thereof, and amendments to and new interpretations of capital guidelines; and environmental risk, which is the risk of financial, operational or reputational loss for CCD as a result of environmental impacts or issues, whether they are a result of CCD's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by CCD for the benefit of its employees arising primarily 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 the economic and business conditions in regions in which CCD 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 CCD in a given region; monetary policies; competition; changes in standards, laws and regulations; the accuracy and completeness of information concerning clients and counterparties; the accounting policies used by CCD; new products and services to maintain or increase CCD's market share; the ability to recruit and retain key management personnel, including senior management; business infrastructure; geographic concentration; social media and credit ratings.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in consumer spending and saving habits, technological developments, the ability to implement CCD's disaster recovery plan within a reasonable time, the potential impact on operations of international conflicts or natural disasters, and CCD'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 CCD's results. Additional information about these and other factors is found in section 4.0, "Risk management" of the 2015 Annual Report. Although CCD believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. CCD 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 CCD'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. CCD 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 CCD, except as required under applicable securities legislation.

CCD IN BRIEF

CCD is a cooperative institution that offers a range of financial services to Desjardins Group, governments, organizations in the public and parapublic sectors, individuals, medium-sized businesses and large corporations. It serves the needs of the *Fédération des caisses Desjardins du Québec* (the Federation), the Desjardins caisses (the member caisses) and other Desjardins Group components. In this respect, it has the mandate to provide institutional funding for the Desjardins network and to act as financial agent, in particular by supplying interbank exchange services, including clearing house settlements. CCD's activities on the Canadian and international markets complement those of other Desjardins Group entities. The Desjardins network comprises the components of Desjardins Group and other related entities.

SIGNIFICANT EVENTS IN 2016

Merger of the Federation and CCD

On October 27, 2016, the boards of directors of the Federation and CCD decided to convene a special general meeting of their members, to be held on November 28, 2016, to submit a proposal to merge the Federation and CCD through the absorption of CCD. Each of the special general meetings will be asked to approve the merger by adopting a merger by-law, to be passed by a 2/3 majority of the votes cast.

Should the merger by-laws be adopted, the merger should take effect soon after the required regulatory approvals, especially that of the *Autorité des marches financiers* (AMF) in Quebec, are obtained. The directors and management of the Federation and CCD expect that the merger will take effect on January 1, 2017.

Following the merger, CCD will continue its existence within the Federation, which will remain responsible for all of CCD's obligations.

In the opinion of the directors and management of the Federation and CCD, the merger will not result in a downgrade or withdrawal of the credit ratings assigned to CCD and its issuance programs.

In the days following the announcement of the general meetings, the four credit rating agencies (Moody's, Standard & Poor's (S&P), DBRS and Fitch) issued press releases confirming that the merger should not lead to any change in the credit ratings assigned to CCD and its issuance programs, since these ratings are based on Desjardins's financial strength.

Additional information about the merger may be found in the Material Change Report issued on the SEDAR website on October 27, 2016.

Changes in senior management at Desjardins Group and CCD

On March 19, 2016, an electoral college comprised of Desjardins caisse officers from all regions of Quebec as well as from Ontario elected Guy Cormier as President and Chief Executive Officer of Desjardins Group and Chair of the Board of Directors and Chief Executive Officer of CCD for a first four-year term of office beginning on April 9, 2016. He succeeds Monique F. Leroux, who had held these positions since March 29, 2008. In the second quarter of 2016, the Board of Directors approved the formation of a new Management Committee. Denis Berthiaume was appointed Senior Executive Vice-President and Chief Operating Officer, Desjardins Group, with the mandate of supervising Desjardins Group's overall operations. In addition, Réal Bellemare was appointed Senior Vice-President Finance, Treasury and Administration, Desjardins Group, and succeeded Daniel Dupuis as Chief Financial Officer on August 13, 2016. Rounding out the new Management Committee are Éric Lachaîne, Senior Vice-President Caisse Network and Member and Client Services; André Chatelain, Senior Vice-President Personal Services and Desjardins Group Marketing; Marie-Claude Boisvert, Senior Vice-President Business Services; Denis Dubois, Senior Vice-President Property and Casualty Insurance; Marie-Huguette Cormier, Senior Vice-President Human Resources and Communications; Francine Champoux, Senior Vice-President Risk Management; and Chadi Habib, Senior Vice-President Information Technology. On October 21, 2016, Gregory Chrispin was appointed Senior Vice-President Wealth Management and Life and Health Insurance.

On August 12, 2016, CCD's Board of Directors approved the introduction of a new Management Committee consisting of L.-Daniel Gauvin, General Manager; Alain Leprohon, Vice-President, Financial Disclosure; Sylvie Béchard, Vice-President, Finance and Administration; Francine Champoux, Senior Vice-President and Chief Risk Officer; Renaud Coulombe, Chief Legal Officer; Jacques Descôteaux, Chief Treasurer and Sylvain Perreault, Chief Compliance Officer. In addition, Réal Bellemare was appointed Senior Vice-President and Chief Financial Officer and took over from Daniel Dupuis in this position on August 13, 2016. On October 27, 2016, L.-Daniel Gauvin, General Manager of CCD, announced his desire to take on new challenges and retire from Desjardins Group after a career spanning over 20 years in the financial cooperative group. Mr. Gauvin is expected to leave office on the date of the merger of the Federation and CCD.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

To assess its performance, CCD 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 used are defined as follows:

Productivity index

The productivity index is used to measure efficiency and is equal to the ratio of non-interest expense to total income, expressed as a percentage. A lower ratio indicates greater productivity.

Gross impaired loans/gross loans and acceptances ratio

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

Specific coverage ratio

The specific coverage ratio is used to measure the percentage of provisioned gross impaired loans. It corresponds to the individual allowance expressed as a percentage of the gross impaired loans portfolio.

CHANGES IN THE REGULATORY ENVIRONMENT

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

Desjardins Group closely monitors changes in regulation as they relate to financial products and services, as well as new developments in fraud, corruption, 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.

In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF. 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. Based on the recommendations issued by the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing to develop its external disclosures and is working on integrating these recommendations into its risk management disclosure framework. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis. Note that the Office of the Superintendent of Financial Institutions (OSFI) has also determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

On December 5, 2013, the then Quebec Minister of Finance and the Economy tabled his "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. The bill to amend the legislative framework is expected to be issued in fall 2016 and come into force in 2017.

The Quebec *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 April 6, 2016, the Quebec government issued a draft regulation under the Act that outlines the rules for determining the stabilization provision. This provision will be based on two variables, i.e. the percentage of assets allocated to variable-income securities, and the ratio between the duration of plan assets and the duration of plan liabilities. A second draft regulation under the Act was issued on July 20, 2016. It outlines various measures for the funding of pension plans and the special conditions regarding variable benefits. Other draft regulations could be issued in 2016 to clarify, among other things, the requirements of the funding policy and the annuity purchase policy. Desjardins Group continues to closely monitor developments in these regulations to ensure compliance when they take effect.

Since January 1, 2013, the Capital Adequacy Requirements (CAR) Guideline of the OSFI applicable to Canadian financial institutions has included requirements for Non-Viability Contingent Capital as part of regulatory capital. Desjardins Group, under the AMF's guidelines on adequacy of capital base standards, is subject to similar rules applicable to non-viability contingent capital in its regulatory capital (which came into force on January 1, 2013). However, Desjardins Group has not issued any instrument subject to these rules. Given that discussions are still underway at the international level on how to apply these provisions on contingent capital to cooperative entities, the guidelines may be changed.

On June 19, 2014, to strengthen the Canadian regime to fight money laundering and terrorist financing as well as improve the effectiveness of its targeted financial sanctions and lighten the burden of compliance on the private sector, the Parliament of Canada passed the *Economic Action Plan 2014 Act, No. 1*, which was part of the budget implementation bill. The Act includes amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the regulations thereunder, and to the *Income Tax Act*. Some of these amendments came into effect in June 2016. The rest will come into effect gradually, in particular in June 2017. In parallel with these changes, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) issued a new guideline on more flexible methods to ascertain the identity of individual clients, which came into force on June 30, 2016. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to know the dates on which they will come into force and is assessing their impact on its operations.

On June 22, 2016, the Government of Canada passed a law introducing an internal "bail-in" regime applicable to domestic systemically important Canadian banks. This 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.

On December 16, 2014, the Government of Canada adopted Bill C-43 – *Economic Action Plan 2014 Act, No. 2*. Among other things, this Act amends several laws, limiting access by provincial cooperative credit associations to federal intervention tools. More specifically, the Act formalizes that the Bank of Canada may grant a loan or an advance to a provincial cooperative credit association only if the province has agreed, in writing, to indemnify the Bank for any losses arising from the loan or advance that the Bank could incur. The Bank of Canada's policies on emergency lending assistance have already required such indemnification commitments from the provinces since 2009. The Act also brings an end to liquidity financial support agreements entered into by, among others, the Canada Deposit Insurance Corporation and the *Régie de l'assurance-dépôts du Québec* (replaced by the AMF). The Act's provisions on emergency lending assistance and the federal-provincial agreement on deposit insurance are not yet in force. Desjardins Group expects that satisfactory agreements will be negotiated between the two levels of government before the provisions come into force so that the Act does not affect the stability of the Canadian financial system.

On May 5, 2015, the Bank of Canada launched a public consultation on the framework for its capital market operations and its emergency lending assistance policies. The consultation period ended on July 4, 2015. On September 30, 2015, the Bank of Canada announced its decision to implement the proposed changes in the consultation document distributed in May 2015. The changes, which took effect on September 30, 2015, require, among other things, that emergency lending assistance be reserved for institutions that have in place credible recovery and resolution frameworks and, under certain conditions, that emergency lending assistance be provided to provincial institutions such as caisses or credit unions and their centrals. This emergency lending assistance to provincial institutions is however limited to cases that are considered necessary to support the stability of the Canadian financial system. In 2016, the Bank of Canada issued an updated version of its policy statement on the provision of emergency lending assistance, which takes these changes into account. Desjardins Group will continue to closely monitor developments in Bank of Canada policies that could have an impact on its operations.

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 repercussions on Desjardins Group. The rules resulting from the *Dodd-Frank Wall Street Reform and Consumer Protection Act,* adopted in 2010, 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. On December 10, 2013, the U.S. authorities issued the final rules implementing the Volcker Rule, which was adopted to limit speculation by financial institutions. Desjardins Group has implemented frameworks to ensure compliance with the Volcker Rule, which took effect on July 21, 2015. The Fed has allowed an additional period up to July 21, 2017 for the coming into force of certain requirements concerning hedge fund ownership. The Enhanced Prudential Standards, which took effect on July 1, 2016, impose certain requirements regarding capital adequacy, maintaining of liquidity, risk management and stress testing. Desjardins Group continues to closely monitor developments in these requirements to ensure compliance.

The Organisation for Economic Co-operation and Development 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* (FATCA), but globally. Canada confirmed its endorsement of the standard effective July 1, 2017, with the first exchange of information between Canada and the competent authorities scheduled for May 1, 2018. Desjardins Group has begun work to comply with the new regulation when it takes effect, 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 June 2016, the AMF filed for consultation purposes an update of its guideline on the adequacy of capital base standards, which includes provisions with respect to the third pillar. Desjardins Group has begun work to ensure compliance with these new requirements once they take effect.

ECONOMIC ENVIRONMENT AND OUTLOOK

At the end of June 2016, the outlook was for a difficult third quarter in the financial markets following the vote by British electors in favour of leaving the European Union (Brexit). However, a post-referendum financial crisis was avoided at this time. Investors were reassured, largely due to assurances from the central banks that they were prepared to intervene to support the markets, as well as by a brisk transition in the UK to new political decision makers. This allowed the main stock indexes to climb back above the levels reached at the beginning of the summer of 2016, although the pound Sterling remains weaker than before the referendum. Bond yields remained low, as several central banks including the Bank of England and the Bank of Japan once again eased monetary policy. Markets grew more slowly in August and September 2016 as investors again began to fear higher key interest rates in the U.S. and entertained doubts about the strength of Europe's financial system.

It is too early to tell what positions U.S. President-elect Donald Trump will adopt, thus making it difficult to evaluate their impact on the economic outlook. For the time being, the anticipated impact on the U.S., Canadian and Quebec economies should be moderate. Nevertheless, the climate of uncertainty and some risks have grown considerably. With Donald Trump winning the U.S. presidential election, leaders of the Federal Reserve (the Fed) should be forced to make adjustments. The likelihood of a hike in key interest rates at the Fed's next meeting in December remains high although slightly reduced, reflecting the instability on financial markets. If the current situation persists, the Bank of Canada should not be expected to make any further moves to reduce its key interest rates. The Bank of Canada will probably not begin gradually tightening monetary policy until 2018.

Economic activity in the eurozone slowed in the second quarter of 2016 – mainly in Germany, France and Italy – despite a good start to the year. Few indicators suggested that growth would recover in the summer. The eurozone's real GDP should grow 1.5% this year and 1.3% in 2017. The economic data coming out of the UK generally exceeded expectations. This trend was already apparent in the spring, when the UK was leading the other G7 countries in terms of real GDP growth. Even though the UK's economy is expected to struggle more over the next few years, the forecasts for 2016 as a whole have been revised upward. It should be recalled that they were initially scaled back after the release of results from the referendum on leaving the European Union. So following an expected rate of growth of 1.8% in 2016, real GDP in Britain could slow by half in 2017, to a gain of 0.9%. In the emerging economies, authorities in China may be able to stabilize their economy. Chinese real GDP should nevertheless slow to 6.1% in 2017 following a potential gain of 6.4% in 2016. In other emerging economies, improvements have been seen in Brazil and Russia, which appear to be about to emerge from their recessions. Global real GDP is expected to expand 2.9% in 2016 and 3.3% in 2017.

In the U.S., real GDP grew 1.4% in the second quarter of 2016 following a 0.8% gain in the first quarter. Better performance is expected in the second half of 2016, and in 2017 consumer spending should remain strong and capital expenditures are expected to rise. The U.S. labour market should continue to grow. U.S. real GDP for 2016 should reach 1.6%, followed by a 2.4% gain in 2017. However, these forecasts may be affected by the outcome of the November 8 election.

In Canada, economic growth faced some headwinds in the second quarter of 2016. The wildfires around Fort McMurray, Alberta disrupted oil production. Furthermore, Canadian exports slowed due to weaker demand from the U.S. The second quarter therefore ended with a 1.6% decline in Canadian real GDP. This poor performance is nevertheless expected to be short-lived, since GDP is expected to bounce back in the fall of 2016. A return to normal levels of oil production should stimulate growth, and exports are expected to begin growing again due to stronger U.S. demand and a relatively weak Canadian dollar. Even if the benefits of the federal government's stimulus program should become increasingly evident over the next few quarters, the downside risks to the economic outlook are significant. This includes new federal rules affecting the real estate market, which may slow residential construction and activity in the resale market more than expected. For 2016 as a whole, Canadian real GDP should grow 1.2%, followed by another 1.9% next year.

In Québec, economic growth was expected to slow following a strong first quarter. Quebec's real GDP grew 0.8% at an annualized rate in the second quarter of 2016, following a 2.8% increase in the previous quarter. Overall, the Quebec economy is growing as expected. Real GDP should increase 1.3% in 2016, compared to 1.1% in 2015. The slowdown in the Quebec economy in the second quarter was due in part to a less robust increase in household spending (0.9%). Consumption is unlikely to continue expanding as it did in the first quarter. With the labour market performing well and a relatively high level of consumer confidence in Quebec, the current environment favours consumption.

In contrast to some of Canada's other regions, Quebec has experienced relatively good conditions in the real estate sector. Existing home sales remain moderate, and prices have been rising at an annual rate of approximately 2.0%. However, the condominium and rental apartment markets are oversupplied. As a result, new construction is continuing to adjust.

Lastly, business investment in Quebec has improved after two years of decline. Spending on machines and equipment jumped 6.8% on an annualized basis in the second quarter of 2016, while non-residential construction was relatively unchanged. Quebec's exports nevertheless fell for a second consecutive quarter due to slow economic growth in the U.S. during the period.

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS

(in thousands of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Interest income					
Loans	**$ 194,041**	$ 189,719	$ 174,990	**$ 569,063**	$ 518,319
Securities	**44,256**	47,584	40,283	**135,412**	119,441
	238,297	237,303	215,273	**704,475**	637,760
Interest expense	**150,192**	144,461	136,010	**433,602**	401,471
Net interest income	**88,105**	92,842	79,263	**270,873**	236,289
Other income	**37,773**	35,088	22,595	**103,320**	108,964
Total income	**125,878**	127,930	101,858	**374,193**	345,253
Provision for credit losses (recovery)	**(3,668)**	(8,283)	(529)	**(16,946)**	6,238
Non-interest expense	**45,318**	43,054	40,058	**130,110**	115,801
Operating income before other payments to the Desjardins network	**84,228**	93,159	62,329	**261,029**	223,214
Other payments to the Desjardins network	**10,606**	10,879	10,725	**32,485**	31,364
Operating income	**73,622**	82,280	51,604	**228,544**	191,850
Income taxes	**18,113**	20,643	12,373	**57,747**	47,085
Income tax recovery on remuneration on capital stock	**(18,456)**	(20,786)	(12,966)	**(56,128)**	(47,517)
Net income for the period	**$ 73,965**	$ 82,423	$ 52,197	**$ 226,925**	$ 192,282

NET INTEREST INCOME AND OTHER INCOME BY BUSINESS SEGMENT

(in thousands of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Business and Institutional Services					
Net interest income	**$ 38,334**	$ 39,266	$ 38,227	**$ 117,410**	$ 109,667
Other income	**18,491**	18,726	18,332	**53,833**	53,470
	56,825	57,992	56,559	**171,243**	163,137
Desjardins Group Treasury					
Net interest income	**47,262**	51,121	38,623	**145,915**	119,792
Other income	**18,892**	15,738	3,546	**47,729**	53,391
	66,154	66,859	42,169	**193,644**	173,183
Other					
Net interest income	**2,509**	2,455	2,413	**7,548**	6,830
Other income	**390**	624	717	**1,758**	2,103
	2,899	3,079	3,130	**9,306**	8,933
Total - Net interest income	**88,105**	92,842	79,263	**270,873**	236,289
Total - Other income	**37,773**	35,088	22,595	**103,320**	108,964
Total	**$ 125,878**	$ 127,930	$ 101,858	**$ 374,193**	$ 345,253

ANALYSIS OF RESULTS

Comparison of the third quarters of 2016 and 2015

For the third quarter ended September 30, 2016, CCD posted net income of $74.0 million, an increase of $21.8 million compared to the same period of 2015. This increase was mainly due to income growth in the Desjardins Group Treasury segment and the recovery of the provision for credit losses. However, the increase in net income was partly offset by a higher non-interest expense.

Total income

Total income, comprising net interest income and other income, amounted to $125.9 million at the end of the quarter ended September 30, 2016, an increase of $24.0 million compared to the same quarter of 2015. It should be noted that the Desjardins Group Treasury segment contributed most of this increase.

Total income from the Desjardins Group Treasury segment amounted to $66.2 million for the quarter ended September 30, 2016, for an increase of $24.0 million or 56.9% from the same period of 2015. These results were attributable to income growth generated by trading activities and management of asset/liability matching, since portfolio managers were able to take full advantage of market conditions during the quarter. Income generated by the liquid assets portfolio also grew due to higher gains realized on the disposal of available-for-sale securities.

Total income for the Business and Institutional Services segment was $56.8 million for the quarter ended September 30, 2016, a comparable amount to that in the same period of 2015, when it was $56.6 million. Income from banking services and international services increased compared to the same period of 2015 due to growth in the volume of transactions. However, these increases were offset by a decrease in income from foreign exchange and trading activities due to the change in exchange rates during the quarter.

Provision for credit losses

In the quarter ended September 30, 2016, CCD recorded a recovery of the provision for credit losses of $3.7 million compared to a recovery of $0.5 million for the same period of 2015. This increase stemmed mainly from favourable changes in the risk profile of the business loan portfolio and a reduction in exposures affected by lower oil prices. CCD's loan portfolio continues to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptance portfolio, was 0.04% at the end of the third quarter of 2016, a slight increase from 0.03% at the end of the same quarter of 2015.

Non-interest expense and other item

Non-interest expense was $45.3 million for the quarter ended September 30, 2016, an increase of $5.3 million compared to the same period of 2015. Service agreement and outsourcing expenses stood at $19.9 million at the end of the third quarter, up $3.7 million compared to the same period of 2015. This growth and a $0.7 million increase in "Other expenses" compared to the same quarter of 2015 were primarily due to additional costs incurred to support changes in CCD's activities. Salaries and fringe benefits reached $13.1 million for the quarter ended September 30, 2016, for an increase of $0.5 million from the same period of 2015.

CCD's productivity index was 36.0% at the end of the third quarter compared to 39.3% for the same period of 2015. This change was mainly due to income growth, as mentioned above.

Payments to the Desjardins network and remuneration on capital stock

In cooperation with the Desjardins network, CCD offers a broad spectrum of financial services, including foreign exchange transactions, transfers of funds, financing and letters of credit. Payments made to Desjardins Group entities as dividends on transactions carried out with them amounted to $10.6 million for the third quarter of 2016, a comparable amount to that in 2015.

Under the *Act respecting the Mouvement Desjardins*, CCD's Board of Directors may declare interest on capital shares; it then determines the terms of payment. As a result, CCD declares remuneration on capital stock in an amount corresponding to the lesser of its non-consolidated net income and its consolidated retained earnings, including recovery of related income taxes. This remuneration is distributed pro rata to the number of shares held by each member. For the third quarter of 2016, an amount of $71.5 million was declared as remuneration on capital stock, compared to $51.7 million for the same period of 2015.

Comparison of the first nine months of 2016 and 2015

For the nine-month period ended September 30, 2016, CCD recorded net income of $226.9 million, an increase of $34.6 million compared to the same period of 2015. This increase was primarily due to growth in income from the Desjardins Group Treasury segment and the increase in net interest income generated by the Business and Institutional Services segment. The increase in net income was also due to a recovery of the provision for credit losses, mainly as a result of favourable changes in the parameters used in the valuation model for allowances.

Total income

Total income, comprising net interest income and other income, amounted to $374.2 million at the end of the first nine months of 2016, an increase of $28.9 million compared to the same period of 2015.

Total income for the Desjardins Group Treasury segment was $193.6 million for the nine-month period ended September 30, 2016, up $20.4 million from the same period of 2015, when it was $173.2 million. These results were in large part attributable to income growth generated by trading activities and management of asset/liability matching, since portfolio managers were able to take full advantage of market conditions since the beginning of the year. The increase was nevertheless mitigated by significant fluctuations in spreads between European and Canadian interest rates on the portion of derivative financial instruments used to hedge foreign currency deposits that do not qualify for hedge accounting. The income generated by the portfolio of loans to Desjardins entities declined $3.2 million compared to the corresponding period of 2015, while the volume of loans to these entities decreased. Lastly, income from foreign exchange activities decreased $2.0 million compared to the same period of 2015, due to the change in exchange rates since the beginning of the year.

Total income for the Business and Institutional Services segment was $171.2 million for the nine-month period ended September 30, 2016, up $8.1 million or 5.0% compared to the same period of 2015. This growth was mainly due to a $1.0 billion increase in business and government loan portfolio outstandings in the last year. This led the segment to generate $7.7 million more net interest income than in 2015. Furthermore, as a result of growth in the volumes of transactions, income from international services grew compared to the same period of 2015. Lastly, income from foreign exchange activities decreased compared to the corresponding period of 2015 due to the change in exchange rates since the beginning of the year.

Provision for credit losses

CCD recorded a $16.9 million recovery of the provision for credit losses in the nine-month period ended September 30, 2016, compared to a $6.2 million provision in the same period of 2015. This increase was primarily due to a favourable change in the parameters used in the valuation model for the collective allowance and the allowance for off-balance sheet items, partly offset by the recording of a provision for credit losses for exposures affected by falling oil prices in the period. CCD's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.04% at the end of the third quarter of 2016.

Non-interest expense and other item

Non-interest expense was $130.1 million for the nine-month period ended September 30, 2016, up $14.3 million or 12.4% compared to the same period of 2015, when it was $115.8 million. Service agreement and outsourcing expenses stood at $55.7 million at the end of the first nine months of 2016, up $8.5 million compared to the same period of 2015. This increase, as well as the $5.9 million increase in "Other expenses" compared to the same period of 2015, was primarily due to an increase in investments to support changes in CCD's activities. Salaries and fringe benefits stood at $34.5 million at the end of the nine-month period ended September 30, 2016, a decrease of $2.1 million compared to the same period one year earlier. Lastly, expenses related to premises, equipment and furniture (including depreciation) totalled $10.0 million for the first nine months of 2016, for an increase of $2.1 million compared to the same period of 2015 due to the amortization of strategic projects to improve technological tools and systems.

CCD's productivity index improved overall to 34.8% at the end of the first nine months of 2016 compared to 33.5% for the corresponding period of 2015.

Payments to the Desjardins network and remuneration on capital stock

In cooperation with the Desjardins network, CCD offers a broad spectrum of financial services, including foreign exchange transactions, funds transfers, financing and letters of credit. Payments made to Desjardins Group entities as dividends on transactions carried out with them amounted to $32.5 million for the nine-month period ended September 30, 2016, up $1.1 million compared to the same period of 2015 mainly due to a higher volume of these transactions.

Under the *Act respecting the Mouvement Desjardins*, CCD's Board of Directors may declare interest on capital shares; it then determines the terms of payment. As a result, CCD declares remuneration on capital stock in an amount corresponding to the lesser of its non-consolidated net income and its consolidated retained earnings, including recovery of related income taxes. This remuneration is distributed pro rata to the number of shares held by each member. For the first nine months of 2016, an amount of $219.5 million was declared as remuneration on capital stock, compared to $191.6 million for the same period of 2015. As at September 30, 2016, an amount of $219.5 million was recorded in the Consolidated Balance Sheets as remuneration on capital stock payable.

SUMMARY OF INTERIM RESULTS

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

RESULTS OF THE MOST RECENT EIGHT QUARTERS

(in thousands of dollars and as a percentage)	2016			2015				2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
STATEMENTS OF INCOME								
Net interest income	**$ 88,105**	$ 92,842	$ 89,926	$ 91,979	$ 79,263	$ 78,137	$ 78,889	$ 73,239
Other income	**37,773**	35,088	30,459	3,383	22,595	31,983	54,386	22,207
Total income	**125,878**	127,930	120,385	95,362	101,858	110,120	133,275	95,446
Provision for credit losses (recovery)	**(3,668)**	(8,283)	(4,995)	6,924	(529)	10,546	(3,779)	(2,478)
Non-interest expense	**45,318**	43,054	41,738	41,032	40,058	38,018	37,725	37,921
Other payments to the Desjardins network	**10,606**	10,879	11,000	11,454	10,725	10,149	10,490	10,797
Operating income	**$ 73,622**	$ 82,280	$ 72,642	$ 35,952	$ 51,604	$ 51,407	$ 88,839	$ 49,206
Income taxes	**18,113**	20,643	18,991	8,977	12,373	12,479	22,233	6,983
Tax recovery on remuneration on capital stock	**(18,456)**	(20,786)	(16,886)	(8,857)	(12,966)	(12,991)	(21,560)	(12,085)
Net income	**$ 73,965**	$ 82,423	$ 70,537	$ 35,832	$ 52,197	$ 51,919	$ 88,166	$ 54,308
Total assets	**$ 51,790,843**	$ 55,341,363	$ 54,891,893	$ 51,841,755	$ 54,156,160	$ 50,851,214	$ 50,477,290	$ 44,323,432
Ratios								
Tier 1A capital	**14.4%**	14.8%	14.5%	15.0%	15.0%	15.7%	13.4%	13.8%
Tier 1 capital	**14.4**	14.7	14.5	14.9	14.9	15.7	13.4	13.8
Total capital	**14.9**	15.2	15.0	15.5	15.4	16.2	13.9	14.3

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars and as a percentage)	As at September 30, 2016		As at December 31, 2015	
Assets				
Cash and deposits with financial institutions	**$ 537,275**	**1.0%**	$ 389,404	0.8%
Securities	**8,445,061**	**16.3**	8,230,468	15.9
Securities purchased under reverse repurchase agreements	**1,931,907**	**3.7**	1,947,054	3.8
Net loans and acceptances	**36,675,212**	**70.8**	36,133,336	69.6
Derivative financial instruments	**3,501,372**	**6.8**	4,524,141	8.7
Other assets	**700,016**	**1.4**	617,352	1.2
Total assets	**$ 51,790,843**	**100.0%**	$ 51,841,755	100.0%
Liabilities and members' equity				
Deposits	**$ 42,392,947**	**81.8%**	$ 41,810,145	80.7%
Commitments related to securities sold short	**1,015,218**	**2.0**	984,040	1.9
Commitments related to securities sold under repurchase agreements	**5,031**	**-**	217,337	0.4
Derivative financial instruments	**2,376,035**	**4.6**	2,462,182	4.7
Other liabilities	**2,878,594**	**5.6**	3,249,256	6.3
Members' equity	**3,123,018**	**6.0**	3,118,795	6.0
Total liabilities and members' equity	**$ 51,790,843**	**100.0%**	$ 51,841,755	100.0%

TOTAL ASSETS

As at September 30, 2016, CCD's total assets stood at $51.8 billion, the same amount as at December 31, 2015.

CASH, DEPOSITS WITH FINANCIAL INSTITUTIONS AND SECURITIES

Liquid assets, comprised of cash and deposits with financial institutions as well as securities, including securities purchased under reverse repurchase agreements, totalled $10.9 billion as at September 30, 2016, an increase of $0.3 billion or 3.3% since December 31, 2015. This growth was mainly due to additional liquidity from the increase in deposits since the beginning of the year.

LOANS AND ACCEPTANCES

As at September 30, 2016, the portfolio of outstanding loans, including acceptances net of the allowance for credit losses, totalled $36.7 billion, an increase of $0.5 billion or 1.5% compared to December 31, 2015. In its role as Desjardins Group treasurer, CCD continued to provide refinancing for the Federation and other Desjardins entities. Consequently, since the beginning of 2016 outstanding loans to these entities grew by $0.9 billion to $26.9 billion as at September 30, 2016. Note that these loans accounted for over half of CCD's total assets.

Business and government loans, including acceptances, decreased $348 million or 4.0% since the beginning of the year, to $8.4 billion as at September 30, 2016. This decline was mainly due to a smaller portfolio of loans to the parapublic sector.

LOANS AND ACCEPTANCES

(in thousands of dollars and as a percentage)	As at September 30, 2016		As at December 31, 2015	
Members and other entities of the Desjardins network	**$ 26,908,892**	**73.2%**	$ 25,995,474	71.8%
Individuals	**1,459,363**	**4.0**	1,487,194	4.1
Business and government	**8,372,111**	**22.8**	8,719,892	24.1
	36,740,366	**100.0%**	36,202,560	100.0%
Allowance for credit losses	**(65,154)**		(69,224)	
Total loans and acceptances by borrower category	**$ 36,675,212**		$ 36,133,336	
Loans guaranteed or insured[(1)]	**$ 2,915,232**		$ 3,384,637	

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

CREDIT QUALITY

Information about the quality of CCD's credit portfolio is presented in the "Risk management" section on page 14 of this MD&A.

DEPOSITS

As at September 30, 2016, CCD's outstanding deposits totalled $42.4 billion, an increase of $0.6 billion or 1.4% since December 31, 2015. This increase was attributable to growth in deposits with related parties presented in Deposit-taking institutions, which was partly offset by the decrease in wholesale funding from various issuances of securities on Canadian, U.S. and European markets.

Additional information on CCD's sources of refinancing and liquidity risk management policy is presented in the "Liquidity risk" section of this MD&A.

DEPOSITS

(in thousands of dollars and as a percentage)	As at September 30, 2016		As at December 31, 2015	
Individuals	**$ 145,200**	**0.3%**	$ 173,314	0.4%
Business and government	**38,107,777**	**89.9**	39,061,774	93.4
Deposit-taking institutions	**4,139,970**	**9.8**	2,575,057	6.2
Total deposits	**$ 42,392,947**	**100.0%**	$ 41,810,145	100.0%

MEMBERS' EQUITY

Members' equity was $3.1 billion as at September 30, 2016, the same amount as at December 31, 2015. CCD declares remuneration on capital stock in an amount corresponding to the lesser of its non-consolidated net income and its consolidated retained earnings, including recovery of related income taxes.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group, including CCD. 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.

CCD advocates prudent management of its capital. Its purpose is to maintain higher regulatory capital ratios than those of the Canadian banking industry and standards set by the Federation. CCD's prudent capital management is reflected in the quality of the credit ratings assigned by the various rating agencies.

The global financial crisis prompted the industry to place more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013.

Desjardins Group's Integrated Capital Management Framework

Broadly speaking, Desjardins Group's Integrated Capital Management Framework includes the policies and processes required to set targets for its capitalization and to assign targets to its components, to establish strategies to ensure that targets are met, to quickly raise capital, to ensure that the components' performance is appropriately measured, and to optimize internal capital flow and use mechanisms.

Desjardins Group has developed a stress-testing program aimed at establishing and measuring the effect of various integrated scenarios, i.e. to simulate various economic scenarios for all of its components and to assess their financial and regulatory repercussions. This procedure makes it possible to determine if the minimum capital target, as established in the capitalization plan, is adequate in view of the risks to which Desjardins Group is exposed.

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 Finance and Risk Management Committee to ensure that Desjardins Group has a sufficient and reliable capital base. The Finance, Treasury and Administration Executive Division is responsible for preparing, on an annual basis and with the help of Desjardins Group's components, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets. This work includes CCD preparing its own annual capitalization plan.

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.

CCD'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.

Basel III

Section 46 of the *Act respecting the Mouvement Desjardins* states that CCD must maintain an adequate capital base to ensure sound and prudent management in accordance with the standards adopted by the Federation. Before they become effective, these standards must be approved by the AMF. CCD's capital adequacy standard borrows largely from the requirements of the AMF's guideline.

The minimum Tier 1A capital ratio that CCD must maintain is 7%. In addition, the Tier 1 capital ratio and the total capital ratio must be above 8.5% and 10.5%, respectively, including a 2.5% capital conservation buffer. The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.

Furthermore, CCD must maintain a minimum leverage ratio of 3%. The ratio is defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: (1) on-balance sheet (OBS) exposures, (2) securities financing transaction (SFT) exposures, (3) derivative exposures, and (4) other off-balance sheet exposures.

Compliance with requirements

The agreement by which CCD's member federations undertook to maintain its total equity at an amount that would maintain its capital ratios at a minimum level equal to established standards was replaced by a new agreement on December 19, 2014. The purpose of the new agreement is to fully integrate the new Basel III rules as well as take into account regulatory changes applicable to financial service cooperatives designated as domestic systematically important financial institutions.

Under this agreement, the *Fédération des caisses Desjardins du Québec* and the *Fédération des caisses populaires de l'Ontario Inc*. have undertaken to maintain CCD's capital base at an amount that maintains its ratios above the following thresholds:

- Leverage ratio: minimum level of 0.5% above the minimum regulatory requirements
- Tier 1A capital ratio: 8%
- Tier 1 capital ratio: 9.5%
- Total capital ratio: 11.5%

As at September 30, 2016, CCD's Tier 1A, Tier 1 and total capital ratios, calculated according to Basel III requirements, were 14.4%, 14.4% and 14.9%, respectively. The leverage ratio was 4.8%. CCD met all the capital requirements it was subject to as at September 30, 2016.

Capital

The following tables present capital balances, capital ratios, changes in regulatory capital during the period and risk-weighted assets (RWA).

On November 4, 2016, CCD redeemed, for cancellation, 59,648 Class A capital shares in an amount of $59.6 million. On November 10, 2016, CCD's Board of Directors approved the payment of interest accrued on Class A capital shares in the first three quarters of 2016, in a total amount of $219.5 million. The payment will be done on November 17, 2016.

CAPITAL

(in thousands of dollars and as a percentage)	**As at September 30, 2016**	As at December 31, 2015
Tier 1 capital[1]		
Eligible capital shares	**$ 3,042,821**	$ 3,042,821
General reserve	**1,467**	1,467
Retained earnings	**7,274**	6,768
Accumulated other comprehensive income[2]	**26,544**	25,850
Deductions[3]	**(14,692)**	(20,804)
Total Tier 1 capital[1]	**$ 3,063,414**	$ 3,056,102
Tier 2 capital		
Eligible collective allowance	**$ 106,855**	$ 123,788
Eligible qualifying shares	**3**	3
Total Tier 2 capital	**$ 106,858**	$ 123,791
Total regulatory capital (Tiers 1 and 2)	**$ 3,170,272**	$ 3,179,893
Ratios and leverage ratio exposure		
Tier 1A capital	**14.4%**	15.0%
Tier 1 capital	**14.4**	14.9
Total capital	**14.9**	15.5
Leverage	**4.8**	4.8
Leverage ratio exposure	**$ 63,485**	$ 63,776

(1) The capital included in Tier 1 is all Tier 1A capital. CCD has no Tier 1B capital.
(2) Excluding the portion related to the cash flow hedge reserve.
(3) Represents intangible assets, such as software.

CHANGE IN REGULATORY CAPITAL

For the nine-month period ended

(in thousands of dollars)	**September 30, 2016**
Tier 1 capital[1]	
Balance at beginning of period	**$ 3,056,102**
Growth in the general reserve and retained earnings[2]	**506**
Eligible accumulated other comprehensive income	**694**
Deductions	**6,112**
Balance at end of period	**3,063,414**
Tier 2 capital	
Balance at beginning of period	**123,791**
Eligible collective allowance	**(16,933)**
Balance at end of period	**106,858**
Total capital	**$ 3,170,272**

(1) The capital included in Tier 1 is all Tier 1A capital. CCD has no Tier 1B capital.
(2) Amount including the change in defined benefit pension plan liabilities.

RISK-WEIGHTED ASSETS

(in thousands of dollars and as a percentage)	As at September 30, 2016			As at December 31, 2015
	Exposure[1]	**Risk-weighted assets**	**Average risk-weighting rate**	Risk-weighted assets
Credit risk				
Sovereign borrowers	**$ 6,335,223**	**$ -**	**- %**	$ -
Financial institutions	**32,986,504**	**6,905,263**	**21**	6,952,519
Business	**11,872,108**	**11,099,616**	**93**	10,192,560
SMEs regarded as other retail client exposures	**649**	**486**	**75**	144
Mortgages	**99,647**	**35,348**	**35**	36,780
Other retail client exposures (except for SMEs)	**98,050**	**95,536**	**97**	2,874
Securitization	**1,192,920**	**317,168**	**27**	317,168
Trading portfolio	**619,021**	**239,186**	**39**	241,430
Other assets	**4,702,120**	**1,379,718**	**29**	1,317,435
Total credit risk	**$ 57,906,242**	**$ 20,072,321**	**35 %**	$ 19,060,910
Interest rate position risk		**$ 551,988**		$ 926,875
Currency risk		**141,899**		66,100
Additional requirements for other risks[2]		**6,913**		4,363
Total market risk		**$ 700,800**		$ 997,338
Operational risk[3]		**$ 781,598**		$ 702,217
Total risk-weighted assets		**$ 21,554,719**		$ 20,760,465
Risk-weighted assets (RWA) after transitional provisions for the credit valuation adjustment (CVA) charge[4]				
RWA for Tier 1A capital		**$ 21,211,178**		$ 20,421,403
RWA for Tier 1 capital		**21,277,977**		20,487,332
RWA for total capital		**21,335,234**		20,543,842

(1) Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach, in accordance with the AMF guideline).
(2) Other risks include equity position risk, commodity risk and option exposure risk.
(3) The Basic Indicator Approach was used to assess operational risk.
(4) 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 were 64%, 71% and 77%, respectively. They will reach 100% for each class of capital by 2019.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, CCD enters into various off-balance sheet arrangements, including assets under management and under administration, credit instruments, contractual commitments, financial assets held as collateral as well as structured entities, including securitization.

Assets under management and under administration

CCD performs liquidity management on behalf of third parties. These assets under management and under administration are not the property of CCD and therefore are not reflected on the Consolidated Balance Sheets. As at September 30, 2016, CCD administered and managed assets worth $8.0 billion compared to $7.5 billion as at December 31, 2015. Management fees are received in exchange for these liquidity management services.

Structured entities

In the normal course of operations, CCD 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. Often the structured entities have insufficient equity to permit them to finance their activities without subordinated financial support, or they often use financing in the form of multiple contractually linked instruments issued to investors. These entities may be included in CCD's Consolidated Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities not included in CCD's Consolidated Balance Sheets is provided below. Note 10, "Interests in other entities" to the Annual Consolidated Financial Statements provides more information on structured entities.

Securitization of CCD's financial assets

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

RISK MANAGEMENT

RISK MANAGEMENT

CCD's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by developing and applying integrated risk management and control strategies, frameworks, practices and procedures to all its operations. To this end, CCD developed an Integrated Risk Management Framework aimed, among other things, at giving its senior management and 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.

This risk management framework is consistent with that used by Desjardins Group and covers all of CCD's activities. Like Desjardins Group, CCD applies a comprehensive and coordinated approach to integrated risk management, meaning that the approach takes into account interrelationships and interdependencies between the various risks.

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

Strict and effective management of these risks is a priority for CCD, 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. CCD considers risk an inextricable part of its development, and consequently strives to promote a culture in which each of its employees and managers is responsible for risk management.

In the first nine months of fiscal 2016, CCD's governance structure, controls and practices for risk management, and the nature and description of the risks to which CCD is exposed (including strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 24 to 44 of the 2015 Annual Report.

CREDIT RISK

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

CCD is exposed to credit risk through its direct loans to business, the public and parapublic sectors and individuals. It is also exposed through various other commitments, including letters of credit and transactions involving derivative financial instruments and transactions involving securities.

Quality of loan portfolio

As at September 30, 2016, gross impaired loans outstanding stood at $13.6 million, an increase of $3.4 million since December 31, 2015 due to exposures affected by lower oil prices. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptance portfolio, was 0.04% at the end of the third quarter of 2016 compared to 0.03% as at December 31, 2015. CCD's loan portfolio therefore continues to be of high quality.

Individual allowances for credit losses, which totalled $1.4 million as at September 30, 2016, made it possible to obtain a total coverage ratio of 10.4% of the gross impaired loans portfolio, compared to a ratio of 14.7% as at December 31, 2015.

The collective allowance stood at $63.7 million as at September 30, 2016, down from $67.7 million at the end of 2015. In addition, an allowance for risk related to off-balance sheet arrangements of $43.6 million was recognized under "Other liabilities – Other" on the Consolidated Balance Sheet as at September 30, 2016, compared to $56.5 million as at December 31, 2015. These declines were due to favourable changes in the parameters used in the valuation model for the collective allowance and the allowance for off-balance sheet items, offset in part by the recognition of credit losses for exposures affected by falling oil prices and growth in outstanding loans and commitments in the business loan portfolio. The collective allowance reflects the best estimate of the risk of losses on loans that have not yet been individually designated as impaired.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in thousands of dollars and as a percentage)	As at September 30, 2016				As at December 31, 2015
	Gross loans and acceptances	**Gross impaired loans**	**Individual allowances for credit losses**	**Net impaired loans**	Net impaired loans
Members and other entities of the Desjardins network	**$ 26,908,892**	**$ -**	**$ -**	**$ -**	$ -
Individuals	**1,459,363**	**2,007**	**42**	**1,965**	2,511
Business and government	**8,372,111**	**11,640**	**1,381**	**10,259**	6,256
Total	**$ 36,740,366**	**$ 13,647**	**$ 1,423**	**$ 12,224**	$ 8,767
As a percentage of gross loans and acceptances		**0.04%**		**0.03%**	0.02%

SPECIFIC COVERAGE RATIO

(as a percentage)	**As at September 30, 2016**	As at December 31, 2015
Individuals	**2.1%**	2.0%
Business and government	**11.9**	19.0
Impaired loan portfolio coverage ratio	**10.4**	14.7

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.

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

A large proportion of CCD'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. CCD'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. The situation in continental Europe will nevertheless need to be closely monitored. Furthermore, some countries in the eurozone may need to recapitalize their banks due to deteriorating conditions in the local economies.

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.

CCD is exposed to market risk primarily through positions taken in the course of its traditional financing and trading activities. It has adopted policies that set out the principles, limits and procedures to use in managing market risk.

Structural interest rate risk management

CCD 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 members' equity. This risk is the main component of market risk for CCD'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 CCD members and clients, and the application of policies on structural interest rate risk management.

Some Consolidated Balance Sheet items are considered non-interest-rate-sensitive instruments, including 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, CCD'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 order to mitigate these risks, 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 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 of CCD's members.

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 on the non-trading portfolio of a sudden and sustained 100-basis-point increase or decrease in interest rates on net interest income, and the economic value of equity of CCD's members.

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)

(in thousands of dollars)	**As at September 30, 2016**		As at June 30, 2016		As at September 30, 2015	
	Net interest income[1]	**Economic value of members' equity[2]**	Net interest income[1]	Economic value of members' equity[2]	Net interest income[1]	Economic value of members' equity[2]
Impact of a 100-basis-point increase in interest rates	**$ 634**	**$ 2,953**	$ 1,380	$ 6,344	$ (12)	$ (3,139)
Impact of a 100-basis-point decrease in interest rates[3]	**(37,716)**	**6,760**	(48,469)	(3,023)	(32,136)	25,481

(1) Represents the interest rate sensitivity of net interest income for the next 12 months.
(2) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(3) The results of the impact of a decrease in interest rates take into consideration the use of a floor level 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, CCD may become exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro. This exposure mainly arises from its intermediation activities with members and clients, and its financing and investment activities. A Desjardins Group policy on market risk has set foreign exchange risk exposure limits, which are monitored by Desjardins Group's Risk Management Executive Division. To ensure that this risk is properly controlled, CCD also uses, among other things, derivative financial instruments such as forward exchange contracts and currency swaps. CCD's residual exposure to this risk is low because it reduces its foreign exchange risk by using derivative financial instruments.

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, CCD calculates an aggregate VaR under stress conditions. 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 VaR under stress conditions 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 VaR under stress conditions for CCD's trading activities by risk category, as well as the diversification effect. Interest rate risk, interest-rate-specific risk and foreign exchange risk are the three risk categories to which CCD 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 thousands of dollars)	For the quarter ended September 30, 2016				For the quarters ended			
					June 30, 2016		September 30, 2015	
	As at September 30, 2016	Average	High	Low	As at June 30, 2016	Average	As at September 30, 2015	Average
Foreign exchange	**$ 280**	**$ 257**	**$ 1,867**	**$ 71**	$ 89	$ 333	$ 447	$ 365
Interest rate	**1,247**	**1,475**	**2,040**	**951**	1,598	1,562	1,960	1,191
Interest rate specific risk[1]	**1,565**	**1,958**	**2,618**	**1,565**	2,167	2,276	2,897	3,415
Diversification effect[2]	**(1,830)**	**(2,178)**	**N/A[3]**	**N/A[3]**	(2,241)	(2,540)	(3,287)	(3,694)
Aggregate VaR	**$ 1,262**	**$ 1,512**	**$ 2,809**	**$ 937**	$ 1,613	$ 1,631	$ 2,017	$ 1,277
Aggregate VaR under stress conditions	**$ 4,451**	**$ 5,526**	**$ 9,348**	**$ 3,172**	$ 6,731	$ 5,930	$ 6,567	$ 5,941

(1) Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving issuer risk such as provinces, municipalities and companies, and a sub-portfolio that contains positions considered to be without issuer risk, such as governments in the local currency.
(2) Represents the risk reduction related to diversification, namely the difference between the sum of the VaRs of the various market risks and the aggregate VaR.
(3) The highs and lows of the various market risk categories can refer to different dates.

The average aggregate VaR of the trading portfolio was $1.5 million for the quarter ended September 30, 2016, a decrease of $0.1 million from the quarter ended June 30, 2016. This decline was primarily due to a $0.1 million decrease in the average of the interest rate VaR. The average aggregate VaR under stress conditions was $5.5 million for the quarter ended September 30, 2016, a decrease of $0.4 million from the quarter ended June 30, 2016. Note that the model and the assumptions did not change over the periods presented.

Aggregate VaR and aggregate VaR under stress conditions 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.

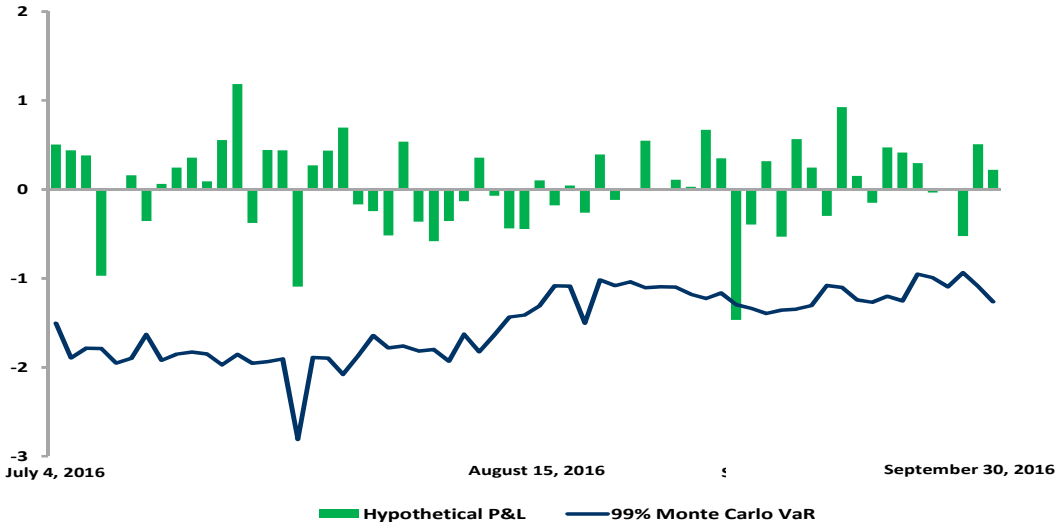
Back testing

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.

CCD 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 hypothetical P&L related to these activities. In the third quarter of 2016, the hypothetical P&L was exceeded by $0.2 million on September 7 due to an increase in interest rates.

VaR COMPARED TO HYPOTHETICAL P&L FOR TRADING ACTIVITIES
(in millions of dollars)



Stress testing

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

The stress-testing program used for trading portfolios includes historical, hypothetical and sensitivity scenarios based, for instance, on events such as 9/11 or the 2008 credit crisis. Using these simulations, changes can be monitored in the market value of positions held depending on various scenarios. Most stress-testing is predictive. For a given simulation, shocks are applied to certain risk factors (interest rates, exchange rates, commodities) and the effects of these shocks are passed on to all the risk factors taking historical correlations into account. The running of each simulation is considered to be independent of the others. In addition, certain simulations are 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.

LIQUIDITY RISK

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

In its role as Treasurer to Desjardins Group, CCD is exposed to liquidity risk. 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 adopting a contingency plan to implement in the event of a liquidity crisis.

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. The regulatory requirements concerning the NSFR should take effect on January 1, 2018, and Desjardins Group intends to comply with the NSFR requirements once they 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 124.4% for the quarter ended September 30, 2016, compared to 121.5% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Desjardins Group's Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets to meet its financing needs.

Furthermore, Desjardins Group issues covered bonds and securitized CHMC-insured loans in the course of its normal operations. Desjardins Group is also eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances. Note that the Government of Canada has passed a bill to amend several federal laws, limiting access by provincial cooperative credit associations to federal intervention tools. These amendments are not yet in force. For further information, refer to the "Changes in the regulatory environment" section of this MD&A.

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, the caisse network, and CCD 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 Division 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 to Desjardins Group combined with a shock on capital markets, make it possible to:

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

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

Sources of refinancing

Core funding, which includes capital and a diversified deposit portfolio, is the foundation upon which CCD's liquidity position depends. Wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $42.4 billion as at September 30, 2016, an increase of $0.6 billion since December 31, 2015. Additional information on deposits is presented in the "Balance sheet review" section of this MD&A.

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

REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in thousands of dollars)	As at September 30, 2016								As at December 31, 2015
	Less than 1 month	**From 1 to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 12 months**	**Total – Less than 1 year**	**From 1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 1,586,939**	**$ 1,431,717**	**$ 91,019**	**$ 1,954**	**$ 3,111,629**	**$ -**	**$ -**	**$ 3,111,629**	$ 2,169,851
Commercial paper	**780,283**	**2,618,477**	**1,132,799**	**-**	**4,531,559**	**-**	**-**	**4,531,559**	7,068,954
Medium-term notes	**799,970**	**-**	**360,601**	**3,082,529**	**4,243,100**	**3,382,483**	**4,178,551**	**11,804,134**	10,204,992
Mortgage securitization	**-**	**684,292**	**-**	**650,006**	**1,334,298**	**1,838,864**	**5,036,417**	**8,209,579**	7,620,009
Covered bonds	**-**	**-**	**1,967,024**	**-**	**1,967,024**	**-**	**4,410,559**	**6,377,583**	7,954,442
Total	**$ 3,167,192**	**$ 4,734,486**	**$ 3,551,443**	**$ 3,734,489**	**$ 15,187,610**	**$ 5,221,347**	**$ 13,625,527**	**$ 34,034,484**	$ 35,018,248
Including:									
Secured	**$ -**	**$ 684,292**	**$ 1,967,024**	**$ 650,006**	**$ 3,301,322**	**$ 1,838,864**	**$ 9,446,976**	**$ 14,587,162**	$ 15,574,451
Unsecured	**3,167,192**	**4,050,194**	**1,584,419**	**3,084,483**	**11,886,288**	**3,382,483**	**4,178,551**	**19,447,322**	19,443,797

Total wholesale funding decreased $1.0 billion compared to December 31, 2015 mainly because of a decline in commercial paper and covered bonds, partially offset by growth in medium-term notes and bearer discount notes.

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

WHOLESALE FUNDING BY CURRENCY

(in thousands of dollars and as a percentage)	As at September 30, 2016		As at December 31, 2015	
Canadian dollars	**$ 15,625,211**	**45.9%**	$ 14,081,204	40.2%
U.S. dollars	**9,739,560**	**28.6**	13,498,584	38.6
Other	**8,669,713**	**25.5**	7,438,460	21.2
	$ 34,034,484	**100.0%**	$ 35,018,248	100.0%

Refinancing programs and strategies

As Desjardins Group's Treasurer, CCD meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks. These strategies are regulated by policies. In the first nine months of 2016, CCD managed to maintain a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy and solid institutional refinancing.

In order to secure long-term refinancing at the lowest cost on the market, CCD 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 refinancing, CCD 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 CCD are as follows:

MAIN REFINANCING PROGRAMS
As at September 30, 2016

Refinancing program	Maximum authorized amount
Medium-term notes (Canadian)	$7 billion
Covered bonds (multi-currency)	€5 billion[(1)]
Short-term notes (European)	€3 billion
Short-term notes (U.S.)	US$10 billion
Medium-term notes (multi-currency)	€7 billion

(1) This maximum authorized amount covers CCD's Structured Covered Bond Program (2011) and its Legislative Covered Bond Program (2014).

CCD also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.4 billion in the first nine months of 2016. During the same period, CCD also completed one issue under its multi-currency medium-term note program for a total amount of €1.0 billion on the European market.

Outstanding notes issued under CCD's medium-term refinancing programs amounted to $26.4 billion as at September 30, 2016 compared to $25.8 billion as at December 31, 2015. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Consolidated Balance Sheets.

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

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

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria such as capitalization and the quality of assets, but also factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis, because the credit ratings of CCD 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.

During the first nine months of 2016, CCD's credit ratings remained unchanged. On August 22, 2016, the rating agency DBRS confirmed the credit ratings and their outlooks, just as Fitch, Moody's and Standard & Poor's (S&P) had done in the first half of 2016.

Moreover, following the announcement on October 27, 2016 of the project to merge CCD with the Federation, the four credit rating agencies (Moody's, S&P, DBRS and Fitch) indicated that the merger should not lead to any changes in the credit ratings assigned to CCD and its issuance programs. Furthermore, S&P and Moody's began rating the Federation, assigning ratings equal to those of CCD.

S&P's and Fitch's ratings outlooks for CCD are stable, but DBRS's and Moody's outlooks for CCD and the six major Canadian banks are still negative. DBRS and Moody's justified their decision to assign a negative ratings outlook to CCD as well as 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.

CCD thus continues to 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
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-

Desjardins Group regularly monitors the additional level of obligations its counterparties would require in the event of a credit rating downgrade for CCD. This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capacity, perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral necessary to meet its obligations. In the event that CCD's credit rating were lowered three notches by one or several rating agencies, CCD would be obliged to provide collateral amounting to $1.2 billion in order to meet its commitments related to the program for asset-backed term notes (ABTN) restructured under the Montreal Accord. In such a situation, the pledging of assets would reduce CCD's liquidity reserves by an amount equal to the value of the collateral deposited, which would then be considered encumbered and therefore unusable. This amount will remain in effect until the Montreal Accord expires in January 2017.

OPERATIONAL RISK

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events and resulting in losses, failure to achieve objectives or a negative impact on reputation.

Operational risk is inherent to all business activities as well as internal and outsourced activities. It may lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems (e.g. cybercrime), or problems or errors in process management. Although this risk cannot be eliminated entirely, measures are in place at Desjardins Group, including CCD, to maintain it at an acceptable level.

Operational risk management framework

The purpose of the operational risk management framework is to identify, measure, mitigate and monitor this risk as well as make interventions and disclosures for operational risk in accordance with risk appetite and tolerance and the frameworks adopted by the Board of Directors. It is supported by guidelines setting out operational risk management foundations.

The operational risk management framework is reviewed annually to ensure its adequacy and relevance based on Desjardins Group's risk profile and developments in industry practices.

In keeping with the global trend, Desjardins Group considers technology risk a major operational risk. To better respond to it, a specific management framework has been put in place that coordinates with the operational risk management framework and is supported by a specific control framework.

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

DERIVATIVE FINANCIAL INSTRUMENTS

(in thousands of dollars)	As at September 30, 2016			As at December 31, 2015		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps[1]	**$ 296,755**	**$ 754**	**$ -**	$ 307,600	$ 2,683	$ -
Total return swaps[2]	**105,973**	**4,115**	**1,160**	89,938	1,269	1,802

[1] Credit default swaps are presented in the Consolidated Balance Sheets as derivative financial instruments.
[2] These amounts do not include any amounts realized as part of securitization activities. Total return swaps are presented in the Consolidated Balance Sheets as derivative financial instruments.

LEVERAGED FINANCE LOANS AND SUBPRIME LOANS

(in thousands of dollars)	As at September 30, 2016	As at December 31, 2015
Leveraged finance loans[1]	**$ 175,594**	$ 203,364
Alt-A mortgage loans[2]	**26,473**	35,020
Subprime residential mortgage loans[3]	**1,884**	2,020

[1] Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
[2] Alt-A mortgage loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans - Individuals" and are measured at amortized cost.
[3] Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans - Individuals" and are measured at amortized cost.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended September 30, 2016, CCD 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 45 and 46 of the 2015 Annual Report.

RELATED PARTY DISCLOSURES

In the normal course of business, CCD 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.

CCD 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 applicable legislative framework. These policies and procedures have not changed significantly since December 31, 2015.

Additional information on CCD's related party transactions is provided in Note 26, "Related party disclosures", to the Annual Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by CCD is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to CCD's Annual Consolidated Financial Statements on pages 62 to 75 of the 2015 Annual Report.

Some of these policies are of particular importance in presenting CCD'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 46 to 49 of the 2015 Annual Report.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first nine months of 2016.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2015 are discussed in Note 2, "Basis of presentation and significant accounting policies", to CCD's Annual Consolidated Financial Statements, on pages 74 and 75 of the 2015 Annual Report. Since then, the IASB has issued the following standard and amendments:

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", to replace the current standard IAS 17, "Leases". IFRS 16 sets out lease recognition, measurement, presentation and disclosure principles. It introduces a single accounting model for lessees, requiring on-balance sheet recognition of lease assets and liabilities for most leases and eliminating the current distinction between operating and finance leases. For lessors, however, the distinction between operating and finance leases is retained. CCD is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

IFRS 15, "Revenue from Contracts with Customers"

In April 2016, the IASB issued amendments to IFRS 15, "Revenue from Contracts with Customers", to further clarify revenue recognition and transitional provisions with respect to the initial application. CCD is currently assessing the impact of adopting these amendments, which will be applicable on the effective date of IFRS 15 (annual periods beginning on or after January 1, 2018).

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CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands of Canadian dollars)	Notes	As at September 30, 2016	As at December 31, 2015
ASSETS			
Cash and deposits with financial institutions		**$ 537,275**	$ 389,404
Securities			
Securities at fair value through profit or loss		**2,108,963**	2,109,389
Available-for-sale securities	5	**6,336,098**	6,121,079
		8,445,061	8,230,468
Securities purchased under reverse repurchase agreements		**1,931,907**	1,947,054
Loans	6		
Members and other entities of the Desjardins network		**26,908,892**	25,995,474
Individuals		**1,459,363**	1,487,194
Business and government		**8,349,051**	8,343,762
		36,717,306	35,826,430
Allowance for credit losses	6	**(65,154)**	(69,224)
		36,652,152	35,757,206
Other assets			
Clients' liability under acceptances		**23,060**	376,130
Derivative financial instruments	9	**3,501,372**	4,524,141
Deferred tax assets		**50,710**	52,024
Other		**649,306**	565,328
		4,224,448	5,517,623
TOTAL ASSETS		**$ 51,790,843**	$ 51,841,755
LIABILITIES AND MEMBERS' EQUITY			
LIABILITIES			
Deposits	8		
Individuals		**$ 145,200**	$ 173,314
Business and government		**38,107,777**	39,061,774
Deposit-taking institutions		**4,139,970**	2,575,057
		42,392,947	41,810,145
Other liabilities			
Acceptances		**23,060**	376,130
Commitments related to securities sold short		**1,015,218**	984,040
Commitments related to securities sold under repurchase agreements		**5,031**	217,337
Derivative financial instruments	9	**2,376,035**	2,462,182
Net defined benefit plan liabilities		**46,486**	37,200
Other		**2,809,048**	2,835,926
		6,274,878	6,912,815
TOTAL LIABILITIES		**48,667,825**	48,722,960
MEMBERS' EQUITY			
Capital stock		**3,087,206**	3,087,206
Retained earnings		**7,274**	6,768
Accumulated other comprehensive income	10	**27,071**	23,354
General reserve		**1,467**	1,467
TOTAL MEMBERS' EQUITY		**3,123,018**	3,118,795
TOTAL LIABILITIES AND MEMBERS' EQUITY		**$ 51,790,843**	$ 51,841,755

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

On behalf of the Board of Directors of *Caisse centrale Desjardins,*

Guy Cormier
Chair of the Board

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands of Canadian dollars)	Note	For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	**2016**	2015
INTEREST INCOME					
Loans		**$ 194,041**	$ 174,990	**$ 569,063**	$ 518,319
Securities		**44,256**	40,283	**135,412**	119,441
		238,297	215,273	**704,475**	637,760
INTEREST EXPENSE					
Deposits		**150,192**	136,010	**433,602**	401,471
		150,192	136,010	**433,602**	401,471
NET INTEREST INCOME		**88,105**	79,263	**270,873**	236,289
OTHER INCOME					
Deposit and payment service charges		**6,448**	6,061	**19,369**	17,756
Foreign exchange income		**16,263**	15,888	**42,125**	45,027
Net income (loss) on securities at fair value through profit or loss		**4,179**	(5,743)	**16,255**	30,969
Net gains on available-for-sale securities		**6,238**	2,529	**13,663**	4,339
Credit fees		**1,880**	1,811	**6,114**	6,240
Management fees		**960**	1,094	**2,986**	3,045
Other		**1,805**	955	**2,808**	1,588
		37,773	22,595	**103,320**	108,964
TOTAL INCOME		**125,878**	101,858	**374,193**	345,253
PROVISION FOR CREDIT LOSSES (RECOVERY)	6	**(3,668)**	(529)	**(16,946)**	6,238
		129,546	102,387	**391,139**	339,015
NON-INTEREST EXPENSE					
Salaries and fringe benefits		**13,111**	12,652	**34,526**	36,656
Premises, equipment and furniture, including depreciation		**3,296**	2,872	**10,044**	7,902
Service agreements and outsourcing		**19,936**	16,219	**55,651**	47,117
Fees		**2,392**	2,467	**6,635**	6,735
Other		**6,583**	5,848	**23,254**	17,391
		45,318	40,058	**130,110**	115,801
OPERATING INCOME BEFORE OTHER PAYMENTS TO THE DESJARDINS NETWORK		**84,228**	62,329	**261,029**	223,214
Other payments to the Desjardins network		**10,606**	10,725	**32,485**	31,364
OPERATING INCOME		**73,622**	51,604	**228,544**	191,850
Income taxes		**18,113**	12,373	**57,747**	47,085
Income tax recovery on remuneration on capital stock		**(18,456)**	(12,966)	**(56,128)**	(47,517)
NET INCOME FOR THE PERIOD		**$ 73,965**	$ 52,197	**$ 226,925**	$ 192,282

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in thousands of Canadian dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	**2016**	2015
Net income for the period	**$ 73,965**	$ 52,197	**$ 226,925**	$ 192,282
Other comprehensive income, net of income taxes				
Item that will not be reclassified subsequently to the Consolidated Statements of Income				
Remeasurement of net defined benefit plan liabilities	**(2,296)**	(288)	**(6,922)**	3,526
	(2,296)	(288)	**(6,922)**	3,526
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**2,194**	(20,495)	**11,160**	(3,734)
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(4,629)**	(1,895)	**(10,134)**	(3,251)
	(2,435)	(22,390)	**1,026**	(6,985)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**612**	(28)	**1,924**	(129)
Reclassification to the Consolidated Statements of Income of losses on derivative financial instruments designated as cash flow hedges	**345**	129	**1,099**	718
	957	101	**3,023**	589
Net unrealized exchange gains (losses) on the translation of an investment in a foreign operation, net of a loss of $0.4 million and a loss of $1.6 million on hedging transactions for the three-month periods ended September 30, 2016 and 2015 (gain of $1.4 million and loss of $3.3 million for the nine-month periods)	**99**	359	**(332)**	727
Total other comprehensive income	**(3,675)**	(22,218)	**(3,205)**	(2,143)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 70,290**	$ 29,979	**$ 223,720**	$ 190,139

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

(in thousands of Canadian dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	**2016**	2015
Item that will not be reclassified subsequently to the Consolidated Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ (799)**	$ (104)	**$ (2,455)**	$ 1,287
	(799)	(104)	**(2,455)**	1,287
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**761**	(6,888)	**3,802**	(1,237)
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(1,610)**	(634)	**(3,529)**	(1,088)
	(849)	(7,522)	**273**	(2,325)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**213**	(9)	**671**	(43)
Reclassification to the Consolidated Statements of Income of losses on derivative financial instruments designated as cash flow hedges	**121**	43	**384**	240
	334	34	**1,055**	197
	(515)	(7,488)	**1,328**	(2,128)
Total income tax recovery	**$ (1,314)**	$ (7,592)	**$ (1,127)**	$ (841)

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(unaudited)

For the nine-month periods ended September 30

(in thousands of Canadian dollars)	Capital stock	Retained earnings	Accumulated other comprehensive income (Note 10)	General reserve	Total members' equity
BALANCE AS AT DECEMBER 31, 2015	**$ 3,087,206**	**$ 6,768**	**$ 23,354**	**$ 1,467**	**$ 3,118,795**
Net income for the period	**-**	**226,925**	**-**	**-**	**226,925**
Other comprehensive income for the period	**-**	**(6,922)**	**3,717**	**-**	**(3,205)**
Comprehensive income for the period	**-**	**220,003**	**3,717**	**-**	**223,720**
Remuneration on capital stock	**-**	**(219,497)**	**-**	**-**	**(219,497)**
BALANCE AS AT SEPTEMBER 30, 2016	**$ 3,087,206**	**$ 7,274**	**$ 27,071**	**$ 1,467**	**$ 3,123,018**
BALANCE AS AT DECEMBER 31, 2014	$ 2,787,206	$ 2,322	$ 25,069	$ 1,467	$ 2,816,064
Net income for the period	-	192,282	-	-	192,282
Other comprehensive income for the period	-	3,526	(5,669)	-	(2,143)
Comprehensive income for the period	-	195,808	(5,669)	-	190,139
Issuance of Class A capital shares	300,000	-	-	-	300,000
Remuneration on capital stock	-	(191,600)	-	-	(191,600)
BALANCE AS AT SEPTEMBER 30, 2015	$ 3,087,206	$ 6,530	$ 19,400	$ 1,467	$ 3,114,603

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands of Canadian dollars)	For the nine-month periods ended September 30 2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating income	**$ 228,544**	$ 191,850
Non-cash adjustments:		
Depreciation of premises and equipment and amortization of intangible assets	**6,450**	4,708
Provision for credit losses (recovery)	**(16,946)**	6,238
Net realized gains on available-for-sale securities	**(13,663)**	(4,339)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**426**	(1,183,641)
Securities purchased under reverse repurchase agreements	**15,147**	(2,838,306)
Loans	**(890,919)**	(4,087,608)
Derivative financial instruments, net amount	**936,622**	(1,160,277)
Deposits	**582,802**	6,575,588
Commitments related to securities sold short	**31,178**	856,242
Commitments related to securities sold under repurchase agreements	**(212,306)**	1,067,386
Other	**(74,699)**	530,512
Income taxes paid	**(847)**	(24,251)
	591,789	(65,898)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of Class A capital shares	**-**	300,000
Remuneration on capital stock paid	**(226,914)**	(177,801)
	(226,914)	122,199
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**(26,230,539)**	(23,218,253)
Proceeds from disposals of available-for-sale securities	**3,164,545**	6,471,755
Proceeds from maturities of available-for-sale securities	**22,848,618**	16,424,094
Acquisitions of premises and equipment and intangible assets	**(58)**	(3,559)
Proceeds from disposals of premises and equipment and intangible assets	**430**	1,453
	(217,004)	(324,510)
Net increase (decrease) in cash and cash equivalents	**147,871**	(268,209)
Cash and cash equivalents at beginning of period	**389,404**	537,581
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 537,275**	$ 269,372
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 395,138**	$ 369,311
Interest received	**622,957**	607,193

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – INFORMATION ON *CAISSE CENTRALE DESJARDINS*

NATURE OF OPERATIONS

Caisse centrale Desjardins du Québec (CCD), created on June 22, 1979, is a cooperative institution that offers financial services to Desjardins Group, governments, public and parapublic sector institutions, individuals, medium-sized businesses and large corporations. It serves the needs of the *Fédération des caisses Desjardins du Québec* (the Federation), the Desjardins caisses (the member caisses) and other Desjardins Group components. CCD's mandate is to provide institutional funding for the Desjardins network and to act as financial agent, in particular by supplying interbank exchange services, including clearing house settlements. CCD's activities on the Canadian and international markets complement those of other Desjardins Group entities. The Desjardins network comprises the entities included in the group scope of Desjardins Group. The various business segments in which CCD operates are described in Note 13, "Segmented information". The address of its head office is 1170 Peel Street, Suite 600, Montreal, Quebec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

Pursuant to the *Act Respecting Financial Services Cooperatives*, these unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) have been prepared by CCD'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.

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 2015, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

These Interim Consolidated Financial Statements were approved by the Board of Directors of CCD on November 10, 2016.

PRESENTATION AND FUNCTIONAL CURRENCY

These Interim Consolidated Financial Statements are expressed in Canadian dollars, which is also the functional currency of CCD. Dollar amounts presented in the tables of the Notes to the Interim Consolidated 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, 2015, are described in Note 2, "Basis of presentation and significant accounting policies" to the Annual Consolidated Financial Statements. The IASB since issued the following standards and amendments:

IFRS 15, "Revenues from contracts with customers"

In April 2016, the IASB issued amendments to IFRS 15, "Revenues from contracts with customers", to further clarify revenue recognition and transition provisions with respect to initial application. CCD is currently assessing the impact of adopting these amendments, which will be effective on the effective date of IFRS 15 (annual periods beginning on or after January 1, 2018).

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace the current standard, IAS 17, "Leases". IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar. CCD is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss					
As at September 30, 2016	**Held for trading**	**Designated as at fair value through profit or loss**	**Available-for-sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Derivatives designated as hedging instruments[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	**$ -**	**$ -**	**$ -**	**$ 537,275**	**$ -**	**$ 537,275**
Securities						
Securities at fair value through profit or loss	**2,108,963**	**-**	**-**	**-**	**-**	**2,108,963**
Available-for-sale securities	**-**	**-**	**6,336,098**	**-**	**-**	**6,336,098**
Securities purchased under reverse repurchase agreements	**-**	**-**	**-**	**1,931,907**	**-**	**1,931,907**
Loans[1]	**-**	**-**	**-**	**36,652,152**	**-**	**36,652,152**
Other financial assets						
Clients' liability under acceptances	**-**	**-**	**-**	**23,060**	**-**	**23,060**
Derivative financial instruments	**2,260,549**	**-**	**-**	**-**	**1,240,823**	**3,501,372**
Other	**-**	**-**	**-**	**614,490**	**-**	**614,490**
Total financial assets	**$ 4,369,512**	**$ -**	**$ 6,336,098**	**$ 39,758,884**	**$ 1,240,823**	**$ 51,705,317**
Financial liabilities						
Deposits	**$ -**	**$ -**	**$ -**	**$ 42,392,947**	**$ -**	**$ 42,392,947**
Other financial liabilities						
Acceptances	**-**	**-**	**-**	**23,060**	**-**	**23,060**
Commitments related to securities sold short	**1,015,218**	**-**	**-**	**-**	**-**	**1,015,218**
Commitments related to securities sold under repurchase agreements	**-**	**-**	**-**	**5,031**	**-**	**5,031**
Derivative financial instruments	**2,191,934**	**-**	**-**	**-**	**184,101**	**2,376,035**
Other	**-**	**-**	**-**	**2,727,551**	**-**	**2,727,551**
Total financial liabilities	**$ 3,207,152**	**$ -**	**$ -**	**$ 45,148,589**	**$ 184,101**	**$ 48,539,842**

(1) For more information, see Note 6, "Loans and allowance for credit losses".
(2) For details on derivatives designated as hedging instruments, see Note 9, "Derivative financial instruments and hedging activities".

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

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

As at December 31, 2015	At fair value through profit or loss: Held for trading	At fair value through profit or loss: Designated as at fair value through profit or loss	Available-for-sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ -	$ -	$ 389,404	$ -	$ 389,404
Securities						
Securities at fair value through profit or loss	2,109,389	-	-	-	-	2,109,389
Available-for-sale securities	-	-	6,121,079	-	-	6,121,079
Securities purchased under reverse repurchase agreements	-	-	-	1,947,054	-	1,947,054
Loans[1]	-	-	-	35,757,206	-	35,757,206
Other financial assets						
Clients' liability under acceptances	-	-	-	376,130	-	376,130
Derivative financial instruments	2,447,246	-	-	-	2,076,895	4,524,141
Other	-	-	-	527,328	-	527,328
Total financial assets	$ 4,556,635	$ -	$ 6,121,079	$ 38,997,122	$ 2,076,895	$ 51,751,731
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 41,810,145	$ -	$ 41,810,145
Other financial liabilities						
Acceptances	-	-	-	376,130	-	376,130
Commitments related to securities sold short	984,040	-	-	-	-	984,040
Commitments related to securities sold under repurchase agreements	-	-	-	217,337	-	217,337
Derivative financial instruments	2,336,302	-	-	-	125,880	2,462,182
Other	-	-	-	2,741,083	-	2,741,083
Total financial liabilities	$ 3,320,342	$ -	$ -	$ 45,144,695	$ 125,880	$ 48,590,917

(1) For more information, see Note 6, "Loans and allowance for credit losses".
(2) For details on derivatives designated as hedging instruments, see Note 9, "Derivative financial instruments and hedging activities".

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments whose fair value equals their 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 purchased under reverse repurchase agreements”, “Clients’ liability under acceptances”, some items included in “Other assets – Other”, “Acceptances”, “Commitments related to securities sold under repurchase agreements” 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 September 30, 2016		As at December 31, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans	**$ 36,652,152**	**$ 36,676,010**	$ 35,757,206	$ 35,714,397
Financial liabilities				
Deposits	**42,392,947**	**42,399,299**	41,810,145	41,732,275

FAIR VALUE HIERARCHY

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

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

Transfers between levels

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at September 30, 2016[1]	Level 1	Level 2	Total
Financial assets			
Financial assets at fair value through profit or loss			
Securities at fair value through profit or loss			
Debt securities issued or guaranteed by:			
Canadian governmental entities	**$ 388,952**	**$ 413,400**	**$ 802,352**
Provincial governmental entities and municipal corporations in Canada	**1,168,524**	**16,123**	**1,184,647**
Foreign public administrations	**45,580**	**-**	**45,580**
Other securities			
Financial institutions	**-**	**76,384**	**76,384**
	1,603,056	**505,907**	**2,108,963**
Derivative financial instruments			
Interest rate contracts	**-**	**1,128,904**	**1,128,904**
Foreign exchange contracts	**-**	**1,197,869**	**1,197,869**
Other contracts	**-**	**1,174,599**	**1,174,599**
	-	**3,501,372**	**3,501,372**
Total financial assets at fair value through profit or loss	**1,603,056**	**4,007,279**	**5,610,335**
Available-for-sale financial assets			
Available-for-sale securities			
Debt securities issued or guaranteed by:			
Canadian governmental entities	**1,707,890**	**587,093**	**2,294,983**
Provincial governmental entities and municipal corporations in Canada	**3,613,553**	**168,854**	**3,782,407**
Foreign public administrations	**-**	**24,692**	**24,692**
Other securities			
Financial institutions	**-**	**222,028**	**222,028**
Other issuers	**-**	**11,988**	**11,988**
Total available-for-sale financial assets	**5,321,443**	**1,014,655**	**6,336,098**
Total financial assets	**$ 6,924,499**	**$ 5,021,934**	**$ 11,946,433**
Financial liabilities			
Financial liabilities held for trading			
Other liabilities			
Commitments related to securities sold short	**$ 1,015,218**	**$ -**	**$ 1,015,218**
	1,015,218	**-**	**1,015,218**
Derivative financial instruments			
Interest rate contracts	**-**	**1,012,736**	**1,012,736**
Foreign exchange contracts	**-**	**229,237**	**229,237**
Other contracts	**-**	**1,134,062**	**1,134,062**
	-	**2,376,035**	**2,376,035**
Total financial liabilities	**$ 1,015,218**	**$ 2,376,035**	**$ 3,391,253**

[1] As at September 30, 2016, no financial instrument was categorized within Level 3.

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

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

As at December 31, 2015[1]	Level 1	Level 2	Total
Financial assets			
Financial assets at fair value through profit or loss			
Securities at fair value through profit or loss			
Debt securities issued or guaranteed by:			
Canadian governmental entities	$ 680,540	$ 500,133	$ 1,180,673
Provincial governmental entities and municipal corporations in Canada	810,927	-	810,927
Foreign public administrations	56,701	-	56,701
Other securities			
Financial institutions	-	61,088	61,088
	1,548,168	561,221	2,109,389
Derivative financial instruments			
Interest rate contracts	-	1,304,459	1,304,459
Foreign exchange contracts	-	2,200,325	2,200,325
Other contracts	-	1,019,357	1,019,357
	-	4,524,141	4,524,141
Total financial assets at fair value through profit or loss	1,548,168	5,085,362	6,633,530
Available-for-sale financial assets			
Available-for-sale securities			
Debt securities issued or guaranteed by:			
Canadian governmental entities	1,758,168	682,856	2,441,024
Provincial governmental entities and municipal corporations in Canada	3,577,663	22,390	3,600,053
Foreign public administrations	-	28,599	28,599
Other securities			
Financial institutions	-	51,403	51,403
Total available-for-sale financial assets	5,335,831	785,248	6,121,079
Total financial assets	$ 6,883,999	$ 5,870,610	$ 12,754,609
Financial liabilities			
Financial liabilities held for trading			
Other liabilities			
Commitments related to securities sold short	$ 984,040	$ -	$ 984,040
	984,040	-	984,040
Derivative financial instruments			
Interest rate contracts	-	1,208,514	1,208,514
Foreign exchange contracts	-	262,511	262,511
Other contracts	-	991,157	991,157
	-	2,462,182	2,462,182
Total financial liabilities	$ 984,040	$ 2,462,182	$ 3,446,222

[1] As at December 31, 2015, no financial instrument was categorized within Level 3.

During the nine-month period ended September 30, 2016 and the year ended December 31, 2015, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

NOTE 5 – SECURITIES

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

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

As at September 30, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by:				
Canadian governmental entities	**$ 2,269,900**	**$ 25,225**	**$ 142**	**$ 2,294,983**
Provincial governmental entities and municipal corporations in Canada	**3,758,433**	**24,128**	**154**	**3,782,407**
Foreign public administrations	**24,276**	**427**	**11**	**24,692**
Other securities				
Financial institutions	**221,949**	**132**	**53**	**222,028**
Other issuers	**11,987**	**1**	**-**	**11,988**
	$ 6,286,545	**$ 49,913**	**$ 360**	**$ 6,336,098**

As at December 31, 2015	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by:				
Canadian governmental entities	$ 2,409,296	$ 32,175	$ 447	$ 2,441,024
Provincial governmental entities and municipal corporations in Canada	3,578,758	26,340	5,045	3,600,053
Foreign public administrations	28,378	340	119	28,599
Other securities				
Financial institutions	51,594	27	218	51,403
	$ 6,068,026	$ 58,882	$ 5,829	$ 6,121,079

Impairment losses recognized

During the nine-month periods ended September 30, 2016 and 2015, CCD concluded that there was no objective evidence of material impairment. Accordingly, no impairment losses have been recognized for these periods.

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at September 30, 2016	**Gross loans neither past due nor impaired**	**Gross loans past due but not impaired**	**Gross impaired loans**	**Individual allowances**	**Collective allowance**	**Net loans**
Members and other entities of the Desjardins network	**$ 26,908,892**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 26,908,892**
Individuals	**1,455,465**	**1,891**	**2,007**	**42**	**2,245**	**1,457,076**
Business and government	**8,337,092**	**319**	**11,640**	**1,381**	**61,486**	**8,286,184**
	$ 36,701,449	**$ 2,210**	**$ 13,647**	**$ 1,423**	**$ 63,731**	**$ 36,652,152**

As at December 31, 2015	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance	Net loans
Members and other entities of the Desjardins network	$ 25,995,474	$ -	$ -	$ -	$ -	$ 25,995,474
Individuals	1,482,265	2,367	2,562	51	1,936	1,485,207
Business and government	8,335,810	233	7,719	1,463	65,774	8,276,525
	$ 35,813,549	$ 2,600	$ 10,281	$ 1,514	$ 67,710	$ 35,757,206

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

	1 to 29 days	**30 to 59 days**	**60 to 89 days**	**90 days and more**	**Total**
As at September 30, 2016	**$ 147**	**$ 1,744**	**$ -**	**$ 319**	**$ 2,210**
As at December 31, 2015	$ 109	$ 1,745	$ 513	$ 233	$ 2,600

ALLOWANCES FOR CREDIT LOSSES

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

For the nine-month periods ended September 30	**2016**	2015
Balance at beginning of period	**$ 125,678**	$ 111,578
Provision for credit losses (recovery)	**(16,946)**	6,238
Write-offs and recoveries	**-**	6
Exchange rate fluctuations	**51**	780
Balance at end of period	**$ 108,783**	$ 118,602
Composed of:		
Allowance for credit losses	**$ 65,154**	$ 66,161
Allowance for off-balance sheet items[(1)]	**43,629**	52,441

(1) The allowance for off-balance sheet items is presented under “Other liabilities – Other”.

NOTE 7 – COVERED BONDS

Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by CCD. The operations of each of these entities are included in the Consolidated Financial Statements of CCD as they are controlled by CCD. CCD granted to each of these entities financing to facilitate the acquisition of the assets by one or another of them for purposes of guaranteeing the covered bonds issued. The financing granted by CCD may reach a maximum amount equal to the outstanding loans held by these entities for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, CCD has limited access to the assets that are legally owned by one or another of these structured entities. These assets do not meet the recognition criteria neither for the relevant structured entities nor for CCD, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $6,377.6 million as at September 30, 2016 ($7,954.4 million as at December 31, 2015), are presented under “Deposits – Business and government” in the Consolidated Balance Sheets.

NOTE 8 – DEPOSITS

Deposits consist of demand deposits and term deposits. Demand deposits are interest-bearing or non-interest-bearing deposits, primarily accounts with chequing privileges, for which CCD does not have the 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 one day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at September 30, 2016			As at December 31, 2015		
	Payable on demand	**Payable on a fixed date**	**Total**	Payable on demand	Payable on a fixed date	Total
Individuals	**$ 138,090**	**$ 7,110**	**$ 145,200**	$ 164,838	$ 8,476	$ 173,314
Business and government	**2,743,951**	**35,363,826**	**38,107,777**	2,519,004	36,542,770	39,061,774
Deposit-taking institutions	**3,150,139**	**989,831**	**4,139,970**	1,524,704	1,050,353	2,575,057
	$ 6,032,180	**$ 36,360,767**	**$ 42,392,947**	$ 4,208,546	$ 37,601,599	$ 41,810,145

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The following table presents the fair value of derivative financial instruments recognized in the Consolidated Balance Sheets.

	As at September 30, 2016			As at December 31, 2015		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges	**$ 34,663,602**	**$ 1,240,592**	**$ 183,709**	$ 34,205,358	$ 2,076,542	$ 125,559
Cash flow hedges	**309,200**	**231**	**392**	274,500	353	321
Total – Designated as hedging instruments	**34,972,802**	**1,240,823**	**184,101**	34,479,858	2,076,895	125,880
Trading purposes	**219,184,911**	**2,260,549**	**2,191,934**	207,627,497	2,447,246	2,336,302
Total derivative financial instruments before impact of master netting agreements	**254,157,713**	**3,501,372**	**2,376,035**	242,107,355	4,524,141	2,462,182
Less:						
Impact of master netting agreements[(1)]	**-**	**576,287**	**576,287**	-	557,952	557,952
Total derivative financial instruments after impact of master netting agreements	**$ 254,157,713**	**$ 2,925,085**	**$ 1,799,748**	$ 242,107,355	$ 3,966,189	$ 1,904,230

(1) Impact of offsetting credit exposure when CCD holds master netting agreements without the intention of settling on a net basis or simultaneously.

HEDGING ACTIVITIES

The following table presents the net amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income (loss) on securities at fair value through profit or loss" in the Consolidated Statements of Income.

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	**2016**	2015
Fair value hedges ineffectiveness	**$ 3,972**	$ 3,870	**$ 13,712**	$ 28,619
Cash flow hedges ineffectiveness	**(1)**	(6)	**9**	7

CCD uses foreign currency deposits maturing in the 12 months following the reporting date as hedging instruments for a net investment in a foreign operation. The fair value of these deposits was $25.1 million as at September 30, 2016 ($25.5 million as at September 30, 2015). For the nine-month periods ended September 30, 2016 and 2015, no ineffectiveness arising from hedging the net investment in a foreign operation was recognized in the Consolidated Statements of Income.

NOTE 10 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at September 30, 2016	As at December 31, 2015
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net unrealized gains on available-for-sale securities	**$ 25,986**	$ 24,960
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**527**	(2,496)
Net unrealized exchange gains on the translation of an investment in a foreign operation, net of a loss of $4.9 million (loss of $6.3 million in 2015) on hedging transactions	**558**	890
Accumulated other comprehensive income	**$ 27,071**	$ 23,354

NOTE 11 – CAPITAL MANAGEMENT

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

In addition, Section 46 of the *Act respecting the Mouvement Desjardins* stipulates that CCD shall maintain an adequate capital base consistent with sound and prudent management, in accordance with the standards of the Federation (approved by the AMF). Furthermore, the member federations have formally undertaken to maintain CCD's total capital at an amount that maintains the leverage ratio and the total capital ratio at minimum levels that are equal to established standards.

CCD's capital ratios and leverage ratio are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. The capital ratios are expressed as a percentage of regulatory capital over risk-weighted assets, while the leverage ratio is defined as an independent risk measurement corresponding to 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 exposures.

CCD maintains a general reserve that can be used only to eliminate a deficit. During the nine-month periods ended September 30, 2016 and 2015, no transfer to retained earnings was made.

CCD was in compliance with the requirements with respect to minimum capital as at September 30, 2016.

NOTE 12 – NET INCOME (LOSS) ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	**2016**	2015
Income				
Net interest income	**$ 8,515**	$ 5,516	**$ 31,127**	$ 16,558
Other income	**4,179**	(6,253)	**16,255**	31,075
	$ 12,694	$ (737)	**$ 47,382**	$ 47,633

NOTE 13 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	Business and Institutional Services[1]		Desjardins Group Treasury		Other		Total	
For the three-month periods ended September 30	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income	**$ 38,334**	$ 38,227	**$ 47,262**	$ 38,623	**$ 2,509**	$ 2,413	**$ 88,105**	$ 79,263
Other income	**18,491**	18,332	**18,892**	3,546	**390**	717	**37,773**	22,595
Total income	**$ 56,825**	$ 56,559	**$ 66,154**	$ 42,169	**$ 2,899**	$ 3,130	**$ 125,878**	$ 101,858

[1] For the three-month period ended September 30, 2016, the U.S. branch's total income amounted to $0.9 million ($0.9 million for the three-month period ended September 30, 2015).

	Business and Institutional Services[1]		Desjardins Group Treasury		Other		Total	
For the nine-month periods ended September 30	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income	**$ 117,410**	$ 109,667	**$ 145,915**	$ 119,792	**$ 7,548**	$ 6,830	**$ 270,873**	$ 236,289
Other income	**53,833**	53,470	**47,729**	53,391	**1,758**	2,103	**103,320**	108,964
Total income	**$ 171,243**	$ 163,137	**$ 193,644**	$ 173,183	**$ 9,306**	$ 8,933	**$ 374,193**	$ 345,253

[1] For the nine-month period ended September 30, 2016, the U.S. branch's total income amounted to $2.6 million ($2.5 million for the nine-month period ended September 30, 2015).

SEGMENT ASSETS

	Business and Institutional Services[1]	Desjardins Group Treasury	Other	Total
As at September 30, 2016	**$ 9,590,961**	**$ 41,949,206**	**$ 250,676**	**$ 51,790,843**
As at December 31, 2015	$ 9,962,344	$ 41,622,838	$ 256,573	$ 51,841,755

[1] As at September 30, 2016, the U.S. branch's assets amounted to $84.8 million compared to $97.3 million as at December 31, 2015.

NOTE 14 – SUBSEQUENT EVENT

MERGER PROJECT

On October 27, 2016, the boards of directors of the Federation and CCD convened special general meetings of their members, to be held on November 28, 2016, to submit a proposal to merge the Federation with CCD, through absorption by the Federation. Each of the special general meetings will be asked to approve the merger by adopting a merger by-law, to be passed by a 2/3 majority of the votes cast.

Should the proposal be adopted at these meetings, the merger will take effect shortly after the required regulatory approvals have been obtained. The directors and management of the Federation and CCD expect the merger to take effect on January 1, 2017.

Upon completion of the merger, CCD will continue to exist within the Federation, which will then have all CCD's rights and will be responsible for all CCD's obligations, in addition to its own rights and obligations.

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