COMBINED FINANCIAL STATEMENTS OF DESJARDINS GROUP

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Annual report by the Audit and Inspection Commission

The role of the Audit and Inspection Commission (AIC) is to support the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation) in its oversight responsibilities for Desjardins Group. Its mandate consists primarily of analyzing the financial statements, their presentation and the quality of the accounting principles adopted, risk management relating to financial reporting, internal control systems, internal audit and independent audit processes, the procedures applied to these audits, and the management of regulatory compliance.

The AIC reviews Desjardins Group's interim and annual financial statements, related press releases, as well as interim and annual Management's Discussion and Analysis. The AIC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, asset protection, fraud detection, and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of the caisse network and Desjardins Group. The AIC analyzes the information resulting from this financial governance process every quarter.

The AIC also examines various files relating to developments in the caisse network, including information on the financial position of the caisses and any special circumstances detected, follow-up measures, credit losses, and the application of certain accounting policies and practices, such as the method of managing the collective allowance. The AIC oversees the completion of the Desjardins Group Monitoring Office's monitoring action plan and reviews monitoring reports, including corrective actions and follow-up measures. At the end of the fiscal year, the AIC reviews the Monitoring Office's annual report, which presents the results of the year's oversight activities for the caisse network and the highlights of the fiscal year.

The independent auditor is under the authority of the AIC. To fulfill its responsibilities in this regard, the AIC ensures and preserves the independent auditor's independence by authorizing all of its non-audit services, by recommending to the Board of Directors of the Federation its appointment or the continuance of its engagement, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AIC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual strategy, its reports, its letter to management, and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of the key players involved. Accordingly, the AIC receives a quarterly report on the contracts awarded to the independent auditor by each of the Desjardins Group entities.

The AIC ensures the independence of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AIC analyzes the annual internal audit strategy as well as the internal audit team's responsibilities, performance, objectivity and staffing. It also reviews the internal audit team's summary reports and, if necessary, takes appropriate follow-up action. As part of this review, the AIC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to Desjardins Group's relations with the *Autorité des marchés financiers* (AMF) in Quebec, the AIC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AIC meets privately with: the independent auditor; the Senior Executive Vice-President and Chief Operating Officer of Desjardins Group, the Executive Vice-President of Finance, Treasury, Administration and Chief Financial Officer of Desjardins Group; the Chief Monitoring Officer of Desjardins Group; and AMF representatives. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AIC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AIC is made up of five independent directors and three observers. These observers are: the chairs of the audit and risk management committees of Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc. and a caisse general manager who sits on the Federation's Board of Directors. Except for the general manager, none of the AIC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including committees and commissions.

All AIC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AIC's charter. In light of the significant changes made to accounting and financial reporting requirements, the AIC members attended a number of training activities during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards as well as the impact of changes to the normative and regulatory frameworks to which capital management and corporate governance are subject.

The AIC held eight meetings and its members attended one training session in fiscal 2016. During the year, André Gagné, CPA, CGA and Donat Boulerice left the AIC and Serges Chamberland and Stéphane Corbeil became members. As at December 31, 2016, the five independent directors who are members of the AIC are: Jacques Baril; Serges Chamberland; Stéphane Corbeil; Luc Forand; and Benoît Turcotte. The three observers are: Michel Magnan, FCPA, FCA; Robert St-Aubin, FCPA, FCA; and Alain Raîche.

Serges Chamberland
Chair

Montreal, Quebec
February 21, 2017

Management's responsibility for financial reporting

The Combined Financial Statements of Desjardins Group and all information included in its annual Management's Discussion and Analysis are the responsibility of the management of the *Fédération des caisses Desjardins du Québec* (the Federation), which is responsible for ensuring reporting integrity and accuracy.

These Combined Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the accounting requirements of *the Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. These Combined Financial Statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. These estimates include valuations of insurance contract liabilities performed by the actuaries of the insurance segments. All financial information in the annual Management's Discussion and Analysis is consistent with the audited Combined Financial Statements.

Federation management is responsible for the accuracy of Desjardins Group's Combined Financial Statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. Such controls include an organizational structure that ensures effective segregation of duties, a code of ethics, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit and Inspection Commission. Management has also implemented a financial governance structure based on market best practices to ensure the controls and disclosure procedures for financial information presented in the annual and interim filings of Desjardins Group are adequately designed and effective. As at December 31, 2016, in our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Group, we conclude that internal control over financial reporting is effective.

The AMF examines the affairs of certain components of Desjardins Group under its authority on a regular basis.

For the purposes of approving the financial information contained in the Desjardins Group Annual Report, the Board of Directors of the Federation relies on the recommendation of the Audit and Inspection Commission. The Audit and Inspection Commission is mandated by the Board of Directors to review Desjardins Group's Combined Financial Statements and its Management's Discussion and Analysis. In addition, the Audit and Inspection Commission, comprising independent directors and four observers who are neither management nor staff of Desjardins Group, exercises an oversight role to ensure that management has developed and implemented adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The Combined Financial Statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the Federation's General Meeting, whose report follows. The independent auditor may meet with the members of the Audit and Inspection Commission at any time to discuss its audit and any issues related thereto, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

Réal Bellemare
Executive Vice-President Finance, Treasury, Administration and Chief Financial Officer
Desjardins Group

Lévis, Quebec
February 24, 2017

Independent auditor's report

TO THE MEMBERS OF THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

We have audited the accompanying combined financial statements of Desjardins Group, which comprise the combined balance sheets as at December 31, 2016 and 2015, and the combined statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and the accompanying notes, including a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Desjardins Group as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[(1)]
(1) FCPA auditor, FCA, public accountancy permit No. A108517

Montreal, Quebec
February 24, 2017

COMBINED BALANCE SHEETS

(in millions of Canadian dollars)	Notes	As at December 31, 2016	As at December 31, 2015
ASSETS			
Cash and deposits with financial institutions		**$ 1,876**	$ 1,716
Securities	6 and 8		
Securities at fair value through profit or loss		**31,005**	28,715
Available-for-sale securities		**22,280**	23,272
		53,285	51,987
Securities borrowed or purchased under reverse repurchase agreements		**7,690**	7,881
Loans	7 and 8		
Residential mortgages		**106,695**	102,323
Consumer, credit card and other personal loans		**22,150**	21,204
Business and government		**37,626**	36,433
		166,471	159,960
Allowance for credit losses	7	**(456)**	(455)
		166,015	159,505
Segregated fund net assets	9	**11,965**	9,781
Other assets			
Clients' liability under acceptances		**11**	376
Premiums receivable		**1,957**	1,662
Derivative financial instruments	19	**3,572**	4,818
Amounts receivable from clients, brokers and financial institutions		**2,532**	2,033
Reinsurance assets	15	**2,582**	1,964
Investment property	10	**823**	683
Property, plant and equipment	10	**1,435**	1,451
Goodwill	11	**471**	472
Intangible assets	11	**690**	661
Deferred tax assets	27	**874**	784
Other	12	**2,589**	2,354
		17,536	17,258
TOTAL ASSETS		**$ 258,367**	$ 248,128
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14		
Individuals		**$ 96,278**	$ 91,243
Business and government		**62,799**	63,833
Deposit-taking institutions		**1,469**	1,498
		160,546	156,574
Other liabilities			
Acceptances		**11**	376
Commitments related to securities sold short		**8,196**	5,464
Commitments related to securities lent or sold under repurchase agreements		**10,323**	10,383
Derivative financial instruments	19	**2,057**	1,689
Amounts payable to clients, brokers and financial institutions		**4,659**	4,713
Insurance contract liabilities	15	**27,493**	26,734
Segregated fund net liabilities	9	**11,957**	9,776
Net defined benefit plan liabilities	16	**2,256**	2,428
Deferred tax liabilities	27	**179**	163
Other	17	**6,019**	6,219
		73,150	67,945
Subordinated notes	18	**1,378**	1,884
TOTAL LIABILITIES		**235,074**	226,403
EQUITY			
Capital stock	21	**5,292**	5,158
Share capital	22	**88**	86
Undistributed surplus earnings		**1,529**	1,793
Accumulated other comprehensive income	23	**514**	589
Reserves		**15,052**	12,864
Equity - Group's share		**22,475**	20,490
Non-controlling interests	13 and 15	**818**	1,235
TOTAL EQUITY		**23,293**	21,725
TOTAL LIABILITIES AND EQUITY		**$ 258,367**	$ 248,128

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

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

Guy Cormier
Chair of the Board

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

COMBINED STATEMENTS OF INCOME

For the years ended December 31

(in millions of Canadian dollars)	Notes	2016	2015
INTEREST INCOME			
Loans		**$ 5,658**	$ 5,739
Securities		**315**	308
		5,973	6,047
INTEREST EXPENSE			
Deposits		**1,643**	1,665
Subordinated notes and other		**85**	129
		1,728	1,794
NET INTEREST INCOME		**4,245**	4,253
NET PREMIUMS	15	**7,168**	6,907
OTHER INCOME			
Deposit and payment service charges		**488**	489
Lending fees and credit card service revenues		**651**	620
Brokerage and investment fund services		**1,106**	1,037
Management and custodial service fees		**376**	365
Net income on securities at fair value through profit or loss	25	**533**	809
Net income on available-for-sale securities		**388**	318
Net other investment income		**198**	235
Foreign exchange income		**70**	88
Other		**27**	165
		3,837	4,126
TOTAL INCOME		**15,250**	15,286
PROVISION FOR CREDIT LOSSES	7	**319**	377
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES	15	**5,446**	5,431
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**3,548**	3,475
Premises, equipment and furniture, including depreciation		**667**	613
Service agreements and outsourcing		**306**	331
Communications		**307**	299
Other	26	**2,425**	2,285
		7,253	7,003
OPERATING SURPLUS EARNINGS		**2,232**	2,475
Income taxes on surplus earnings	27	**460**	516
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS[(1)]		**1,772**	1,959
Member dividends		**144**	154
Tax recovery on member dividends	27	**(39)**	(41)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS		**$ 1,667**	$ 1,846
of which:			
Group's share		**$ 1,591**	$ 1,674
Non-controlling interests' share	13	**76**	172

(1) The Group's share of "Surplus earnings before member dividends" is presented in Note 32, "Segmented information".

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

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31

(in millions of Canadian dollars)	2016	2015
Net surplus earnings for the year after member dividends	**$ 1,667**	$ 1,846
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**126**	222
Share of associates and joint ventures accounted for using the equity method	**1**	1
	127	223
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**177**	(15)
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(147)**	(107)
	30	(122)
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**(73)**	163
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(55)**	(74)
	(128)	89
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**-**	1
	(98)	(32)
Total other comprehensive income, net of income taxes	**29**	191
COMPREHENSIVE INCOME FOR THE YEAR	**$ 1,696**	$ 2,037
of which:		
Group's share	**$ 1,613**	$ 1,866
Non-controlling interests' share	**83**	171

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

For the years ended December 31

(in millions of Canadian dollars)	2016	2015
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ 47**	$ 81
	47	81
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains (losses) on available-for-sale securities	**56**	(29)
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(32)**	(22)
	24	(51)
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(29)**	61
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(18)**	(28)
	(47)	33
	(23)	(18)
Total income tax expense	**$ 24**	$ 63

COMBINED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31	Capital				Reserves						
(in millions of Canadian dollars)	Capital stock (Note 21)	Share capital (Note 22)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 23)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests (Notes 13 and 15)	Total equity
BALANCE AS AT DECEMBER 31, 2014	$ 4,777	$ 85	$ 1,468	$ 615	$ 981	$ 479	$ 10,016	$ 11,476	$ 18,421	$ 472	$ 18,893
Net surplus earnings for the year after member dividends	-	-	1,674	-	-	-	-	-	1,674	172	1,846
Other comprehensive income for the year	-	-	218	(26)	-	-	-	-	192	(1)	191
Comprehensive income for the year	-	-	1,892	(26)	-	-	-	-	1,866	171	2,037
Issuance of F capital shares	1,058	-	-	-	-	-	-	-	1,058	-	1,058
Other net change in capital stock	(677)	-	-	-	-	-	-	-	(677)	-	(677)
Issuance of share capital	-	1	-	-	-	-	-	-	1	652	653
Redemption of share capital	-	-	-	-	-	-	-	-	-	(19)	(19)
Remuneration on capital stock	-	-	(187)	-	-	-	-	-	(187)	-	(187)
Dividends	-	-	(3)	-	-	-	-	-	(3)	(37)	(40)
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,376)	-	2	-	1,374	1,376	-	-	-
Transactions related to put options	-	-	-	-	-	-	8	8	8	(7)	1
Other	-	-	(1)	-	-	-	4	4	3	3	6
BALANCE AS AT DECEMBER 31, 2015	$ 5,158	$ 86	$ 1,793	$ 589	$ 983	$ 479	$ 11,402	$ 12,864	$ 20,490	$ 1,235	$ 21,725
Net surplus earnings for the year after member dividends	**-**	**-**	**1,591**	**-**	**-**	**-**	**-**	**-**	**1,591**	**76**	**1,667**
Other comprehensive income for the year	**-**	**-**	**131**	**(109)**	**-**	**-**	**-**	**-**	**22**	**7**	**29**
Comprehensive income for the year	**-**	**-**	**1,722**	**(109)**	**-**	**-**	**-**	**-**	**1,613**	**83**	**1,696**
Issuance of F capital shares	**598**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**598**	**-**	**598**
Other net change in capital stock	**(464)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(464)**	**(60)**	**(524)**
Issuance of share capital	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**10**	**12**
Redemption of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Remuneration on capital stock	**-**	**-**	**(158)**	**-**	**-**	**-**	**-**	**-**	**(158)**	**-**	**(158)**
Dividends	**-**	**-**	**(4)**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(40)**	**(44)**
Transfer from participating contract holders[(1)]	**-**	**-**	**-**	**34**	**-**	**-**	**362**	**362**	**396**	**(396)**	**-**
Transfer from undistributed surplus earnings (to reserves)	**-**	**-**	**(1,820)**	**-**	**-**	**(20)**	**1,840**	**1,820**	**-**	**-**	**-**
Transactions related to put options	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**8**	**8**	**(6)**	**2**
Other	**-**	**-**	**(4)**	**-**	**-**	**-**	**(2)**	**(2)**	**(6)**	**(5)**	**(11)**
BALANCE AS AT DECEMBER 31, 2016	**$ 5,292**	**$ 88**	**$ 1,529**	**$ 514**	**$ 983**	**$ 459**	**$ 13,610**	**$ 15,052**	**$ 22,475**	**$ 818**	**$ 23,293**

(1) Under the Act Respecting Insurance, a life and health insurance company may transfer, in the normal course of business, a portion of the accumulated surplus earnings attributable to participating contract holders to the Group's share of equity.

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

COMBINED STATEMENTS OF CASH FLOWS

For the years ended December 31

(in millions of Canadian dollars)	2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 2,232**	$ 2,475
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	**195**	188
Net change in insurance contract liabilities	**759**	688
Provision for credit losses	**319**	377
Net realized losses (gains) on available-for-sale securities	**(202)**	(269)
Impairment loss on available-for-sale securities recognized in profit or loss	**24**	122
Other	**216**	175
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(2,290)**	1,613
Securities borrowed or purchased under reverse repurchase agreements	**191**	2,078
Loans	**(6,829)**	(9,231)
Derivative financial instruments, net amount	**1,457**	(1,575)
Net amounts receivable from and payable to clients, brokers and financial institutions	**(553)**	605
Deposits	**3,972**	10,250
Commitments related to securities sold short	**2,732**	(840)
Commitments related to securities lent or sold under repurchase agreements	**(60)**	(2,689)
Other	**(1,394)**	(629)
Payment of the contingent consideration	**(132)**	-
Income taxes paid on surplus earnings	**(459)**	(380)
Payment of member dividends	**(157)**	(177)
	21	2,781
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Redemption of subordinated notes	**(500)**	(700)
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(7)**	18
Issuance of F capital shares	**498**	1,058
Other net change in capital stock	**(524)**	(677)
Remuneration on capital stock	**(58)**	(187)
Issuance of share capital	**12**	653
Redemption of share capital	**(3)**	(19)
Dividends paid	**(44)**	(40)
Exercise of put options written on non-controlling interests	**(17)**	(49)
	(643)	57
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**(57,284)**	(52,742)
Proceeds from disposals of available-for-sale securities	**26,177**	26,846
Proceeds from maturities of available-for-sale securities	**32,251**	23,347
Business acquisitions, net of cash and cash equivalents acquired	**-**	(76)
Payment of the contingent consideration recognized at acquisition date	**(23)**	-
Acquisitions of property, plant and equipment and investment property	**(371)**	(347)
Proceeds from disposals of property, plant and equipment and investment property	**32**	69
	782	(2,903)
Net increase (decrease) in cash and cash equivalents	**160**	(65)
Cash and cash equivalents at beginning of year	**1,716**	1,781
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 1,876**	$ 1,716
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 2,063**	$ 1,884
Interest and dividends received	**7,321**	6,128

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

NOTE 1 – INFORMATION ON DESJARDINS GROUP

NATURE OF OPERATIONS

Desjardins Group is made up of the Desjardins caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries, the *Fédération des caisses populaires de l'Ontario* and the *Fonds de sécurité Desjardins*. A number of the subsidiaries are active across Canada. The various business segments in which Desjardins Group operates are described in Note 32, "Segmented information". The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

COMBINED FINANCIAL STATEMENTS

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

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

Pursuant to the *Act Respecting Financial Services Cooperatives* (the Act), these Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS.

The Combined Financial Statements for the year ended December 31, 2016 were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on February 24, 2017.

The significant measurement and presentation rules applied to prepare these Combined Financial Statements are described below.

SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of combined financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are related to consolidation of structured entities, determination of the fair value of financial instruments, derecognition of financial assets, allowance for credit losses, impairment of available-for-sale securities, impairment of non-financial assets, insurance contract liabilities, provisions, income taxes on surplus earnings, member dividends, employee benefits as well as goodwill and intangible assets. Consequently, actual results could differ from those estimates and assumptions.

SCOPE OF THE GROUP

The Combined Financial Statements of Desjardins Group include the assets, liabilities, operating results and cash flows of the Desjardins caisses in Quebec and Ontario, the Federation, the *Fédération des caisses populaires de l'Ontario* and the entities controlled by them, namely the Federation's subsidiaries and the *Fonds de sécurité Desjardins*. The financial statements of all Group entities have been prepared using similar accounting policies. All intercompany transactions and balances have been eliminated.

Management must use its judgment to determine whether the facts and circumstances resulting from a relationship with another entity give Desjardins Group control, joint control or significant influence over such entity. In particular, significant judgments must be made with respect to structured entities.

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

Subsidiaries

An entity is considered as a subsidiary when it is controlled by a Group entity. A Group entity controls an investee if and only if it has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of its returns.

Structured entities

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

Non-controlling interests

Non-controlling interests represent the share in profit or loss as well as net assets not held by Desjardins Group. They are presented separately in the Combined Statements of Income, the Combined Statements of Comprehensive Income and in equity, in the Combined Balance Sheets.

Associates

An associate is an entity over which Desjardins Group exercises significant influence over financial and operational decisions, without however having control or joint control of such entity. Desjardins Group's investments in associates are presented under "Other assets – Other" in the Combined Balance Sheets and are accounted for using the equity method. Under this method, investments are initially recognized at cost and adjusted thereafter to reflect the post-acquisition changes in Desjardins Group's share in the relevant entities' equity.

Joint arrangements

A joint arrangement is an arrangement of which Desjardins Group has joint control, which is the contractually agreed sharing of control of such arrangement with one or more other parties. Joint control exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control.

Joint arrangements are classified under two types based on the rights and obligations of the parties to the arrangement:

- A joint operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Each party must recognize its assets, liabilities, revenue and expenses, including its share of the assets held jointly and of the liabilities incurred jointly as well as its share of the revenue generated and expenses incurred in connection with the joint operation.
- A joint venture is a joint arrangement whereby the parties have rights to the net assets of the arrangement. This type of joint arrangement is accounted for using the equity method. Desjardins Group's investments in joint ventures are presented under "Other assets – Other" in the Combined Balance Sheets.

PRESENTATION AND FUNCTIONAL CURRENCY

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

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

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

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

CLASSIFICATION AND MEASUREMENT

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Their classification in the categories defined in the financial instrument standards is presented in Note 3, "Carrying amount of financial instruments".

The classification of financial assets can be summarized as follows:

Categories		**Classes**	**Recognition**	
			Initial	**Subsequent**
Financial assets	At fair value through profit or loss (i)	Held for trading (ii)	Fair value	Fair value
		Designated as at fair value through profit or loss (iii)	Fair value	Fair value
	Loans and receivables (iv)		Fair value	Amortized cost
	Available for sale (v)		Fair value	Fair value
	Held to maturity (vi)		Fair value	Amortized cost

(i) Financial assets classified in the "At fair value through profit or loss" category include financial assets "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

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

(ii) Financial assets classified as "Held for trading" include the following:

- Securities acquired for resale purposes in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking; and
- Derivative financial instruments.

Derivative financial instruments designated as fair value or cash flow hedging items cannot be classified in the "At fair value through profit or loss" category. Section m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial assets classified as "Designated as at fair value through profit or loss" are essentially securities designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The assets are part of a group of financial assets or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The assets are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group's financial assets classified in this category comprise certain investments made in connection with derivative instruments that are not designated as part of a hedging relationship, thereby significantly reducing a recognition inconsistency. In addition, Desjardins Group has designated the asset-backed term notes (ABTN) as part of this category. ABTNs are composed of certain hybrid financial instruments containing embedded derivatives, while some others are considered to be part of a group of assets that are managed and whose performance is evaluated on a fair value basis. Lastly, certain securities in this category that back the life and health insurance actuarial liabilities and the property and casualty provisions for claims have been classified as "Designated as at fair value through profit or loss" to eliminate or significantly reduce a recognition inconsistency.

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

(iv) Securities classified in the "Loans and receivables" category are non-derivative financial assets with fixed or determinable income that are not quoted in an active market and that are not held for sale upon their acquisition or their granting.

Outstanding securities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities classified in the "Loans and receivables" category is presented under "Interest income – Loans" in the Combined Statements of Income when it is recognized by the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is recognized under "Other income – Other" in the Combined Statements of Income.

(v) Securities classified in the "Available for sale" category are non-derivative financial assets that are initially designated as available for sale or that are not classified in the "At fair value through profit or loss", "Held to maturity" or "Loans and receivables" categories. Available-for-sale securities can be sold further to or in view of fluctuations in interest rates, exchange rates or prices of equity instruments or changes in financing sources or terms, or to meet the liquidity needs of Desjardins Group.

Gains and losses resulting from changes in fair value, except for impairment losses and foreign exchange gains and losses, are recognized in the Combined Statements of Comprehensive Income under "Net unrealized gains (losses) on available-for-sale securities" until the financial asset is derecognized. Premiums and discounts on the purchase of available-for-sale securities are amortized over the life of the securities using the effective interest method and recognized under "Interest income – Securities" for the Personal Services and Business and Institutional Services segment and the Other category and, for the other segments, are mainly recognized under "Net income on available-for-sale securities".

(vi) Securities classified in the "Held to maturity" category are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intention and ability to hold to maturity. These securities are recognized at amortized cost using the effective interest method. Desjardins Group held no instruments in this category at the reporting dates.

The classification of financial liabilities can be summarized as follows:

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

(i) Financial liabilities classified in the "At fair value through profit or loss" category include financial liabilities "Held for trading" and "Designated as at fair value through profit or loss". Therefore:

- Changes in fair value of securities classified in this category are recorded in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".
- Interest expense related to financial liabilities classified in the "At fair value through profit or loss" category is recognized under "Net income on securities at fair value through profit or loss".

(ii) Financial liabilities classified as "Held for trading" are debt securities issued with the intention to repurchase them in the near term and securities that are part of a portfolio of securities that are managed together and for which there is evidence of an actual pattern of short-term profit-taking, such as "Commitments related to securities sold short". Derivative financial instruments are also classified as "Held for trading". Derivative financial instruments designated as fair value or cash flow hedging instruments cannot be classified in this category. Section m), "Derivative financial instruments and hedging activities", specifies the nature of the recognition of derivative financial instruments designated as part of hedging relationships.

(iii) Financial liabilities classified as "Designated as at fair value through profit or loss" have been designated as such by management upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as at fair value through profit or loss upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that are managed and whose performance is evaluated on a fair value basis.
- The liabilities are hybrid financial instruments containing at least one embedded derivative that would otherwise be separated from the host contract and recognized separately.

Desjardins Group held no instruments in this category at the reporting dates.

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

(iv) Financial liabilities that are not classified in the "At fair value through profit or loss" category are classified in the "At amortized cost" category.

Financial liabilities classified in this category are initially recognized at fair value in the Combined Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities classified in the "At amortized cost" category is recognized under "Interest expense" in the Combined Statements of Income for the Personal Services and Business and Institutional Services segment and the Other category. Income for the other segments is mainly recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

Loans

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by Desjardins Group, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount.

Deposits

The fair value of fixed-rate deposits is determined by discounting expected cash flows using market interest rates currently being offered for deposits with substantially the same term and takes estimated prepayments into account. The fair value of deposits with floating-rate features or with no stated maturity is assumed to be equal to their carrying amount.

Subordinated notes

The fair value of subordinated notes is based on brokers' quotes.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors. The fair value of derivative financial instruments is presented without taking into account the impact of legally enforceable master netting agreements. However, Desjardins Group adjusts the measurement of these instruments based on credit risk, and such adjustments reflect the financial ability of the counterparties to the contracts and the creditworthiness of Desjardins Group, as well as credit risk mitigation measures such as legally enforceable master netting agreements. Note 19, "Derivative financial instruments and hedging activities", specifies the nature of derivative financial instruments held by Desjardins Group.

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 borrowed or purchased under reverse repurchase agreements"; "Clients' liability under acceptances"; "Premiums receivable"; "Amounts receivable from clients, brokers and financial institutions"; some items included in "Other assets – Other", "Acceptances"; "Commitments related to securities lent or sold under repurchase agreements" "Amounts payable to clients, brokers and financial institutions"; and some items included in "Other liabilities – Other".

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

TRANSACTION COSTS

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified or designated as part of the "At fair value through profit or loss" category, in which case they are expensed as incurred.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are presented on a net basis when there is a legally enforceable and unconditional right to set off the recognized amounts and Desjardins Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognized from the Combined Balance Sheets when the contractual rights to the cash flows from the asset expire, when the contractual rights to receive these cash flows are retained but Desjardins Group has the obligation to pay them to a third party under certain conditions, or when Desjardins Group transfers the contractual rights to receive the cash flows and substantially all the risks and rewards of ownership of the asset have been transferred.

When substantially all the risks and rewards of ownership of the transferred financial asset are retained by Desjardins Group, such asset is not derecognized from the Combined Balance Sheets and a financial liability is recognized, when appropriate.

When substantially all the risks and rewards related to a financial asset are neither transferred nor retained, Desjardins Group derecognizes the financial asset over which it does not retain control and recognizes an asset or a liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, Desjardins Group continues to recognize the asset in the Combined Balance Sheets to the extent of its continuing involvement in that asset.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Combined Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Management must use its judgment to determine whether the contractual rights to the cash flows have expired, have been transferred or have been retained with an obligation to pay them to a third party. With respect to the transfer of substantially all the risks and rewards of ownership of the assets, management evaluates Desjardins Group's exposure before and after the transfer as well as the changes in the amount and timing of the net cash flows of the transferred asset. Lastly, management must make judgments to determine whether it controls the financial asset and to measure retained rights.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the transferred financial liability and the consideration paid is recognized in the Combined Statements of Income.

b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions—including net amounts receivable related to cheques and other items in the clearing process—as well as certain fixed-income securities. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

c) Securities

Securities are instruments classified based on their characteristics and management's intention in the various categories presented in section a), "Financial assets and liabilities", above.

SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SECURITIES BORROWED

Securities purchased under reverse repurchase agreements and securities borrowed are not recognized in the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities have not been obtained.

Reverse repurchase agreements are treated as collateralized lending transactions. An asset corresponding to the consideration paid for the securities acquired, including accrued interest, is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets.

As part of securities borrowings, Desjardins Group pledges cash or securities as collateral. When cash is pledged as collateral, an asset corresponding to the amount that will be received upon the delivery of the borrowed securities is recognized under "Securities borrowed or purchased under reverse repurchase agreements" in the Combined Balance Sheets. When securities are pledged as collateral, such securities are not derecognized, as substantially all the risks and rewards of ownership of these securities are retained.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND SECURITIES LENT

Securities sold under repurchase agreements and securities lent are not derecognized from the Combined Balance Sheets, as substantially all the risks and rewards of ownership of these securities are retained.

Repurchase agreements are treated as collateralized borrowing transactions. A liability corresponding to the consideration received for the securities sold, including accrued interest, is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets.

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

As part of securities loans, Desjardins Group receives cash or securities as collateral. When cash is received as collateral, a liability corresponding to the obligation to deliver cash is recognized under "Commitments related to securities lent or sold under repurchase agreements" in the Combined Balance Sheets. When securities are received as collateral, such securities are not recognized, as substantially all the risks and rewards of ownership of these securities have not been obtained.

SECURITIES SOLD SHORT

Securities sold short as part of trading activities, which represent Desjardins Group's obligation to deliver securities that it did not possess at the time of sale, are recognized as liabilities at their fair value. Realized and unrealized gains and losses on these securities are recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

d) Loans

Loans, including advances to policyholders, are recorded at amortized cost, net of the allowance for credit losses, using the effective interest method.

The fees collected and the direct costs related to the origination, restructuring and renegotiation of loans are treated as being integral to the yield of the loan. They are deferred and amortized using the effective interest method, and the amortization is recognized as interest income over the life of the loan. Collateral is obtained if deemed necessary, based on an assessment of the borrower's creditworthiness. Such collateral normally takes the form of assets such as cash, government securities, shares, receivables, inventory or capital assets.

Restructured loans are loans for which Desjardins Group renegotiated the initial terms by granting concessions to the borrower in the context of financial difficulties or to prevent a failure by the borrower to meet its initial obligations. Once the terms of the loan have been renegotiated and accepted by the borrower, the loan is considered as restructured and treated as a new loan.

At the date of restructuring, the loan is reduced to the amount of the estimated net cash flows receivable under the modified terms, discounted at the loan's initial effective interest rate (the rate prior to the restructuring). Restructured loans remain classified as performing loans when they do not meet the criteria requiring their classification as impaired loans. In addition, management assesses whether such restructured loans are impaired in accordance with its impairment policies.

e) Impairment of financial assets

IMPAIRED LOANS

At the reporting date, Desjardins Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered impaired when there is such evidence, and more specifically when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected; or
- The interest or principal repayment is contractually 90 days past due, unless the loan is fully secured and in the process of collection; or
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or an agency of a Canadian government.

A loan is considered past due when the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to its collection or when it is restructured and is treated as a new loan and there is no doubt as to the collection of principal and interest.

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

A loan classified as "Loans and receivables" is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Provision for credit losses" in the Combined Statements of Income. Credit card balances are written off completely when no payment has been received at the end of a period of 180 days.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income − Loans", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Combined Statements of Income.

ALLOWANCE FOR CREDIT LOSSES

Objective evidence of impairment results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans.

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

The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this amount and the carrying amount. This allowance is presented in deduction of assets under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the collateral underlying the loan, net of expected costs of realization, or the observable market price for the loan. The collateral may vary depending on the type of loan.

The allowance for credit losses represents management's best estimate for loan impairment at the reporting date. As part of its evaluation, management must make judgments to determine the data, assumptions and estimates to be used, including determining when a loan is considered impaired and the amount that could be recovered. Changing these estimates and assumptions would have an impact on the allowance for credit losses and the provision for credit losses for the year.

The allowance for credit losses related to impaired loans is measured either individually or collectively for loans that are not individually material, while the allowance for credit losses is measured collectively for unimpaired loans.

Individual allowances

Desjardins Group first reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Combined Statements of Income. Loan portfolios for which there is no objective evidence of impairment are included in groups of assets having similar credit characteristics and are subject to a collective allowance.

Collective allowance on impaired loans

Certain consumer, credit card and other personal loan portfolios comprise a large number of homogeneous balances that are not individually material and for which a collective allowance is established based on the portfolio's historical net loss rate.

Collective allowance

The method used by Desjardins Group to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as the probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and risk rating of each loan. The measurement of the collective allowance relies heavily on management's judgements and depends on management's assessment of current credit quality trends with respect to business sectors, the impact of changes in its credit policies, and economic conditions.

The collective allowance for the loans of the life and health insurance subsidiaries is included in actuarial liabilities, under "Insurance contract liabilities".

The allowance related to off-balance sheet items, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities – Other" in the Combined Balance Sheets and under "Provision for credit losses" in the Combined Statements of Income.

AVAILABLE-FOR-SALE SECURITIES

Securities classified in the "Available for sale" category are examined at the reporting date to determine whether there is any objective evidence that they are impaired. In measuring an impairment loss, Desjardins Group takes into account many facts specific to each investment and all the factors that could indicate that there has been impairment. Factors considered include, but are not limited to, a significant or prolonged decline in fair value, significant financial difficulties of the issuer, a breach of contract, the increasing probability that the issuer will enter bankruptcy or a restructuring, and the disappearance of an active market for the financial asset in question. Since January 1, 2016, the measurement of impairment losses on preferred shares with characteristics and behaviour similar to those of debt securities has been based on the existence of objective evidence of impairment as well as the judgment made on the recovery of invested amounts. Management also uses its judgment to determine when to recognize an impairment loss.

Desjardins Group individually assesses debt securities classified in the "Available for sale" category to determine whether there is any objective evidence of impairment. The impairment loss represents the cumulative loss, which is the difference between amortized cost and current fair value, less any impairment loss previously recognized. Future interest income is calculated on the reduced carrying amount using the interest rate used to discount future cash flows in order to measure the impairment loss. When, during a subsequent period, the fair value of a debt security increases and that increase can be objectively related to a credit event occurring after the impairment loss had been recognized in the Combined Statements of Income, the impairment loss is reversed through the Combined Statements of Income.

For equity securities classified in the "Available for sale" category, when evidence of impairment exists, the cumulative loss—which corresponds to the difference between acquisition cost and current fair value, less any impairment loss previously recognized—is transferred out of other comprehensive income, in the Combined Statements of Comprehensive Income, and recognized in the Combined Statements of Income. Impairment losses on equity securities are not reversed to the Combined Statements of Income. Increases in fair value occurring subsequent to the recognition of an impairment loss are instead recorded directly in other comprehensive income, in the Combined Statements of Comprehensive Income. Any impairment loss on securities previously impaired is directly recognized in the Combined Statements of Income.

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

f) Property, plant and equipment and investment property

Property, plant and equipment

Property, plant and equipment consists of land, buildings, computer hardware, furniture, fixtures and other items as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any accumulated impairment losses, and are depreciated over their expected useful life using the straight-line method.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. The useful life of property, plant and equipment is generally equal to its expected useful life.

The depreciation expense for property, plant and equipment is recognized under “Non-interest expense – Premises, equipment and furniture, including depreciation” in the Combined Statements of Income.

Investment property

Investment properties are buildings or land held to earn rentals or for capital appreciation.

Investment properties are recognized at cost less accumulated depreciation and are depreciated over their useful life using the straight-line method. Transfers to or from the “Investment property” category are made only when there is a change in use. Upon a transfer of property, plant and equipment from the “Investment property” category to the “Buildings” category, the cost remains the same and continues to be the carrying amount. If a building held and occupied by Desjardins Group becomes an investment property, it is recorded using the accounting policies applicable to investment properties.

The depreciation expense for investment properties is recognized under “Net other investment income” in the Combined Statements of Income.

Depreciation

Property, plant and equipment and investment property are depreciated using the following depreciation periods:

	Depreciation periods
Land	Non-depreciable
Buildings and investment property	5 to 80 years
Computer equipment	1 to 10 years
Furniture, fixtures and other	3 to 10 years
Leasehold improvements	Expected term of the lease

When an item of property, plant and equipment is made up of several significant parts having different useful lives or providing economic benefits according to different patterns, each part is recognized separately and is depreciated over its own depreciation period.

Derecognition

Property, plant and equipment and investment property are derecognized upon disposal or when they are permanently withdrawn from use and no future economic benefits are expected. Gains and losses on the disposal or sale of buildings are recognized in the Combined Statement of Income for the year in which they are realized under “Premises, equipment and furniture, including depreciation” for property, plant and equipment and under “Net other investment income” for investment property.

g) Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets acquired and liabilities assumed in a business combination accounted for using the acquisition method.

At the acquisition date, each item of goodwill is allocated to one or more cash-generating units (CGU or group of CGUs) that are expected to benefit from the combination. A group of CGUs must not be larger than a business segment. A CGU is the smallest identifiable group of assets that generates cash inflows that are independent from the cash inflows from other groups of assets. Subsequent to initial measurement, goodwill is measured at cost less any impairment loss.

Intangible assets

Intangible assets include acquired and internally generated intangible assets and are initially recognized at cost. The cost of an intangible asset acquired as part of a business combination corresponds to its fair value at the date of acquisition. Subsequent to initial recognition, intangible assets are measured at cost less any accumulated amortization and any impairment losses. Expenditures related to internally generated intangible assets, except for development costs, are recognized in profit or loss as incurred.

Desjardins Group assesses whether the useful life of an intangible asset is finite or indefinite. Intangible assets with finite useful lives include mainly software and client relationships and are amortized using the straight-line method over their estimated useful lives, which do not exceed 40 years. Intangible assets with indefinite useful lives include mainly trademarks and licenses.

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

Gains or losses resulting from the derecognition of an intangible asset correspond to the difference between the net proceeds of disposal and the net carrying amount of the asset. They are recognized under "Non-interest expense – Other" in the Combined Statements of Income upon derecognition of the asset.

h) Impairment of non-financial assets

Desjardins Group assesses at the reporting date whether there is evidence that an asset may be impaired. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents the higher of the fair value less costs of disposal and the value in use. Fair value represents the best estimate of the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. The value in use is calculated using the most appropriate method, generally by discounting recoverable future cash flows.

Any impairment loss recognized in the Combined Statements of Income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on an asset may be subsequently reversed and are recognized in the Combined Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine whether it is impaired also requires management to make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test. The main estimates and assumptions used in calculating the recoverable amount are future cash flows estimated based on internal financial forecasts, expected future earnings, the growth rate and the discount rate.

Goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year and when there is possible evidence of impairment.

The impairment test for goodwill and intangible assets with indefinite useful lives is performed based on the recoverable amount of the asset or each CGU (or each group of CGUs) to which goodwill or the intangible asset with an indefinite useful life is allocated. Significant judgments must be made to estimate the data taken into account in the model used to determine the recoverable amount of each intangible asset with an indefinite useful life or each CGU.

When the recoverable amount of the asset or the CGU is less than the carrying amount, an impairment loss is recognized in the Combined Statement of Income for the year and is first recorded as a reduction of the intangible asset with an indefinite useful life or, in the case of a CGU, as a reduction of the goodwill allocated to the CGU (or group of CGUs) and then as a reduction of the other identifiable assets of the CGU (or group of CGUs) pro rata on the basis of their carrying amount in the unit. The allocation of the impairment loss to the assets of the CGU or group of CGUs must however not result in their carrying amount being lower than the highest of the following amounts: the fair value of the assets less costs to sell, their value in use and zero.

Goodwill impairment losses cannot be reversed.

i) Acceptances and clients' liability under acceptances

Acceptances represent a form of negotiable short-term debt that is issued by our clients and that we guarantee for a fee. The potential liability of Desjardins Group under acceptances is recognized under "Acceptances", in "Other liabilities". Desjardins Group has equivalent offsetting claims against its clients in the event of a call on these commitments, which are recognized under "Clients' liability under acceptances", in "Other assets". Fees are recognized under "Other income – Other".

j) Insurance contract liabilities

Insurance contracts are contracts under which a significant insurance risk is transferred to the insurer upon their issuance. An insurance risk is transferred when the insurance subsidiaries agree to compensate the policyholder if an uncertain future event specified in the contract adversely affects the policyholder. Contracts that transfer a significant insurance risk issued by the insurance subsidiaries are classified as insurance contracts, in accordance with IFRS 4, "Insurance Contracts".

Once a contract is classified as an insurance contract, it continues to be an insurance contract even if the insurance risk it carries decreases significantly during its life.

Insurance contract liabilities include the contract liabilities of the life and health insurance and the property and casualty insurance subsidiaries, and they are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

Life and health insurance contract liabilities

Life and health insurance contract liabilities consist of actuarial liabilities, benefits payable, provisions for claims not reported, provision for dividends and experience refunds, and contract holder deposits.

Actuarial liabilities represent the amounts which, together with estimated future premiums and net investment income, will provide for all the life and health insurance subsidiaries' commitments regarding estimated future benefits, contract holder dividends and related expenses. The appointed actuary of each life and health insurance subsidiary is required to determine the actuarial liabilities needed to meet its future commitments. The actuarial liabilities of these subsidiaries are determined using the Canadian Asset Liability Method (CALM) in accordance with Canadian accepted actuarial practices, and they are equal to the value in the Combined Balance Sheets of the assets that back them.

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

Under CALM, actuarial liabilities of the life and health insurance subsidiaries are determined based on an explicit projection of cash flows using current best estimate assumptions for each cash flow component and each significant contingency. Each non-economic assumption is adjusted by a margin for adverse deviation. With respect to investment returns, the provision for adverse deviation is established by using yield scenarios that consider the uncertainty associated with the projection of interest rates on the reinvestment of future cash flows in relation to the mismatch of cash flows. These scenarios are established using a deterministic model that includes testing prescribed by Canadian actuarial standards. With respect to minimum guarantees on segregated fund products, the provision for adverse deviation is determined using stochastic modelling.

Property and casualty insurance contract liabilities

Property and casualty insurance contract liabilities consist of unearned premiums and provisions for claims and adjustment expenses.

Unearned premiums represent the portion of premiums remaining to be earned at the reporting date.

The provisions for claims and adjustment expenses related to the insurance policies of the property and casualty insurance subsidiaries are estimated using actuarial techniques that consider best estimate assumptions, taking into account currently known data, which are regularly reviewed and updated. Any resulting adjustment is recognized in the Combined Statement of Income for the year in which the revision occurs. The provisions for claims and adjustment expenses are reported on a discounted basis using the rate of return of the underlying assets, with a margin for adverse deviations.

Discretionary participation features

Certain insurance contracts of the life and health insurance subsidiaries contain a discretionary participation feature that allows the contract holder to participate in the profitability related to their contract. These contracts give the contract holder the contractual right to receive additional benefits as supplement to guaranteed benefits. The life and health insurance subsidiaries elected not to recognize the participating portion of these contracts separately.

Reinsurance

In order to limit their losses, the insurance subsidiaries enter into reinsurance treaties that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

Premium income from insurance contracts and expenses related to claims, benefits and changes in insurance contract liabilities associated with contracts under reinsurance treaties are presented net of amounts ceded to reinsurers in the Combined Statements of Income.

The share of reinsurers in the insurance contract liabilities is presented under “Reinsurance assets” in the Combined Balance Sheets at the same time and using a basis consistent with those used to establish the corresponding liability. These reinsurance assets comprise the reinsurers’ share in actuarial liabilities and provisions for benefits, policyholder dividends and experience refunds for the life and health insurance operations, and the reinsurers’ share in unearned premiums and provisions for claims and adjustment expenses for the property and casualty insurance operations.

k) Segregated funds

Certain insurance contracts allow contract holders to invest in segregated funds held by one of the life and health insurance subsidiaries for their benefit. All risks and rewards of ownership of these investments accrue to the contract holders, even though these investments are held by this subsidiary. Accordingly, the net assets and liabilities of segregated funds are presented on a separate line in the Combined Balance Sheets. Segregated fund investments are measured and recognized at fair value at the reporting date, which is determined using the methods described in section a), “Financial assets and liabilities”. In addition, if a segregated fund controls a mutual fund in which it has invested, such mutual fund is consolidated in the segregated fund net assets. A liability corresponding to contract holders’ rights to the segregated fund net assets is also recognized separately.

l) Provisions

Provisions are liabilities of uncertain timing or amount. A provision is recognized when Desjardins Group has an obligation (legal or constructive) as a result of a past event, the settlement of which should result in an outflow of resources embodying economic benefits, and when a reliable estimate can be made of the amount of the obligation. The amount of the obligation is discounted where the effect of the time value of money is material.

Provisions are based on management’s best estimate of the amounts required to settle the obligation on the reporting date, taking into account the relevant uncertainties and risks. As these estimates are forward-looking in nature, management must use its judgment to forecast the timing and amount of future cash flows. Actual results may differ materially from these forecasts.

Charges to and reversals of provisions are recognized in profit or loss under the items corresponding to the nature of the expenditures covered.

m) Derivative financial instruments and hedging activities

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates or financial indexes. The vast majority of Desjardins Group’s derivative financial instruments are negotiated by mutual agreement with the counterparty and include forward exchange contracts, currency swaps, interest rate swaps, credit default swaps, total return swaps, forward rate agreements, as well as currency, interest rate and stock index options. Other transactions are carried out as part of regulated trades and consist mainly of futures. The types of contracts used are defined in Note 19, “Derivative financial instruments and hedging activities”.

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

Derivative financial instruments, including embedded derivatives which are required to be recognized separately, are recognized at fair value on the Combined Balance Sheets.

Embedded derivative financial instruments are separated from their host contract and accounted for as derivatives if: (a) the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract; (b) the embedded derivative has the same terms as a separate instrument; (c) the hybrid instrument or contract is not measured at fair value with changes in fair value recognized in combined profit or loss. Embedded derivatives that are required to be recognized separately are measured at fair value, and changes in their fair value are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

Desjardins Group uses derivative financial instruments for trading or asset-liability management purposes.

Derivative financial instruments held for trading purposes are used to meet the needs of members and clients, and to allow Desjardins Group to generate income on its own trading activities. These derivative financial instruments are recognized at fair value in the Combined Balance Sheets, and changes in their fair value are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

Derivative financial instruments held for asset-liability management purposes are used to manage current and expected risks related to market risk. These instruments enable Desjardins Group to transfer, modify or reduce the interest rate and foreign currency exposures of assets and liabilities recorded in the Combined Balance Sheets, as well as firm commitments and forecasted transactions.

HEDGING ACTIVITIES

Desjardins Group mainly designates its derivative financial instruments as part of a fair value or cash flow hedging relationship.

When derivative financial instruments are used to manage assets and liabilities, Desjardins Group must determine, for each derivative, whether or not hedge accounting is appropriate. To qualify for hedge accounting, a hedging relationship must be designated and documented at its inception. Such documentation must address the specific strategy for managing risk, the asset, liability or cash flows that are being hedged as well as the measure of hedge effectiveness. Consequently, the effectiveness of each hedging relationship must be assessed, regularly and on an individual basis, to determine with reasonable assurance whether the relationship is effective and will continue to be effective. The derivative financial instrument must prove highly effective to offset changes in the fair value or the cash flows of the hedged item attributable to the risk being hedged.

Desjardins Group may also use derivative financial instruments as an economic hedge for certain transactions in situations where the hedging relationship does not qualify for hedge accounting or where it elects not to apply hedge accounting. In such circumstances, derivative financial instruments are classified as "Held for trading", and realized and unrealized gains and losses are recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

The designation of a derivative financial instrument as hedging instrument is discontinued in the following cases: the hedged item is sold or matures, the derivative financial instrument is repurchased or matures, the hedge is no longer effective, or Desjardins Group terminates the designation of the hedge or no longer expects that the forecasted transaction will occur.

Hedging instruments that meet the strict hedge accounting conditions are recognized as follows:

Fair value hedges

Fair value hedge transactions involve mostly the use of interest rate swaps to hedge the changes in fair value of a fixed-rate financial instrument caused by a change in interest rates on the market. The change in fair value of hedging derivative financial instruments offsets the change in fair value of hedged items. Desjardins Group uses fair value hedge strategies for its securities, loan and deposit portfolios.

In a fair value hedge transaction, changes in the fair value of the hedging derivative financial instrument are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income, as are changes in fair value of the hedged asset or liability attributable to the hedged risk. The gain or loss attributable to the hedged risk is applied to the carrying amount of the hedged item. When the changes in fair value of the hedging derivative financial instrument and the hedged item do not entirely offset each other, the resulting amount, which represents the ineffective portion of the relationship, is recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

When a fair value hedging relationship is discontinued, hedge accounting is discontinued prospectively. The hedged item is no longer adjusted to reflect the fair value impact of the designated risk. Adjustments previously recorded in the hedged item are amortized using the effective interest method and are recognized in net interest income, in the Combined Statements of Income, following the underlying instrument, over the remaining life of the hedged item. However, if the hedged item ceased to exist, the adjustments for the impact of the designated risk are immediately recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income.

Cash flow hedges

Cash flow hedge transactions involve mostly the use of interest rate swaps to hedge the changes in future cash flows from a floating-rate financial instrument. Hedging derivative financial instruments reduce the variability of future cash flows from the hedged item. Desjardins Group uses cash flow hedge strategies for its loan, deposit and securities portfolios.

In a cash flow hedge transaction, gains and losses resulting from changes in the fair value of the effective portion of the derivative financial instrument are recognized in other comprehensive income under "Net gains (losses) on derivative financial instruments designated as cash flow hedges" until the hedged item is recognized in the Combined Statements of Income, at which time such changes are recognized in net interest income in the Combined Statements of Income, following the underlying instrument. The ineffective portion of cash flow hedge transactions is immediately recognized in the Combined Statements of Income under "Net income on securities at fair value through profit or loss".

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

When a cash flow hedging relationship no longer qualifies for hedge accounting, Desjardins Group discontinues such accounting prospectively. Gains or losses recognized in other comprehensive income are amortized to net interest income, in the Combined Statements of Income, following the underlying instrument, over the expected remaining life of the hedging relationship that was discontinued. If a designated hedged item is sold or matures before the related derivative financial instrument ceases to exist, all gains or losses are immediately recognized in profit or loss under "Net income on securities at fair value through profit or loss".

n) Financial guarantees

A financial guarantee is a contract or an indemnification agreement that could contingently require Desjardins Group to make payments to the guaranteed party following a loss resulting from the default by a specified third party to make a payment upon maturity in accordance with the original or modified provisions of the borrowing instrument.

Financial guarantees are initially recognized as liabilities in the Combined Financial Statements for an amount corresponding to the fair value of the commitment resulting from the issuance of the guarantee. After initial recognition, the guarantee is measured at the higher of the following amounts:

i) The amount initially recorded less, when appropriate, cumulative amortization of costs recognized in the Combined Statements of Income; or

ii) The best estimate of cash outflows required to settle any financial obligation resulting from the guarantee.

If a financial guarantee meets the definition of a derivative, it is measured at fair value at each reporting date and presented as a derivative financial instrument. Guarantees presented as derivative financial instruments are a type of over-the-counter credit derivative under which one party transfers to another party the credit risk of an underlying financial instrument.

The carrying value of guarantees does not reflect the maximum potential amount of future payments under guarantees. Desjardins Group considers the difference between these two amounts as off-balance sheet credit instruments.

o) Reserves

Reserves included in equity are mainly from the caisses. They are based on the balance of the reserves as at December 31 of the prior year and the surplus earnings distribution plans for such year, which must be approved by the general meeting of each caisse within the first four months following year-end.

The stabilization reserve of a caisse and the Federation's stabilization reserve consist of amounts appropriated from the surplus earnings for the year by the caisse or the Federation, as appropriate. Amounts appropriated to the stabilization reserve of a caisse are essentially used for the payment of interest on permanent shares it issued when the annual surplus earnings of such caisse are not sufficient. Amounts appropriated to the Federation's stabilization reserve are essentially used for the payment of interest on permanent shares issued by a caisse when the amounts appropriated to such caisse's stabilization reserve are not sufficient, and for the payment of interest on F capital shares issued by the Federation when the annual surplus earnings of the Federation are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the caisses. This reserve allows them to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The general reserve is essentially made up of amounts appropriated by the caisses, the Federation, the *Fonds de sécurité Desjardins* and *Caisse centrale Desjardins*. This reserve can only be used to eliminate a deficit and cannot be divided amongst members nor used to pay a member dividend. Other reserves are mainly made up of amounts appropriated by the caisses that can only be taken into account in the calculation of the distribution plan when the amounts previously appropriated to these reserves are realized by the caisses.

p) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Desjardins Group and that it can be measured reliably. In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Net interest income

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

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period, to obtain the net carrying amount of the financial instrument.

When calculating the effective interest rate, Desjardins Group estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file setup fees and finders' fees, are assimilated to supplemental interest.

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

Premiums

Gross premiums on insurance contracts of the life and health insurance subsidiaries are recognized as revenue when they become due. As soon as these premiums are recognized, an actuarial provision is established and recognized in liabilities under “Insurance contract liabilities”. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income.

Gross premiums on insurance contracts of the property and casualty insurance subsidiaries are recognized as revenue proportionately over the life of the contracts. Premiums are presented, net of premiums ceded under reinsurance treaties, under “Net premiums” in the Combined Statements of Income. The portion of the premiums remaining to be earned at the reporting date is presented under “Insurance contract liabilities” in the Combined Balance Sheets.

Service charges, commissions, brokerage fees and other

Desjardins Group earns revenue from service charges, commissions and brokerage fees related to the broad range of services and products it provides its members and clients.

Service charges, commissions, brokerage fees and investment fund fees are recognized once the service has been provided or the product has been delivered. This income is recognized under “Deposit and payment service charges” and “Brokerage and investment fund services” in the Combined Statements of Income.

Loan syndication fees are recognized as revenue when the syndication agreement is signed unless the yield on the loan retained by Desjardins Group is less than the yield of other comparable lending institutions that participate in the financing. In such instances, an appropriate portion of the fees is deferred using the effective interest method. This income is recognized under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Commissions and costs arising from the negotiation, or the participation thereto, of a transaction on behalf of a third party—such as the arrangement of share or other securities acquisitions or business purchases or sales—are recognized at the outcome of the underlying transactions. Income from such commissions is recognized under “Brokerage and investment fund services” in the Combined Statements of Income. Income from lending fees and credit card service revenue is recorded under “Lending fees and credit card service revenues” in the Combined Statements of Income.

Portfolio management fees and fees for other services are recognized based on the applicable service contracts, pro rata over the period during which the service is provided. Portfolio management income is recorded under “Management and custodial service fees” in the Combined Statements of Income.

Asset management fees related to investment funds are recognized pro rata over the period during which the service is provided. The same principles are applied to wealth management, financial planning and custodial services that are provided on an ongoing basis over a long period of time. Asset management income is recognized under “Management and custodial service fees” in the Combined Statements of Income.

Dividend income is recognized when Desjardins Group’s right to receive payment of the dividend is established.

q) Assets under management and assets under administration

Assets under management and assets under administration are held by and for the benefit of clients. These assets are therefore excluded from the Combined Balance Sheets of Desjardins Group. Income from these management services is recognized under “Management and custodial service fees” in the Combined Statements of Income when the service is provided.

r) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rate prevailing at the transaction date, while those that are measured at fair value are translated at the exchange rate prevailing at the date fair value was determined. Income and expenses are translated at the average exchange rate for the year. Realized and unrealized gains and losses resulting from the translation are recognized in the Combined Statements of Income under “Foreign exchange income”. However, unrealized gains and losses on non-monetary financial instruments classified as “Available for sale”, and gains and losses on derivatives designated as cash flow hedging instruments are presented in other comprehensive income in the Combined Statements of Comprehensive Income.

s) Leases

Under a finance lease, the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset. This type of lease is analyzed as financing granted to the lessee to purchase the asset. In contrast, under an operating lease, the lessor retains substantially all the risks and rewards inherent to the leased asset. Desjardins Group mainly enters into operating leases. The recognition of operating leases depends on Desjardins Group’s position as a lessor or as a lessee:

Lessor

When Desjardins Group is the lessor, lease income from operating leases is recognized on a straight-line basis over the lease term under “Net other investment income” and the leased asset remains recognized in the Combined Balance Sheets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Contingent rent is recognized in profit or loss in the year during which it is earned.

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

Lessee

When Desjardins Group is the lessee, the asset is not recognized as an asset. Lease payments made under operating leases are recognized as an expense on a straight-line basis until the end of the lease under "Premises, equipment and furniture, including depreciation", in the Combined Statements of Income.

t) Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Combined Statements of Income comprises the current and deferred tax expense on operating surplus earnings as well as the income tax consequences of remuneration on capital stock and dividends when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings recognized in the Combined Statements of Income as well as current and deferred taxes on items recognized outside profit or loss directly in the Combined Statements of Comprehensive Income or the Combined Statements of Changes in Equity.

The total income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must make judgments to establish the assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be used to interpret the relevant tax legislation in order to determine the income tax expense. If Desjardins Group's interpretation differs from that of taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

CURRENT INCOME TAXES

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Group expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting dates.

DEFERRED INCOME TAXES

Deferred taxes are recognized, using the balance sheet liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the Combined Balance Sheets.

Deferred tax liabilities are recognized for all taxable temporary differences, except in the following cases:

i) When the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For taxable temporary differences associated with investments in subsidiaries, when the date at which the temporary difference reverses can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these deductible temporary differences, tax loss carryforwards and unused tax credits can be utilized, except in the following cases:

i) When the deferred tax asset associated with the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, affects neither accounting profit nor taxable profit (or tax loss); and

ii) For deductible temporary differences associated with investments in subsidiaries, associates and joint ventures. Deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that a taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of a deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it becomes probable that a future taxable profit will be available to recover them.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

u) Member dividends

The board of directors of each caisse recommends for approval the surplus earnings distribution plan at the annual general meeting of members, which is held in the four months following year-end. The amount of member dividends to be paid is part of this plan. Member dividends are estimated based on, among other things, the surplus earnings recorded for the year by the caisses, taking into consideration the financial framework for the appropriation of surplus earnings in relation with the Desjardins Group Capitalization Plan, which sets capitalization targets. The difference between the amount of member dividends actually paid following the general meetings held by the caisses, and the estimated amount is charged to combined profit or loss for the year in which the payments are made.

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

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. Member dividends are recognized under "Member dividends" in the Combined Statements of Income. The caisses can pay out member dividends when legal and regulatory requirements have been met.

v) Employee benefits

SHORT-TERM BENEFITS

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recorded for these benefits in the period during which the services giving right to them were rendered.

POST-EMPLOYMENT BENEFITS

Pension and post-retirement benefit plans

Desjardins Group offers to a majority of its employees a defined benefit pension plan and a defined benefit supplemental pension plan. It also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents.

The cost of these plans is recognized in the Combined Statements of Income and includes current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost resulting from a plan amendment or curtailment is immediately recognized in the Combined Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in items of other comprehensive income that will not be reclassified subsequently to the Combined Statements of Income and are immediately reclassified to undistributed surplus earnings. Remeasurements of net defined benefit plan liabilities include actuarial gains and losses and the difference between the actual return on plan assets and the interest income generated by such assets, which is recognized in the Combined Statements of Income. Actuarial gains and losses result from changes in actuarial assumptions used to determine the defined benefit plan obligation and experience gains and losses on such obligation.

Net defined benefit plan assets or liabilities are equal to the present value of the plans' obligation, calculated using the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset is, when appropriate, limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

Net pension plan and other post-retirement benefit plan liabilities are recognized under "Net defined benefit plan liabilities" in the Combined Balance Sheets.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2016 are presented below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they indicate otherwise.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments, insurance contracts and leases. IFRS 15 therefore supersedes the two main revenue recognition standards, IAS 18, "Revenue", and IAS 11, "Construction Contracts", as well as related interpretations. The core principle of this standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue.

In April 2016, the IASB issued amendments to IFRS 15 to further clarify revenue recognition and transition provisions with respect to initial application.

Desjardins Group is currently assessing the impact of adopting IFRS 15, which will be effective for annual periods beginning on or after January 1, 2018.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets as well as the general requirements for hedge accounting.

Desjardins Group will have to adopt retrospectively IFRS 9 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 9 will be recognized in the opening Combined Balance Sheet. Desjardins Group decided not to restate comparative periods upon adopting the provisions of IFRS 9. Consequently, the retrospective impact of applying IFRS 9 will be recognized in the Combined Balance Sheet as at January 1, 2018, which is the effective date of the new standard on financial instruments.

Desjardins Group continues to assess the impact of adopting IFRS 9 and pursues its implementation efforts.

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

Following is a summary of the new IFRS 9 concepts.

Classification and measurement

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and the business model under which the financial asset is held.

The classification of debt instruments giving rise to cash flows that are solely payments of principal and interest will be determined, at initial recognition, based on the business model for managing these financial assets:

- Financial assets held within a business model whose objective is to collect contractual cash flows will be classified as measured at amortized cost.
- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be classified as measured at fair value through other comprehensive income.
- Financial assets managed either for trading purposes or on a fair value basis will be classified as measured at fair value through profit or loss.

In all cases, if a debt instrument does not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest, the financial asset will be classified as measured at fair value through profit or loss.

Lastly, Desjardins Group may make, at initial recognition, an irrevocable election to classify a debt instrument as measured at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset and if regulatory requirements are met.

Equity instruments will be classified as measured at fair value through profit or loss unless, at initial recognition, an irrevocable election is made, on an instrument-by-instrument basis, to classify them as measured at fair value through other comprehensive income. If such election is made, gains and losses will be recognized in other comprehensive income with no subsequent reclassification to profit or loss.

Derivative financial instruments will continue to be recognized at fair value through profit or loss.

For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39, without any significant difference, except for financial liabilities designated as measured at fair value, for which the change in fair value related to a change in the issuing entity's own credit risk will have to be recognized in other comprehensive income.

Desjardins Group is currently in the process of completing the analysis of its business models and the tests on the cash flow characteristics of its financial assets. The measurement basis for certain financial assets, namely amortized cost or fair value, as well as the recognition of unrealized gains and losses resulting from changes in fair value might be modified once the ongoing analysis is finalized.

Impairment

IFRS 9 introduces a new single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model requires. Under the current standard, loss allowances are recognized solely when there is objective evidence of impairment (identified on an individual or collective basis), which is when a loss event occurred after initial recognition, but before the reporting date, and this has an impact of the estimated cash flows from the financial asset. Under IFRS 9, credit losses will be recognized before a loss event occurs. The impairment model under IFRS 9 is therefore more forward-looking in nature than the current impairment model. Under IFRS 9, assessing changes in credit risk since initial recognition and estimating expected credit losses must take into account the relevant information available at the reporting date, including information about past events and current conditions, as well as reasonable and supportable forward-looking information about economic conditions and future events. In addition, loss allowances for expected credit losses will reflect an unbiased amount, based on a probability-weighted present value of cash flow shortfalls.

The impairment model applies to all financial assets as well as loan commitments and financial guarantee contracts, except financial instruments measured or designated as at fair value through profit or loss and those designated as at fair value through other comprehensive income. The general expected credit loss impairment model comprises three different stages: 1) for financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized; 2) for financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized; 3) for financial assets considered as impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Hedge accounting

IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities. However, the standard permits the continued application of the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9.

Desjardins Group decided to continue to apply the hedge accounting requirements of IAS 39. However, the new disclosure requirements resulting from amendments to IFRS 7, "Financial Instruments: Disclosures", will have to be applied.

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

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 on the balance sheet, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar.

Desjardins Group is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

IFRS 4, "Insurance Contracts"

In September 2016, the IASB issued amendments to IFRS 4, "Insurance Contracts", which are designed to address the concerns of insurers and their representative bodies about the different effective dates of IFRS 9, "Financial Instruments", which is January 1, 2018, and of the forthcoming new insurance contracts standard.

The amendments permit, but do not require, an entity that issues insurance contracts to elect to use one of two options. The first option involves applying a temporary exemption whereby IAS 39, "Financial Instruments: Recognition and Measurement", continues to be applied instead of IFRS 9 for the annual reporting periods beginning before January 1, 2021, if the entity has not previously applied IFRS 9 and its predominant activity is related to insurance. The second option involves applying the overlay approach to financial assets that are eligible and designated in accordance with certain specific criteria, whereby the difference between the amount reported in profit or loss under IFRS 9 and the amount that would have been reported in profit or loss if the entity had applied IAS 39 is reclassified between profit or loss and other comprehensive income.

Desjardins Group is currently assessing the impact of the overlay approach, which is the only option proposed by these amendments that could be applied. If selected, this option will have to be applied to annual reporting periods beginning on or after January 1, 2018.

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 December 31, 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	$ 21	$ 122	$ 195	$ 1,538	$ -	$ 1,876
Securities						
Securities at fair value through profit or loss	12,363	18,642	-	-	-	31,005
Available-for-sale securities	-	-	22,280	-	-	22,280
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,690	-	7,690
Loans[1]	-	-	-	166,015	-	166,015
Other financial assets						
Clients' liability under acceptances	-	-	-	11	-	11
Premiums receivable	-	-	-	1,957	-	1,957
Derivative financial instruments	2,253	-	-	-	1,319	3,572
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,532	-	2,532
Other	-	-	-	1,173	-	1,173
Total financial assets	$ 14,637	$ 18,764	$ 22,475	$ 180,916	$ 1,319	$ 238,111
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 160,546	$ -	$ 160,546
Other financial liabilities						
Acceptances	-	-	-	11	-	11
Commitments related to securities sold short	8,196	-	-	-	-	8,196
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,323	-	10,323
Derivative financial instruments	1,625	-	-	-	432	2,057
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	-	4,659
Other	432	-	-	3,870	-	4,302
Subordinated notes	-	-	-	1,378	-	1,378
Total financial liabilities	$ 10,253	$ -	$ -	$ 180,787	$ 432	$ 191,472

[1] For more information, see Note 7, "Loans and allowance for credit losses".

[2] For details on derivatives designated as hedging instruments, see Note 19, "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	$ 18	$ 59	$ 297	$ 1,342	$ -	$ 1,716
Securities						
Securities at fair value through profit or loss	10,262	18,453	-	-	-	28,715
Available-for-sale securities	-	-	23,272	-	-	23,272
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,881	-	7,881
Loans[1]	-	-	-	159,505	-	159,505
Other financial assets						
Clients' liability under acceptances	-	-	-	376	-	376
Premiums receivable	-	-	-	1,662	-	1,662
Derivative financial instruments	2,133	-	-	-	2,685	4,818
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,033	-	2,033
Other	-	-	-	1,096	-	1,096
Total financial assets	$ 12,413	$ 18,512	$ 23,569	$ 173,895	$ 2,685	$ 231,074
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 156,574	$ -	$ 156,574
Other financial liabilities						
Acceptances	-	-	-	376	-	376
Commitments related to securities sold short	5,464	-	-	-	-	5,464
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,383	-	10,383
Derivative financial instruments	1,568	-	-	-	121	1,689
Amounts payable to clients, brokers and financial institutions	-	-	-	4,713	-	4,713
Other	337	-	-	3,810	-	4,147
Subordinated notes	-	-	-	1,884	-	1,884
Total financial liabilities	$ 7,369	$ -	$ -	$ 177,740	$ 121	$ 185,230

[1] For more information, see Note 7, "Loans and allowance for credit losses".
[2] For details on derivatives designated as hedging instruments, see Note 19, "Derivative financial instruments and hedging activities".

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

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

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

Transfers between levels

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 136	$ -	$ 143
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,569	1,026	-	8,595
Provincial governmental entities and municipal corporations in Canada	14,790	1,165	-	15,955
School or public corporations in Canada	19	97	-	116
Foreign public administrations	231	-	-	231
Other securities				
Financial institutions	29	1,009	60	1,098
Other issuers	-	2,624	996	3,620
Equity securities	1,066	227	97	1,390
	23,711	6,284	1,153	31,148
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	1,183	-	1,183
Other contracts	-	1,340	-	1,340
	-	3,572	-	3,572
Total financial assets at fair value through profit or loss	23,711	9,856	1,153	34,720
Available-for-sale financial assets				
Cash and deposits with financial institutions	19	176	-	195
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	4,749	2,184	-	6,933
Provincial governmental entities and municipal corporations in Canada	8,971	1,311	-	10,282
School or public corporations in Canada	15	-	-	15
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	1,317	-	1,317
Other issuers	5	492	101	598
Equity securities	2,384	586	130	3,100
Total available-for-sale financial assets[(1)]	16,153	6,089	231	22,473
Financial instruments of segregated funds	5,331	6,627	20	11,978
Total financial assets	$ 45,195	$ 22,572	$ 1,404	$ 69,171
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,069	$ 127	$ -	$ 8,196
Other	-	-	432	432
	8,069	127	432	8,628
Derivative financial instruments				
Interest rate contracts	-	402	-	402
Foreign exchange contracts	-	371	-	371
Other contracts	-	1,284	-	1,284
	-	2,057	-	2,057
Total financial liabilities	$ 8,069	$ 2,184	$ 432	$ 10,685

(1) As at December 31, 2016, certain available-for-sale securities having a carrying amount of $2 million were recognized at cost since their fair value cannot reliably be measured.

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

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

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 70	$ -	$ 77
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,810	500	-	7,310
Provincial governmental entities and municipal corporations in Canada	13,886	1,090	-	14,976
School or public corporations in Canada	29	111	-	140
Foreign public administrations	311	-	-	311
Other securities				
Financial institutions	29	1,054	72	1,155
Other issuers	-	1,796	1,879	3,675
Equity securities	872	208	68	1,148
	21,944	4,829	2,019	28,792
Derivative financial instruments				
Interest rate contracts	-	1,544	-	1,544
Foreign exchange contracts	-	2,253	-	2,253
Other contracts	-	1,021	-	1,021
	-	4,818	-	4,818
Total financial assets at fair value through profit or loss	21,944	9,647	2,019	33,610
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	297	-	297
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,895	2,025	-	7,920
Provincial governmental entities and municipal corporations in Canada	9,966	938	-	10,904
School or public corporations in Canada	8	-	-	8
Foreign public administrations	13	28	-	41
Other securities				
Financial institutions	-	1,218	-	1,218
Other issuers	-	396	106	502
Equity securities	1,999	547	131	2,677
Total available-for-sale financial assets[(1)]	17,881	5,449	237	23,567
Financial instruments of segregated funds	4,961	4,822	8	9,791
Total financial assets	$ 44,786	$ 19,918	$ 2,264	$ 66,968
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 5,297	$ 167	$ -	$ 5,464
Other	-	-	337	337
	5,297	167	337	5,801
Derivative financial instruments				
Interest rate contracts	-	417	-	417
Foreign exchange contracts	-	250	-	250
Other contracts	-	984	38	1,022
	-	1,651	38	1,689
Total financial liabilities	$ 5,297	$ 1,818	$ 375	$ 7,490

(1) As at December 31, 2015, certain available-for-sale securities having a carrying amount of $2 million were recognized at cost since their fair value cannot reliably be measured.

During fiscal 2016, ABTNs having a carrying amount of $800 million were transferred from Level 3 to Level 2 as they are maturing in the following fiscal year and the unobservable inputs with respect to the related illiquidity premium were not deemed significant to the measurement of fair value. No other transfers attributable to changes in the observability of market data were made between hierarchy levels for financial instruments measured at fair value during the years ended December 31, 2016 and 2015.

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

HIERARCHY OF FINANCIAL INSTRUMENTS WHOSE CARRYING AMOUNT DOES NOT EQUAL FAIR VALUE

The following tables present, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

As at December 31, 2016	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$ 166,015**	**$ 166,246**	**$ -**	**$ 6,215**	**$ 160,031**
Financial liabilities					
Deposits	**160,546**	**160,895**	**1,065**	**159,830**	**-**
Subordinated notes	**1,378**	**1,521**	**-**	**1,521**	**-**

As at December 31, 2015	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$ 159,505	$ 159,776	$ -	$ 6,000	$ 153,776
Financial liabilities					
Deposits	156,574	156,878	45	156,833	-
Subordinated notes	1,884	2,061	-	2,061	-

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriate and reliably measured. The financial governance framework provides for independent monitoring and segregation of duties in that respect.

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are mortgage bonds, equity securities, the financial liability related to put options written on certain non-controlling interests as well as the financial liability related to a contingent consideration resulting from a price adjustment clause for certain property and casualty insurance contracts acquired.

For mortgage bonds, Desjardins Group developed a list of parameters based on comparable inputs that is reviewed annually and adjusted based on market trends. Tests are performed quarterly to ensure that the rates used by the system are consistent with this list and evolve reasonably.

Desjardins Group measures the majority of equity securities based on brokers' valuations obtained from independent third parties. Data obtained are reviewed and approved by Desjardins Group.

In connection with the acquisition of Qtrade Canada Inc., which was completed in 2013, Desjardins Group wrote in favour of certain holders of non-controlling interests put options that give them the right to sell their interests at predetermined dates at a price representing fair value as at such date (hereinafter referred to as “Financial liability related to put options”). The main inputs used in the measurement of this financial liability are derived from internal forecasts prepared by the management of the acquiree and estimates made by Desjardins Group. The internal forecasts and assumptions on which this valuation technique is based have been prepared by an independent third party and have been reviewed and approved by Desjardins Group.

In connection with the acquisition of the Canadian businesses of State Farm Mutual Automobile Insurance Company (State Farm), Desjardins Group recognized a contingent consideration resulting from the price adjustment clause of the agreement. State Farm will compensate Desjardins Group for 95% of the unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contracts transferred as part of the acquisition, while Desjardins Group will have to give State Farm 90% of the favourable development of such provision.

Sensitivity of financial instruments categorized within Level 3

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

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

Changes in fair value of financial instruments categorized within Level 3

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

2016	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ (2)	$ -	$ -	$ -	$ (10)	$ 60
Other issuers								
Hedge funds	8	-	(1)	-	-	-	-	7
Asset-backed term notes	801	-	10	-	(800)	-	(3)	8
Mortgage bonds	1,043	-	(20)	-	-	13	(55)	981
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	1	(1)	-	-	48	(19)	97
Total financial assets at fair value through profit or loss	2,019	1	(13)	-	(800)	61	(115)	1,153
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	(2)	-	-	(3)	101
Equity securities	131	-	(2)	27	(38)	29	(17)	130
Total available-for-sale financial assets	237	-	(2)	25	(38)	29	(20)	231
Financial instruments of segregated funds	8	-	-	-	-	12	-	20
Total financial assets	$ 2,264	$ 1	$ (15)	$ 25	$ (838)	$ 102	$ (135)	$ 1,404
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 8	$ -	$ -	$ -	$ (19)	$ 68
Financial liability related to the contingent consideration	258	-	261	-	-	-	(155)	364
Derivative financial instruments								
Other contracts	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ 269	$ -	$ (38)	$ -	$ (174)	$ 432

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

[2] Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under "Net income on securities at fair value through profit or loss".

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

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

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

2015	Balance at beginning of year	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of year
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ -	$ -	$ -	$ -	$ -	$ 72
Other issuers								
Hedge funds	10	-	7	-	-	-	(9)	8
Asset-backed term notes	1,641	-	43	-	-	-	(883)	801
Mortgage bonds	850	-	12	-	-	238	(57)	1,043
Financial asset-backed securities	26	-	1	-	-	-	-	27
Equity securities	21	-	2	-	-	51	(6)	68
Total financial assets at fair value through profit or loss	2,620	-	65	-	-	289	(955)	2,019
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	107	-	-	2	-	-	(3)	106
Equity securities	43	5	1	27	-	76	(21)	131
Total available-for-sale financial assets	150	5	1	29	-	76	(24)	237
Financial instruments of segregated funds	-	-	-	-	-	8	-	8
Total financial assets	$ 2,770	$ 5	$ 66	$ 29	$ -	$ 373	$ (979)	$ 2,264
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 91	$ -	$ 9	$ -	$ -	$ -	$ (21)	$ 79
Financial liability related to the contingent consideration	-	-	145	-	-	113	-	258
Derivative financial instruments								
Other contracts	17	4	21	-	-	3	(7)	38
Total financial liabilities	$ 108	$ 4	$ 175	$ -	$ -	$ 116	$ (28)	$ 375

[1] Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.

[2] Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss"

[3] Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains (losses) on available-for-sale securities” in the Combined Statements of Comprehensive Income.

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

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

The following tables present the main techniques and inputs used to measure the fair value of the significant financial instruments categorized within Level 3.

As at December 31, 2016	**Fair value**	**Main valuation techniques**	**Unobservable inputs**	**Input value ranges**			
Financial assets							
Securities							
			Credit spread[B,C]	**0 bp**	**to**	**300 bp**	
Mortgage bonds	**$ 1,142**	Discounted cash flows	Comparable inputs[B,C]	**0 bp**	**to**	**520 bp**	
	35	Brokers' valuations	Brokers' inputs	**-**		**-**	**(1)**
Equity securities	**192**	Adjusted net asset value	Adjusted net asset value[A,C]	**-**		**-**	**(1)**
Other financial assets[2]	**35**						
Total financial assets	**$ 1,404**						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[A,C]	**-**		**-**	**(3)**
			Discount rate[B,C]		**7.5%**		
Financial liability related to put options	**$ 68**	Discounted cash flows	Put option exercise date[B,C]	**6 months**	**to**	**3 years**	
Financial liability related to the contingent consideration	**364**	Actuarial techniques[4]	Provision for claims and adjustment expenses[B]	**-**		**-**	**(5)**
Total financial liabilities	**$ 432**						

As at December 31, 2015	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Asset-backed term notes	$ 801	Internal model[6]	Illiquidity premium[B]		2%		
			Credit spread[B,C]	0 bp	to	300 bp	
Mortgage bonds	1,221	Discounted cash flows	Comparable inputs[B,C]	0 bp	to	520 bp	
			Proportion of credit spread[B,C]		75%		
	38	Option valuation model	Increase in exercise price[B,C]		5%		
	13	Brokers' valuations	Brokers' inputs	-		-	(1)
Equity securities	148	Adjusted net asset value	Adjusted net asset value[A,C]	-		-	(1)
Other financial assets[7]	43						
Total financial assets	$ 2,264						
Financial liabilities							
Other liabilities - Other							
			Enterprise value[A,C]	-		-	(3)
			Discount rate[B,C]		7.5%		
Financial liability related to put options	$ 79	Discounted cash flows	Put option exercise date[B,C]	6 months	to	4 years	
Financial liability related to the contingent consideration	258	Actuarial techniques[4]	Provision for claims and adjustment expenses[B]				(5)
Other financial liabilities[8]	38						
Total financial liabilities	$ 375						

(1) Due to the nature of this type of investment, no input value range is presented.
(2) Include other financial assets such as financial instruments of segregated funds.
(3) Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.
(4) The actuarial techniques used to prospectively measure the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices. For more details about such practices, refer to the "Actuarial assumptions" section of Note 15, "Insurance contract liabilities".
(5) Due to the nature of this financial liability, no input value range is presented.
(6) For a description of the internal model, see the "Securities − Asset-backed term notes" section of Note 6, "Securities".
(7) Include other financial assets such as financial asset-backed securities.
(8) Include other financial liabilities such as other derivative financial instrument contracts.

Fair value sensitivity to changes in unobservable inputs

(A) An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.
(B) An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
(C) There is no predictable relationship between this input and other material unobservable inputs.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability must be offset in the Combined Balance Sheets when, and only when, Desjardins Group has a legally enforceable and unconditional right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Desjardins Group has a legally enforceable and unconditional right to set off a financial asset and a financial liability when such right is enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

Securities borrowed or purchased under reverse repurchase agreements and commitments related to securities lent or sold under repurchase agreements are subject to master netting agreements or similar agreements that do not meet the criteria for offsetting in the Combined Balance Sheets as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. However, when such transactions are carried out with clearing houses, the criteria for offsetting in the Combined Balance Sheets are met.

In addition, over-the-counter derivatives subject to International Swaps and Derivatives Association's master netting agreements do not meet the criteria for offsetting in the Combined Balance Sheets as they also give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy. As part of these transactions, Desjardins Group pledges and receives assets as collateral to manage credit risk in accordance with the terms and conditions of the credit support annex.

Exchange-traded derivatives are also subject to master netting agreements entered into directly with stock exchanges or clearing houses and indirectly through brokers. Master netting agreements entered into directly with stock exchanges and clearing houses meet the criteria for offsetting in the Combined Balance Sheets, unlike those entered into indirectly through brokers, as they give a right to set off that is enforceable only in the event of default, insolvency or bankruptcy.

Certain amounts receivable from clients, brokers and financial institutions as well as certain amounts payable to clients, brokers and financial institutions are subject to master netting agreements that meet the criteria for offsetting in the Combined Balance Sheets.

The following tables present information about financial assets and liabilities that are set off and not set off in the Combined Balance Sheets and are subject to a master netting agreement or a similar agreement.

				Associated amounts not set off in the Combined Balance Sheets[1]		
As at December 31, 2016	**Gross recognized amounts**	**Set off amounts**	**Net amounts presented in the Combined Balance Sheets[2]**	**Financial instruments[3]**	**Financial collateral held / pledged**	**Residual amounts not set off**
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	**$ 8,654**	**$ 964**	**$ 7,690**	**$ 3,588**	**$ 4,101**	**$ 1**
Derivative financial instruments	**3,542**	**-**	**3,542**	**597**	**2,938**	**7**
Amounts receivable from clients, brokers and financial institutions and other	**16**	**7**	**9**	**5**	**-**	**4**
Total financial assets	**$ 12,212**	**$ 971**	**$ 11,241**	**$ 4,190**	**$ 7,039**	**$ 12**
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	**$ 11,287**	**$ 964**	**$ 10,323**	**$ 3,588**	**$ 6,735**	**$ -**
Derivative financial instruments	**726**	**-**	**726**	**597**	**107**	**22**
Amounts payable to clients, brokers and financial institutions and other	**24**	**7**	**17**	**5**	**3**	**9**
Total financial liabilities	**$ 12,037**	**$ 971**	**$ 11,066**	**$ 4,190**	**$ 6,845**	**$ 31**

(1) Any over-collateralization is excluded from the table.
(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.
(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 5 – OFFSETTING FINANCIAL ASSETS AND LIABILITIES *(continued)*

As at December 31, 2015	Gross recognized amounts	Set off amounts	Net amounts presented in the Combined Balance Sheets[2]	Associated amounts not set off in the Combined Balance Sheets[1]		
				Financial instruments[3]	Financial collateral held / pledged	Residual amounts not set off
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 8,108	$ 227	$ 7,881	$ 2,809	$ 5,066	$ 6
Derivative financial instruments	4,740	-	4,740	538	4,162	40
Amounts receivable from clients, brokers and financial institutions and other	22	1	21	9	-	12
Total financial assets	$ 12,870	$ 228	$ 12,642	$ 3,356	$ 9,228	$ 58
Financial liabilities						
Commitments related to securities lent or sold under repurchase agreements	$ 10,610	$ 227	$ 10,383	$ 2,809	$ 7,573	$ 1
Derivative financial instruments	696	-	696	538	13	145
Amounts payable to clients, brokers and financial institutions and other	18	1	17	9	8	-
Total financial liabilities	$ 11,324	$ 228	$ 11,096	$ 3,356	$ 7,594	$ 146

(1) Any over-collateralization is excluded from the table.

(2) The difference between the net amounts presented in this table and balances appearing in the Combined Balance Sheets represents financial assets and liabilities that are not subject to master netting agreements or similar agreements.

(3) Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar agreement but that do not meet offsetting criteria.

NOTE 6 – SECURITIES

MATURITIES OF SECURITIES

The following table presents an analysis of the maturities of Desjardins Group's securities.

	Terms to maturity							
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 to 10 years**	**Over 10 years**	**No specific maturity**	**As at December 31, 2016**	As at December 31, 2015
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	**$ 1,501**	**$ 1,932**	**$ 2,705**	**$ 1,018**	**$ 1,439**	**$ -**	**$ 8,595**	$ 7,310
Provincial governmental entities and municipal corporations in Canada	**1,307**	**2,625**	**1,534**	**2,845**	**7,644**	**-**	**15,955**	14,976
School or public corporations in Canada	**1**	**-**	**-**	**16**	**99**	**-**	**116**	140
Foreign public administrations	**70**	**-**	**89**	**29**	**43**	**-**	**231**	311
Other securities								
Financial institutions	**278**	**285**	**204**	**188**	**143**	**-**	**1,098**	1,155
Other issuers[(1)]	**912**	**253**	**347**	**616**	**1,486**	**6**	**3,620**	3,675
Equity securities	**-**	**-**	**-**	**-**	**-**	**1,390**	**1,390**	1,148
Total financial assets at fair value through profit or loss	**4,069**	**5,095**	**4,879**	**4,712**	**10,854**	**1,396**	**31,005**	28,715
Available-for-sale financial assets								
Available-for-sale securities								
Debt securities issued or guaranteed by								
Canadian governmental entities	**304**	**2,929**	**3,304**	**378**	**18**	**-**	**6,933**	7,920
Provincial governmental entities and municipal corporations in Canada	**1,234**	**4,571**	**1,838**	**1,896**	**743**	**-**	**10,282**	10,904
School or public corporations in Canada	**8**	**7**	**-**	**-**	**-**	**-**	**15**	8
Foreign public administrations	**12**	**-**	**1**	**11**	**9**	**-**	**33**	41
Other securities								
Financial institutions	**295**	**519**	**421**	**82**	**-**	**-**	**1,317**	1,218
Other issuers	**38**	**67**	**137**	**345**	**11**	**1**	**599**	503
Equity securities	**-**	**9**	**11**	**-**	**6**	**3,075**	**3,101**	2,678
Total available-for-sale financial assets	**1,891**	**8,102**	**5,712**	**2,712**	**787**	**3,076**	**22,280**	23,272
Total securities	**$ 5,960**	**$13,197**	**$10,591**	**$ 7,424**	**$ 11,641**	**$ 4,472**	**$ 53,285**	$ 51,987

[(1)] Includes ABTNs with a fair value of $807 million as at December 31, 2016.

NOTE 6 – SECURITIES *(continued)*

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

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

As at December 31, 2016	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 6,928**	**$ 20**	**$ 15**	**$ 6,933**
Provincial governmental entities and municipal corporations in Canada	**10,186**	**122**	**26**	**10,282**
School or public corporations in Canada	**15**	**-**	**-**	**15**
Foreign public administrations	**33**	**-**	**-**	**33**
Other securities				
Financial institutions	**1,314**	**4**	**1**	**1,317**
Other issuers	**583**	**17**	**1**	**599**
Equity securities	**2,711**	**436**	**46**	**3,101**
	$ 21,770	**$ 599**	**$ 89**	**$ 22,280**

As at December 31, 2015	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 7,807	$ 116	$ 3	$ 7,920
Provincial governmental entities and municipal corporations in Canada	10,706	211	13	10,904
School or public corporations in Canada	8	-	-	8
Foreign public administrations	40	1	-	41
Other securities				
Financial institutions	1,217	5	4	1,218
Other issuers	486	19	2	503
Equity securities	2,524	304	150	2,678
	$ 22,788	$ 656	$ 172	$ 23,272

Impairment losses recognized

During the year ended December 31, 2016, Desjardins Group concluded that there was objective evidence of impairment. An impairment loss of $24 million ($122 million for the year ended December 31, 2015) on available-for-sale securities was recognized under “Net income on available-for-sale securities” in the Combined Statements of Income.

NOTE 6 – SECURITIES *(continued)*

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

Desjardins Group holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $807 million and $839 million, respectively ($801 million and $844 million as at December 31, 2015) and allocated among MAV 1 and MAV 3, with substantially all of the value attributable to MAV 1.

Desjardins Group participated, for an amount of $1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to the credit default swaps of MAV 1. This credit commitment matured in December 2016 and no amount had been drawn on the MFF.

MAVs are structured entities that have been created for the specific purpose of aggregating the structured notes arising from asset-backed commercial paper held by Canadian institutional investors. MAVs had assets of approximately $6,354 million as at December 31, 2016 ($6,392 million as at December 31, 2015), had no equity and were composed mainly of synthetic asset transactions. Desjardins Group does not consolidate MAVs as it does not control them.

In January 2017, substantially all of MAV 1's ABTNs were settled, and a cash consideration of $799 million, corresponding to the nominal value of these ABTNs, was received.

ABTN valuation methodology

Since there is no active market for these securities, Desjardins Group's management estimated the fair value of its holdings and the resulting changes in value by using a valuation technique. In addition, the trading of MAV 1 notes is subject to considerable restrictions, which make these notes illiquid.

The fair value of MAV 1's ABTNs is based on a financial model that reflects uncertainties regarding return, credit spreads, the nature and credit risk of underlying assets, the amount and timing of cash inflows, as well as the maturity dates and the liquidity restrictions of the new notes.

The model uses a methodology based on the market price of comparable securities, which is adjusted to take into account the mix of underlying assets and transactions as well as the lack of liquidity of the notes held by Desjardins Group. Assumptions used are based as much as possible on observable market data such as comparable securities and benchmark indexes for similar assets.

Impact on profit or loss

A gain of $10 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the year ended December 31, 2016 (gain of $43 million for the year ended December 31, 2015). In addition, a gain of $3 million related to the derivative financial instruments hedging ABTNs was recognized for the year ended December 31, 2016 (no gain for the year ended December 31, 2015).

NOTE 7 – 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 December 31, 2016	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Residential mortgages	**$ 104,344**	**$ 2,177**	**$ 174**	**$ 19**	**$ 48**	**$ 106,628**
Consumer, credit card and other personal loans	**21,213**	**835**	**102**	**15**	**158**	**21,977**
Business and government	**36,780**	**590**	**256**	**87**	**129**	**37,410**
	$ 162,337	**$ 3,602**	**$ 532**	**$ 121**	**$ 335**	**$ 166,015**

(1) Includes the collective allowance on impaired loans of $22 million.

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[1]	Net loans
Residential mortgages	$ 99,960	$ 2,181	$ 182	$ 18	$ 46	$ 102,259
Consumer, credit card and other personal loans	20,350	755	99	18	131	21,055
Business and government	35,777	396	260	85	157	36,191
	$ 156,087	$ 3,332	$ 541	$ 121	$ 334	$ 159,505

(1) Includes the collective allowance on impaired loans of $19 million.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

As at December 31, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 1,823**	**$ 183**	**$ 60**	**$ 111**	**$ 2,177**
Consumer, credit card and other personal loans	**598**	**149**	**60**	**28**	**835**
Business and government	**447**	**53**	**7**	**83**	**590**
	$ 2,868	**$ 385**	**$ 127**	**$ 222**	**$ 3,602**

As at December 31, 2015	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 1,690	$ 249	$ 88	$ 154	$ 2,181
Consumer, credit card and other personal loans	516	155	58	26	755
Business and government	227	44	33	92	396
	$ 2,433	$ 448	$ 179	$ 272	$ 3,332

ALLOWANCES FOR CREDIT LOSSES

The following table presents the changes in the allowances for credit losses for the years ended December 31.

	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of year	**$ 65**	$ 65	**$ 188**	$ 176	**$ 307**	$ 306	**$ 560**	$ 547
Provision for credit losses	**26**	16	**319**	321	**(26)**	40	**319**	377
Write-offs and recoveries	**(23)**	(16)	**(317)**	(309)	**(27)**	(39)	**(367)**	(364)
Balance at end of year	**$ 68**	$ 65	**$ 190**	$ 188	**$ 254**	$ 307	**$ 512**	$ 560
Composed of:								
Allowance for credit losses	**$ 66**	$ 64	**$ 173**	$ 149	**$ 217**	$ 242	**$ 456**	$ 455
Allowance for off-balance sheet items[1]	**2**	1	**17**	39	**37**	65	**56**	105

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

NOTE 8 – DERECOGNITION OF FINANCIAL ASSETS

FINANCIAL ASSETS TRANSFERRED BUT NOT DERECOGNIZED

Loan securitization

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act (NHA) Mortgage-Backed Securities Program. Under this program, Desjardins Group bundles residential mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (NHA MBSs) and transfers them to the Canada Housing Trust (CHT) where they are legally detained on behalf of Desjardins Group. However, as part of these transactions, Desjardins Group retains substantially all the risks, including prepayment, interest rate and credit risks, and the rewards related to these securities, namely the cash flows associated with the assets. Consequently, these loans continue to be recognized in the Combined Balance Sheets. Furthermore, Desjardins Group treats any transfers as collateralized financing transactions and recognizes a liability in that respect. Where applicable, this liability, which is equal to the consideration received for the sale of NHA MBSs that do not meet the derecognition criteria, is presented under "Deposits – Business and government" in the Combined Balance Sheets. The CHT funds these purchases by issuing Canada Mortgage Bonds (CMBs) to investors. The legal guarantee of third parties holding CMBs is limited to the transferred assets.

The terms and conditions of the program giving rise to the transfer of NHA MBSs to the CHT require that interest rate swaps be entered into by the CHT and Desjardins Group in order to receive all cash flows related to the mortgage loans underlying the NHA MBSs every month. Desjardins Group pays the CHT an amount corresponding to the interest payable to the holders of CMBs, the difference between these amounts being considered as excess interest margin. As part of these swaps, Desjardins Group must also create a separate account for reinvestment purposes (principal reinvestment account) for any principal payment received on mortgage loans in order to meet the obligations related to the repayment of CMBs at maturity.

No material loss is expected on the mortgage loans as they are guaranteed by CMHC. Income related to securitization transactions is recognized under, "Interest income – Securities" and "Interest income – Loans".

Securities lent or sold under repurchase agreements

As part of transactions involving securities lent or sold under repurchase agreements, Desjardins Group transfers financial assets under terms and conditions providing for their future repurchase. These financial assets remain recognized in the Combined Balance Sheets as Desjardins Group retains substantially all the risks and rewards related to these assets.

The following table presents the carrying amount and the fair value of financial assets transferred by Desjardins Group but not derecognized as well as the related liabilities recognized in the Combined Balance Sheets.

	As at December 31, 2016		As at December 31, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets transferred but not derecognized				
Financial assets transferred through securitization transactions	**$ 8,085**	**$ 8,181**	$ 6,878	$ 7,003
Securities sold under repurchase agreements	**9,214**	**9,214**	8,261	8,261
Securities lent	**2**	**2**	10	10
	$ 17,301	**$ 17,397**	$ 15,149	$ 15,274
Related liabilities	**$ 17,106**	**$ 17,045**	$ 15,070	$ 15,059

NOTE 9 – SEGREGATED FUNDS

Segregated fund net assets

The following table presents the carrying amount of segregated fund net assets.

	As at December 31, 2016	As at December 31, 2015
Investments		
Bonds	**$ 523**	$ 471
Shares and mutual fund units	**11,418**	9,286
Money market securities	**37**	34
Securities borrowed or purchased under reverse repurchase agreements	**48**	13
Other assets	**121**	43
Commitments related to securities lent or sold under repurchase agreements	**(40)**	(8)
Liabilities	**(112)**	(30)
Net assets held for segregated fund contract holders	**$ 11,995**	$ 9,809
Assets held for the insurer	**(30)**	(28)
Total segregated fund net assets[(1)]	**$ 11,965**	$ 9,781

(1) The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to $8 million as at December 31, 2016 ($5 million as at December 31, 2015).

Fair value of financial instruments

Segregated fund net assets include financial instruments recognized at fair value. Desjardins Group classifies financial instruments recognized at fair value using a three-level hierarchy that reflects the significance of the inputs used to measure them. A description of the three hierarchy levels and guidance on inputs used in fair value measurements are presented in Note 4, “Fair value of financial instruments”.

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: “Securities borrowed or purchased under reverse repurchase agreements”, “Other assets”, “Commitments related to securities lent or sold under repurchase agreements” and “Liabilities”.

The following tables present the financial instruments included in segregated fund net assets and recognized at fair value.

As at December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments				
Bonds	**$ 301**	**$ 222**	**$ -**	**$ 523**
Shares and mutual fund units	**5,004**	**6,394**	**20**	**11,418**
Money market securities	**26**	**11**	**-**	**37**
Total financial instruments recognized at fair value	**$ 5,331**	**$ 6,627**	**$ 20**	**$ 11,978**

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Investments				
Bonds	$ 266	$ 205	$ -	$ 471
Shares and mutual fund units	4,671	4,607	8	9,286
Money market securities	24	10	-	34
Total financial instruments recognized at fair value	$ 4,961	$ 4,822	$ 8	$ 9,791

During the years ended December 31, 2016 and 2015, no transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments recognized at fair value.

NOTE 9 – SEGREGATED FUNDS *(continued)*

Derecognition of financial assets

As part of transactions involving securities lent or sold under repurchase agreements, the segregated funds transfer financial assets under terms and conditions providing for their future repurchase. These assets remain recognized in the Combined Balance Sheets as the segregated funds retain substantially all the risks and rewards related to these assets.

As at December 31, 2016, the carrying amount of such transferred financial assets and related liabilities recognized in the Combined Balance Sheets was $6 million and $6 million, respectively ($8 million and $8 million as at December 31, 2015), and their fair value was $6 million and $6 million, respectively ($8 million and $8 million as at December 31, 2015).

Financial assets pledged and held as collateral

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities in the normal course of the segregated funds' operations amounted to $6 million as at December 31, 2016 ($8 million as at December 31, 2015). The fair value of the financial assets held as collateral that the segregated funds are permitted to sell or repledge in the absence of default totalled $7 million ($5 million as at December 31, 2015). No financial assets held as collateral had been sold or repledged in 2016 and 2015. These financial assets were received as collateral as part of transactions involving securities borrowed or purchased under reverse repurchase agreements.

Financial instrument risks

Desjardins Group is not exposed to the risks related to financial instruments included in the assets held for segregated fund contract holders since such holders assume the risks and obtain the benefits arising from these financial instruments.

Segregated fund net liabilities

The following table presents the changes in segregated fund net liabilities.

	As at December 31, 2016	As at December 31, 2015
Balance at beginning of year – Net liabilities to segregated fund contract holders	**$ 9,804**	$ 8,733
Additions		
Amounts received from contract holders	**2,811**	1,704
Net investment income	**804**	452
	3,615	2,156
Deductions		
Withdrawals and redemptions	**1,297**	949
Management fees	**135**	136
	1,432	1,085
Balance at end of year – Net liabilities to segregated fund contract holders	**$ 11,987**	$ 9,804
Liabilities to the insurer	**(30)**	(28)
Total segregated fund net liabilities[(1)]	**$ 11,957**	$ 9,776

(1) The difference between the segregated fund net assets and net liabilities represents the elimination of balances between the segregated funds and the various companies included in the Group scope of Desjardins Group. These eliminations amounted to $8 million as at December 31, 2016 ($5 million as at December 31, 2015).

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The following tables present the changes in property, plant and equipment and investment property.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Cost									
As at December 31, 2014	$ 109	$ 1,295	$ 455	$ 644	$ 462	$ 2,965	$ 93	$ 679	$ 772
Additions[1]	6	126	55	49	49	285	47	101	148
Disposals	(4)	(27)	(30)	(92)	(16)	(169)	(2)	(6)	(8)
Other	-	4	1	7	(2)	10	(3)	(5)	(8)
As at December 31, 2015	$ 111	$ 1,398	$ 481	$ 608	$ 493	$ 3,091	$ 135	$ 769	$ 904
Additions	**2**	**34**	**68**	**26**	**46**	**176**	**57**	**138**	**195**
Disposals	**(1)**	**(23)**	**(46)**	**(53)**	**(19)**	**(142)**	**(3)**	**(8)**	**(11)**
Other	**(4)**	**15**	**14**	**6**	**8**	**39**	**1**	**(28)**	**(27)**
As at December 31, 2016	**$ 108**	**$ 1,424**	**$ 517**	**$ 587**	**$ 528**	**$ 3,164**	**$ 190**	**$ 871**	**$ 1,061**

[1] For more information, see Note 20, “Significant acquisitions”.

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Accumulated depreciation									
As at December 31, 2014	$ -	$ 542	$ 362	$ 454	$ 233	$ 1,591	$ 4	$ 197	$ 201
Depreciation	-	42	47	37	35	161	-	27	27
Disposals	-	(25)	(27)	(52)	(16)	(120)	-	(3)	(3)
Other	-	(2)	2	7	1	8	-	(4)	(4)
As at December 31, 2015	$ -	$ 557	$ 384	$ 446	$ 253	$ 1,640	$ 4	$ 217	$ 221
Depreciation	**-**	**45**	**52**	**34**	**36**	**167**	**-**	**28**	**28**
Disposals	**-**	**(22)**	**(40)**	**(44)**	**(16)**	**(122)**	**-**	**(2)**	**(2)**
Other	**-**	**5**	**14**	**14**	**11**	**44**	**-**	**(9)**	**(9)**
As at December 31, 2016	**$ -**	**$ 585**	**$ 410**	**$ 450**	**$ 284**	**$ 1,729**	**$ 4**	**$ 234**	**$ 238**

	PROPERTY, PLANT AND EQUIPMENT						INVESTMENT PROPERTY		
	Land	Buildings	Computer equipment	Furniture, fixtures and other	Leasehold improvements	Total	Land	Buildings	Total
Net carrying amount									
As at December 31, 2016	**$ 108**	**$ 839**	**$ 107**	**$ 137**	**$ 244**	**$ 1,435**	**$ 186**	**$ 637**	**$ 823**
As at December 31, 2015	$ 111	$ 841	$ 97	$ 162	$ 240	$ 1,451	$ 131	$ 552	$ 683

As at December 31, 2016, an amount of $22 million ($8 million as at December 31, 2015) included in the buildings balance represented costs related to buildings under construction. In addition, Desjardins Group had commitments amounting to $4 million ($11 million as at December 31, 2015) related to the acquisition of these buildings.

As at December 31, 2016, the fair value of investment property was $1,416 million ($1,279 million as at December 31, 2015). Investment property is categorized within Level 3 of the fair value hierarchy as defined in Note 4, “Fair value of financial instruments”, as it is measured using techniques that are not primarily based on observable market inputs. The fair value of investment property is determined annually by independent real estate appraisers with recognized and relevant professional qualifications. These appraisers use a range of valuation methods, including normalized net income direct discounting and cash flow discounting. These techniques, which are based on observable and unobservable inputs, involve estimating capitalization rates and adjusted net operating income, in the case of the normalized net income direct discounting method, and estimating discount and capitalization rates and applicable future cash flows, in the case of the cash flow discounting method.

For the year ended December 31, 2016, rental income from investment property amounted to $144 million ($129 million in 2015). Amounts recognized in profit or loss for operating expenses related to investment property that generated rental income during the year totalled $102 million ($97 million in 2015), while no amount has been recognized for those that did not generate rental income. These amounts are presented under “Net other investment income” in the Combined Statements of Income.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill allocated to CGUs and groups of CGUs.

	Property and Casualty Insurance segment	Wealth Management and Life and Health Insurance segment	Total
Cost			
As at December 31, 2014	$ 416	$ 56	$ 472
As at December 31, 2015	$ 416	$ 56	$ 472
Other [1]	**(1)**	**-**	**(1)**
As at December 31, 2016	**$ 415**	**$ 56**	**$ 471**

[1] During the year ended December 31, 2016, Desjardins Group recognized a $1 million loss as a deduction to goodwill to measure the assets and liabilities of Western Financial Group at fair value less costs to sell. The sale of Western Financial Group will be effective January 1, 2017.

The Property and Casualty Insurance segment includes Desjardins General Insurance Group Inc., Western Financial Group Inc. and Western Financial Insurance Company. The Wealth Management and Life and Health Insurance segment includes notably Desjardins Financial Security Life Assurance Company, Desjardins Securities Inc., Desjardins Financial Corporation Inc. and Qtrade Canada Inc,

Test results show that the recoverable amount of CGUs and groups of CGUs represented by each of these segments exceeds its carrying amount and, consequently, no goodwill impairment losses have been recognized for the year ended December 31, 2016 and prior periods.

The recoverable amount of CGUs and groups of CGUs has been determined based on a calculation of value in use, using cash flow projections based on the budget and financial plan approved by the Board of Directors and covering a four-year period. The key assumptions used in the budget and financial plan are based on past performance and management's expectations of the evolution of the market. The growth rate used to extrapolate cash flow projections beyond the five-year period was 2.5% (2.5% in 2015) for the Property and Casualty Insurance segment and 2.0% (2.0% in 2015) for the Wealth Management and Life and Health Insurance segment. In addition, the discount rate used to discount the projected cash flows was 10.6% (11.1% in 2015) for the Property and Casualty Insurance segment and 6.9% (6.7% in 2015) for the Wealth Management and Life and Health Insurance segment. These rates represented the weighted average cost of capital of Desjardins Financial Corporation Inc. as at September 30 for the Property and Casualty Insurance segment and the Wealth Management and Life and Health Insurance segment, respectively.

Desjardins Group believes that no reasonably possible change in any of the above-mentioned key assumptions would cause the carrying amount of these CGUs and groups of CGUs to exceed their recoverable amount. The carrying amount of each of these CGUs and groups of CGUs would be lower than their recoverable amount even with a decrease of 10% (10% as at December 31, 2015) in budgeted margins or a decrease of 3% (3% as at December 31, 2015) in the growth rate.

NOTE 11 – GOODWILL AND INTANGIBLE ASSETS *(continued)*

Intangible assets

The following tables show changes in intangible assets.

	Software	Client relationships	Other[1]	Total
Cost				
As at December 31, 2014	$ 687	$ 187	$ 177	$ 1,051
Acquisitions / additions	111	4	89	204
Disposals / retirements	(54)	(1)	(17)	(72)
Other	3	1	(1)	3
As at December 31, 2015	$ 747	$ 191	$ 248	$ 1,186
Acquisitions / additions	**163**	**3**	**2**	**168**
Disposals / retirements	**(67)**	**(3)**	**(3)**	**(73)**
Other	**5**	**6**	**(19)**	**(8)**
As at December 31, 2016	**$ 848**	**$ 197**	**$ 228**	**$ 1,273**

	Software	Client relationships	Other [1]	Total
Accumulated amortization				
As at December 31, 2014	$ 389	$ 32	$ 61	$ 482
Amortization	71	13	9	93
Disposals / retirements	(37)	-	(16)	(53)
Other	3	-	-	3
As at December 31, 2015	$ 426	$ 45	$ 54	$ 525
Amortization	**83**	**10**	**11**	**104**
Disposals / retirements	**(44)**	**-**	**(2)**	**(46)**
Other	**12**	**6**	**(18)**	**-**
As at December 31, 2016	**$ 477**	**$ 61**	**$ 45**	**$ 583**

	Software	Client relationships	Other [1]	Total
Net carrying amount				
As at December 31, 2016	**$ 371**	**$ 136**	**$ 183**	**$ 690**
As at December 31, 2015	$ 321	$ 146	$ 194	$ 661

[1] The "Other" category mainly includes trademarks, licenses and the amount related to the acquisition of insurance contract portfolios and the distribution network with the Canadian businesses of State Farm. The carrying amount of intangible assets with indefinite useful lives included in this category was $93 million ($93 million as at December 31, 2015).

NOTE 12 – OTHER ASSETS – OTHER

The following table presents the breakdown of "Other assets – Other".

	As at December 31, 2016	As at December 31, 2015
Accounts receivable	**$ 628**	$ 505
Investments in companies accounted for using the equity method (Note 13)	**567**	417
Interest receivable	**491**	503
Prepaid expenses	**429**	399
Taxes receivable	**48**	69
Other	**426**	461
	$ 2,589	$ 2,354

NOTE 13 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

The main subsidiaries included in the Group scope of Desjardins Group have been incorporated in Canada and their principal place of business is in this country.

The following table presents the nature of the operations of these subsidiaries and the proportion of ownership interests held by Desjardins Group in each of them.

	Nature of operations	**As at December 31, 2016[1]**	As at December 31, 2015[1]
Caisse centrale Desjardins	Desjardins Group's treasurer and financial agent on the Canadian and international markets	**100 %**	98.1 %
Capital Desjardins inc.	Issuance of securities on the markets and financing of the Desjardins caisses	**100 %**	100 %
Desjardins Financial Holding Inc.	Holding company	**100 %**	100 %
Zag Bank	Financial institution	**100 %**	100 %
Desjardins Financial Corporation Inc.	Holding company	**100 %**	100 %
Desjardins Global Asset Management Inc.	Asset management	**100 %**	100 %
Desjardins General Insurance Group Inc.	Property and casualty insurance	**100 %**	100 %
Property and casualty insurance subsidiaries[2]	Property and casualty insurance	**90 %**	90 %
Desjardins Financial Security Life Assurance Company	Life and health insurance and financial services	**100 %**	100 %
Desjardins Investments Inc.[3]	Design, administration and distribution of insurance and savings products	**100 %**	100 %
Western Financial Group Inc.	Insurance brokerage and financial services	**100 %**	100 %
Western Life Assurance Company	Life and health insurance	**100 %**	100 %
Western Financial Insurance Company	Property and casualty insurance	**100 %**	100 %
Desjardins Trust Inc.	Asset custody and trust services	**100 %**	100 %
Desjardins Technology Group Inc.	Development and maintenance of Desjardins Group's technology	**100 %**	100 %
Qtrade Canada Inc.	Online brokerage and wealth management services	**77.2 %**	70.1 %
Desjardins Securities Inc.	Securities brokerage	**100 %**	100 %

(1) Represents also the proportion of voting rights held by Desjardins Group in these subsidiaries, except for Qtrade Canada Inc. and *Caisse centrale Desjardins*, in which Desjardins Group holds 100% of the voting rights.

(2) Represents a group of six property and casualty insurance subsidiaries.

(3) Desjardins Investments Inc. has been a wholly-owned subsidiary of Desjardins Financial Security since January 1, 2016.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

Subsidiaries that have material non-controlling interests

The following tables present summarized financial information about the subsidiaries that have material non-controlling interests. This financial information is presented before eliminating intragroup accounts and transactions and has been adjusted to reflect the fair value adjustments made at the time of acquisition.

	As at December 31, 2016		As at December 31, 2015	
	Caisse centrale Desjardins	**Property and casualty insurance subsidiaries**	*Caisse centrale Desjardins*	Property and casualty insurance subsidiaries
Assets[1]	**$ 50,751**	**$ 14,980**	$ 51,842	$ 15,588
Liabilities	**47,696**	**12,122**	48,723	13,019
Equity[1]	**$ 3,055**	**$ 2,858**	$ 3,119	$ 2,569
Non-controlling interests	**$ -**	**$ 782**	$ 61	$ 755

[1] Include goodwill of $100 million related to the property and casualty insurance subsidiaries as at December 31, 2016 ($100 million as at December 31, 2015).

	For the years ended December 31			
	2016		2015	
	Caisse Centrale Desjardins	**Property and casualty insurance subsidiaries**	*Caisse Centrale Desjardins*	Property and casualty insurance subsidiaries
Total income	**$ 469**	**$ 3,104**	$ 441	$ 3,207
Net surplus earnings for the year after member dividends	**274**	**260**	228	328
Comprehensive income for the year	**$ 262**	**$ 352**	$ 230	$ 271
Share of net surplus earnings for the year after member dividends attributable to holders of non-controlling interests	**$ 4**	**$ 50**	$ 4	$ 59
Dividends/distributions paid to holders of non-controlling interests	**$ 4**	**$ 13**	$ 4	$ 9

On January 1, 2017, the Federation amalgamated with *Caisse centrale Desjardins* by absorption thereof. As a result of the amalgamation, the Federation holds all the rights and assumes all the obligations of *Caisse centrale Desjardins*, in addition to its own rights and obligations.

This transaction will not have a material impact on Desjardins Group's Combined Balance Sheet on the date it is completed.

CONSOLIDATED STRUCTURED ENTITIES

Covered bonds

Under its covered bond programs, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of each of these entities are included in the Combined Financial Statements of Desjardins Group as they are controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to one or another of these entities and granted them financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by these entities for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by one or another of these structured entities. The assets, totalling $8,133 million as at December 31, 2016 ($8,116 million as at December 31, 2015), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to $6,255 million as at December 31, 2016 ($7,954 million as at December 31, 2015), are presented under "Deposits – Business and government".

JOINT VENTURE

Information about the material joint venture

RPADS LP, an entity that acquires and develops real estate portfolios, is the only material joint venture in which Desjardins Group holds an interest. RPADS LP has been incorporated in Canada and its principal place of business is in this country.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

The following tables present summarized financial information about this joint venture, namely the amounts included in its IFRS financial statements adjusted to reflect adjustments made by Desjardins Group when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2016	As at December 31, 2015
Proportion of ownership interest held	**50.10%**	50.10%
Assets	**$ 440**	$ 305
Liabilities[1]	**48**	64
Equity	**$ 392**	$ 241
Interest in the joint venture[2]	**$ 197**	$ 121

(1) Consisting primarily of financial liabilities other than accounts payable and provisions.

(2) Represents the carrying amount of the interest in the joint venture recognized in the Combined Balance Sheets.

	For the years ended December 31	
	2016	2015
Total income	**$ 78**	$ 61
Net income and comprehensive income for the year	**$ 18**	$ 14

JOINT OPERATION

Desjardins Group entered into a joint arrangement with Fonds Immobilier Cogir 1 to invest in undivided co-ownership in commercial buildings in the Province of Quebec. This joint arrangement is a joint operation giving the joint operators rights to the assets and obligations for the liabilities based on their ownership interests, and Desjardins Group has an ownership interest of 80% in the arrangement. All decisions about the relevant activities require the unanimous consent of the joint operators. The joint operation has been incorporated in Canada and its principal place of business is in this country. It is the only material joint operation in which Desjardins Group holds an interest.

ASSOCIATES

Information about material associates

Desjardins Group holds interests in two material associates: Fiera Holdings Inc. and Northwest & Ethical Investments L.P. (Northwest & Ethical). These entities operate in the investment management industry. They have been incorporated in Canada and their principal place of business is in this country. Although Desjardins Group holds a 50% ownership interest in Northwest & Ethical and 50% of the voting rights, it does not have the ability to direct the relevant operations that significantly affect the returns of this entity and there are no agreements giving Desjardins Group joint control of this entity.

The following tables present summarized financial information about these associates, namely the amounts included in their IFRS financial statements adjusted to reflect adjustments made by Desjardins Group when using the equity method, such as fair value adjustments made at the time of acquisition and adjustments for differences in accounting policies.

	As at December 31, 2016		As at December 31, 2015	
	Fiera Holdings Inc.	**Northwest & Ethical**	Fiera Holdings Inc.	Northwest & Ethical
Proportion of ownership interest held[1,2]	**36.67%**	**50.00%**	36.51%	50.00%
Assets[3,4]	**$ 1,018**	**$ 200**	$ 783	$ 202
Liabilities[4]	**472**	**51**	333	51
Equity[3,4]	**$ 546**	**$ 149**	$ 450	$ 151
Interests in associates[5]	**$ 55**	**$ 85**	$ 53	$ 86

(1) Represents also the proportion of voting rights held by Desjardins Group in the associates.

(2) As at December 31, 2016, Desjardins Group indirectly held a 9.00% ownership interest (10.17% as at December 31, 2015) in Fiera Capital Corporation through its interest in Fiera Holdings Inc.

(3) Include goodwill of $10 million and $19 million, respectively, related to Fiera Holdings Inc. and Northwest & Ethical ($10 million and $19 million as at December 31, 2015).

(4) The assets, liabilities and equity of Fiera Holdings Inc. and Northwest & Ethical for 2016 and 2015 are as at September 30.

(5) Represents the carrying amount of the interests in associates recognized in the Combined Balance Sheets.

	For the years ended December 31			
	2016		2015	
	Fiera Holdings Inc.	**Northwest & Ethical**	Fiera Holdings Inc.	Northwest & Ethical
Total income[1]	**$ 294**	**$ 108**	$ 236	$ 112
Net income and comprehensive income for the year[1]	**$ 26**	**$ 10**	$ 27	$ 11

(1) Total income, net income and comprehensive income of Fiera Holdings Inc. and Northwest & Ethical are based on data for the twelve-month periods ended September 30, 2016 and 2015.

NOTE 13 – INTERESTS IN OTHER ENTITIES *(continued)*

UNCONSOLIDATED STRUCTURED ENTITIES

Mutual funds

Desjardins Group holds interests in mutual fund units. Even though it holds, in certain cases, a significant exposure to or has the right to a significant share of variable returns as a result of the units it holds in these funds, these units do not give Desjardins Group power over the relevant operations of these funds. Accordingly, Desjardins Group does not control these funds, which are considered as unconsolidated structured entities.

Investments are made pursuant to a diversified investment policy, and the nature of the operations of these funds and their characteristics are comparable to those that are found under normal market terms for these types of funds. Desjardins Group's maximum exposure to loss from its interests in these mutual funds is limited to the value of the investments in such funds.

MAV 1

MAV 1 is considered as an unconsolidated structured entity. For more information about this entity, see the "Securities – Asset-backed term notes" section of Note 6, "Securities".

NOTE 14 – DEPOSITS

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

The following tables present the breakdown of deposits.

	As at December 31, 2016				As at December 31, 2015			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 42,513**	**$ 3,772**	**$ 49,993**	**$ 96,278**	$ 38,079	$ 3,740	$ 49,424	$ 91,243
Business and government	**21,866**	**322**	**40,611**	**62,799**	19,869	368	43,596	63,833
Deposit-taking institutions	**1,343**	**-**	**126**	**1,469**	1,200	-	298	1,498
	$ 65,722	**$ 4,094**	**$ 90,730**	**$ 160,546**	$ 59,148	$ 4,108	$ 93,318	$ 156,574

NOTE 15 – INSURANCE CONTRACT LIABILITIES

PREMIUMS

	2016			2015		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Gross premiums	**$ 4,359**	**$ 4,150**	**$ 8,509**	$ 4,164	$ 4,000	$ 8,164
Premiums ceded under reinsurance treaties	**(217)**	**(1,124)**	**(1,341)**	(211)	(1,046)	(1,257)
Net premiums	**$ 4,142**	**$ 3,026**	**$ 7,168**	$ 3,953	$ 2,954	$ 6,907

COMPOSITION OF INSURANCE CONTRACT LIABILITIES

	As at December 31, 2016	As at December 31, 2015
Insurance contract liabilities		
Actuarial liabilities – Life and health insurance	**$ 17,574**	$ 16,895
Provisions for claims and adjustment expenses – Property and casualty insurance	**6,679**	6,936
Unearned premiums	**2,132**	1,796
Policyholder deposits	**638**	633
Provisions for benefits, policyholder dividends and experience refunds	**88**	400
Other	**382**	74
	$ 27,493	$ 26,734

ACTUARIAL LIABILITIES – LIFE AND HEALTH INSURANCE

Composition

Actuarial liabilities and assets backing actuarial liabilities comprise the following amounts.

	As at December 31, 2016	As at December 31, 2015
Gross actuarial liabilities		
Non-participating policies	**$ 13,814**	$ 13,070
Participating policies	**3,760**	3,825
	17,574	16,895
Amounts ceded to reinsurers	**(935)**	(822)
Net actuarial liabilities	**$ 16,639**	$ 16,073

	As at December 31, 2016	As at December 31, 2015
Composition of assets backing net actuarial liabilities		
Bonds	**$ 10,411**	$ 10,290
Mortgage and business loans	**2,783**	2,484
Investment property	**1,347**	1,221
Equities	**1,242**	1,018
Other	**856**	1,060
	$ 16,639	$ 16,073

The fair value of assets backing net actuarial liabilities was $17,291 million as at December 31, 2016 ($16,692 million as at December 31, 2015).

Actuarial assumptions

The computation of actuarial liabilities is based on estimates and assumptions. The nature of the main assumptions used in the computation of actuarial liabilities and the method used to establish these assumptions are described in the following paragraphs.

The basic assumptions used in computing actuarial liabilities are those that prove to be the best estimates for various contingencies. The appointed actuary must, for each of these assumptions, establish a margin for adverse deviation in order to mitigate the random event, allow for the risk of deteriorating underwriting experience and ensure that provisions are adequate to meet future commitments. The extent of the margins for adverse deviation is prescribed by Canadian accepted actuarial practices. These margins vary for each assumption and type of product. The margins for adverse deviation increase actuarial liabilities and reduce the profit or loss that would otherwise be recognized at inception of the contracts. With time and as estimation risks decline, these margins are reversed and recognized in the Combined Statements of Income.

The risks associated with the accuracy of the actuarial assumptions used to compute actuarial liabilities arise from the non-materialization of expected assumptions. The actuary periodically carries out studies on the underwriting experience related to each assumption and modifies the assumptions, if appropriate, to take into account the current and future expected situation. Any impact resulting from these modifications is immediately recognized in the Combined Statements of Income.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Mortality

The life and health insurance subsidiaries determine their mortality assumptions based on the annual studies of their recent underwriting experience and, when the results cannot serve as the sole source of reference due to their insufficient credibility, they also take into account industry studies. Mortality assumptions vary based on gender, risk category and type of contract. A future mortality improvement assumption is taken into account in accordance with Canadian accepted actuarial practices.

Morbidity

For morbidity assumptions regarding the occurrence of accidents and illness, the life and health insurance subsidiaries use industry-developed morbidity tables modified based on current data provided by their studies of their underwriting experience and those of the industry.

Contract cancellation rates

The life and health insurance subsidiaries carry out an annual study of their underwriting experience with respect to individual insurance contract cancellation, as holders can cancel their policy before the expiry of their contractual coverage period by discontinuing premium payment without using the non-forfeiture options, if any. The contract cancellation rate assumptions are based on the life and health insurance subsidiaries' recent underwriting experience. These assumptions are adjusted on the basis of the industry's underwriting experience when the assumptions of the subsidiaries are not sufficiently credible.

Investment return

Investment return is based on projected investment income using the current portfolios of assets backing the actuarial liabilities and projected reinvestment strategies. The life and health insurance subsidiaries manage the investments backing their actuarial liabilities by taking into account the characteristics of the commitments of each of their business segments, using clearly defined mechanisms set out in their matching policy. By closely matching the cash flows related to the assets with those related to the actuarial liabilities, the life and health insurance subsidiaries mitigate their sensitivity to future changes in interest rate levels. According to CALM, changes in the fair value of assets backing the actuarial liabilities are essentially offset by corresponding changes in the value of actuarial liabilities.

Under CALM, cash flows from these assets are matched with cash flows that will arise from future asset acquisitions or sales to determine the expected rates of return on these assets for the coming years. The projected reinvestment strategies are determined based on the characteristics of the commitments of each segment, and reinvestment returns are based on current and expected market rates for fixed-rate investments and on expected rates for floating-rate investments. In addition, the asset cash flow projections include assumptions for investment management fees and credit risk.

Investment return assumptions take into account expected future credit losses on fixed-income investments. In that regard, in addition to the provisions for non-performing investments recognized through a write-down of the carrying amount of the assets, a provision amounting to $355 million as at December 31, 2016 ($311 million as at December 31, 2015) has been included in actuarial liabilities as a protection against the risk of insufficient return on assets.

Operating expenses and taxes

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

Taxes reflect the assumptions relating to future premium taxes and taxes other than income taxes. For income taxes, actuarial liabilities are adjusted only when there are temporary differences or to take into account the impact of non-deductible or non-taxable items on cash flows from the liabilities and the assets related to insurance contracts.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Sensitivity of actuarial liabilities to changes in assumptions

The following table shows the impact on "Net surplus earnings for the year after member dividends" of the sensitivity of actuarial liabilities to changes in underlying non-economic best estimate assumptions for the years ended December 31.

	2016	2015
2% negative change in future mortality rates		
Products for which a rate increase increases actuarial liabilities	**$ (47)**	$ (44)
Products for which a rate decrease increases actuarial liabilities	**(21)**	(19)
5% increase in future morbidity rates	**(73)**	(65)
10% negative change in future contract cancellation rates	**(149)**	(141)
5% increase in future operating expenses	**(42)**	(39)

Changes in actuarial liabilities

The change in net actuarial liabilities during the years ended December 31 was due to business activities and to changes in actuarial estimates, as follows:

	2016			2015		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 16,895**	**$ (822)**	**$ 16,073**	$ 15,253	$ (762)	$ 14,491
Change due to						
Business acquisition	**-**	**-**	**-**	1,076	-	1,076
Passage of time	**92**	**(54)**	**38**	134	(46)	88
New business	**514**	**(23)**	**491**	452	(13)	439
Changes in actuarial assumptions	**31**	**1**	**32**	(41)	(1)	(42)
	637	**(76)**	**561**	1,621	(60)	1,561
Other changes	**42**	**(37)**	**5**	21	-	21
Balance at end of year	**$ 17,574**	**$ (935)**	**$ 16,639**	$ 16,895	$ (822)	$ 16,073

Changes in actuarial assumptions

The economic and non-economic assumptions taken into account in the computation of actuarial liabilities are periodically updated to reflect the actual or projected underwriting experience associated with each of them. The following table presents the impact of changes made to assumptions on "Net surplus earnings for the year after member dividends" for the years ended December 31.

	2016	2015
Changed assumptions		
Mortality	**$ 21**	$ (19)
Morbidity	**11**	(6)
Contract cancellation rates	**(169)**	(112)
Investment return	**18**	168
Operating expenses	**(20)**	1
Methods and other	**115**	4
	$ (24)	$ 36

PROVISIONS FOR CLAIMS AND ADJUSTMENT EXPENSES – PROPERTY AND CASUALTY INSURANCE

Methodology and assumptions

The provisions for claims and adjustment expenses include provisions on file for each claim reported as well as provisions for adjustment expenses, changes in reported claims and claims incurred but not reported by the insured parties.

The provisions for claims and adjustment expenses are estimated using appropriate actuarial methods for loss prospective valuation in accordance with Canadian accepted actuarial practices. These methods are used to estimate the ultimate claims by projecting claims amounts by business lines and accident year.

The main assumption underlying these methods is that past claims development can be used to project what future claims development will be (or that future claims development will be similar to past claims development). An additional qualitative judgment is made to assess the extent by which past trends may not apply in the future and make the necessary adjustments to ensure that the provisions for claims and adjustment expenses are adequate and represent the best estimates of future payments on outstanding claims, including claims incurred but not reported that can be expected, based on data and information currently known. The assumptions used to develop this estimate are selected by risk category and geographic area. In addition, the estimates take into consideration various factors, including the average settlement cost per claim, the average number of claims and claims severity and frequency trends.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

The initial estimate of the provisions for claims and adjustment expenses is a non-discounted amount. This estimate is then discounted to take into account the time value of money. The discount rate used is based on the rate of return for the assets backing the provisions for claims and adjustment expenses.

Since determining claims estimates is subject to uncertainties and such estimates may change significantly in the short term, the property and casualty insurance subsidiaries include margins for adverse deviation in the assumptions with respect to claims development, expected reinsurance recoveries and future investment income from the asset portfolio backing the provisions for claims and adjustment expenses. These margins for adverse deviation are determined in accordance with Canadian accepted actuarial practices to ensure that the amount of the provisions for claims and adjustment expenses is sufficient to settle future benefits.

Change in provisions for claims and adjustment expenses

The following table shows the change in the provisions for claims and adjustment expenses for the years ended December 31.

	2016			2015		
	Gross amount	**Amount ceded to reinsurers**	**Net amount**	Gross amount	Amount ceded to reinsurers	Net amount
Balance at beginning of year	**$ 6,936**	**$ (598)**	**$ 6,338**	$ 2,121	$ (17)	$ 2,104
Business acquisition	**-**	**-**	**-**	4,793	-	4,793
Claims incurred during the year	**3,479**	**(1,028)**	**2,451**	3,099	(887)	2,212
Development of claims incurred in prior years	**(630)**	**12**	**(618)**	(339)	-	(339)
Changes in discount rates	**(33)**	**2**	**(31)**	21	(3)	18
Claims paid during the year	**(3,073)**	**532**	**(2,541)**	(2,759)	309	(2,450)
Balance at end of year	**$ 6,679**	**$ (1,080)**	**$ 5,599**	$ 6,936	$ (598)	$ 6,338

Changes in assumptions had no material impact on the Combined Financial Statements as at December 31, 2016 and 2015.

Assumption sensitivity analysis

The following table shows the impact on the Combined Statements of Income of the sensitivity of the provisions for claims and adjustment expenses to changes in certain key assumptions for the years ended December 31. The impact of a change in the discount rate is presented in the "Interest rate risk management" section of this note.

	Changes in actuarial assumptions	**Impact on "Net surplus earnings for the year after member dividends"**	
		2016	2015
Average claims settlement cost	+5**%**	**$ (158)**	$ (172)

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

Claims and adjustment expenses development

The following table shows the development of claims and adjustment expenses on a net basis. It presents the estimated ultimate claims amount, including claims reported and claims incurred but not reported at the reporting date for each accident year, with cumulative payments made to date.

	2006 and before	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	Total
Estimated ultimate claims amount												
At the end of the accident year		$ 1,023	$ 1,156	$ 1,092	$ 1,118	$ 1,291	$ 1,396	$ 1,495	$ 1,563	$ 2,215	**$ 2,449**	
1 year later		994	1,110	1,079	1,120	1,291	1,343	1,471	2,479	2,197		
2 years later		962	1,111	1,093	1,108	1,257	1,349	2,210	2,375			
3 years later		959	1,111	1,088	1,088	1,240	1,988	2,110				
4 years later		954	1,097	1,078	1,072	1,799	1,860					
5 years later		943	1,088	1,065	1,594	1,676						
6 years later		934	1,091	1,482	1,532							
7 years later		923	1,291	1,395								
8 years later		1,044	1,255									
9 years later		1,031										
Cumulative payments to date		936	1,114	1,123	1,162	1,268	1,317	1,381	1,461	1,503	**1,329**	
Net provisions for claims and adjustment expenses	$ 313	$ 95	$ 141	$ 272	$ 370	$ 408	$ 543	$ 729	$ 914	$ 694	**$ 1,120**	$ 5,599
Reinsurers' share in provisions for claims and adjustment expenses	9	-	-	-	-	-	5	-	-	451	**615**	1,080
Gross provisions for claims and adjustment expenses	$ 322	$ 95	$ 141	$ 272	$ 370	$ 408	$ 548	$ 729	$ 914	$ 1,145	**$ 1,735**	$ 6,679

Insurance risk management

Insurance risk refers to the risk that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

The life and health insurance subsidiaries are exposed to insurance risk through the products they sell. Depending on the insurance product, these life and health insurance subsidiaries may be exposed to mortality risk, morbidity risk and forfeiture risk. All products sold expose the life and health insurance subsidiaries to expenditure risk.

The property and casualty insurance subsidiaries underwrite automobile, home and commercial property insurance contracts to individuals and businesses. In the normal course of their operations, these subsidiaries are exposed to insurance risk, which includes several components: underwriting risk, catastrophe risk and reserve risk.

To manage insurance risk, the insurance subsidiaries apply stringent policies and criteria with respect to product and service development and pricing, and regularly carry out analyses to compare forecasts with actual results and revise pricing assumptions if needed.

In addition, for the life and health insurance subsidiaries, certain products allow for price adjustments depending on whether assumptions materialize or not.

Furthermore, for property and casualty insurance subsidiaries, insurance risk is also managed through various aspects, including by actively and rigorously managing risk segmentation (through underwriting and pricing) and claims.

The insurance subsidiaries also set up actuarial liabilities and provisions for claims and adjustment expenses in accordance with Canadian accepted actuarial practices and constantly monitor the development of loss experience.

Use of reinsurance

In order to limit their losses, the life and health and property and casualty insurance subsidiaries enter into reinsurance treaties for contracts with coverage in excess of certain maximum amounts that vary based on the nature of the activities. In addition, they purchase additional reinsurance protection with respect to large-scale catastrophic events.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

In connection with the acquisition of the Canadian businesses of State Farm, the property and casualty insurance subsidiaries signed a share reinsurance treaty under which, over a 5-year period, all premiums and claims from new business and renewals related to the acquired businesses occurring after the acquisition date are ceded using percentages decreasing from 90% for the 2015 accident year to 10% for the 2019 accident year. Pursuant to the terms and conditions of the reinsurance treaty, amounts payable and receivable under the treaty will be settled on a net basis.

In order to reduce reinsurance risk, the life and health and property and casualty insurance subsidiaries do business with many reinsurers that meet financial strength criteria, most of which are governed by the same regulatory authorities as the subsidiaries. In addition, the solvency of the companies to which they cede a portion of their risks is periodically examined. These reinsurance treaties do not release the life and health and property and casualty insurance subsidiaries from their obligations toward their policyholders, but they mitigate the risks to which they are exposed. Under the share reinsurance treaty signed with State Farm on the acquisition, State Farm must hold investments in trust so that it can fulfill its reinsurance obligations.

For the years ended December 31, the impact of reinsurance reduced the Combined Statements of Income items presented in the table below by the following amounts:

	2016			2015		
	Life and health insurance	**Property and casualty insurance**	**Total**	Life and health insurance	Property and casualty insurance	Total
Premiums	**$ 217**	**$ 1,124**	**$ 1,341**	$ 211	$ 1 046	$ 1,257
Claims, benefits, annuities and changes in insurance contract liabilities	**203**	**1,015**	**1,218**	128	890	1,018

Segregated fund risk management

Investments held for segregated fund contract holders are exposed to various financial risks. Pursuant to the contracts' clauses, the risks and rewards associated with the return of these investments accrue to the holders, even though these investments are held by the life and health insurance subsidiary that sells segregated fund contracts. This life and health insurance subsidiary offers minimal guarantees for death benefits, maturity value and withdrawals in payout situations to protect the unitholders of certain funds. The actuarial liabilities of this subsidiary include amounts sufficient to pay these minimal guarantees.

To reduce the potential negative impact that may arise from the segregated fund contract guarantee risk, the life and health insurance subsidiary selling segregated fund contracts uses a hedging program aimed at offsetting the impact of unfavourable stock market movements on the future cost of guarantees as well as a hedging program aimed at offsetting the impact of unfavourable changes in interest rates on these future costs. These programs cover all the segregated fund contracts that include a guarantee offered to clients by this subsidiary.

Interest rate risk management

The insurance subsidiaries are exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on the Combined Statements of Income and equity. Sound and prudent management is applied to minimize the negative impact of interest rate movements.

The asset-liability matching policy of the life and health insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limits of the gap between the duration of liabilities and the duration of the related assets. The life and health insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may apply rebalancing techniques to correct or improve the backing status.

The non-matching of cash flows would have no impact on the Combined Statements of Income in the event that interest rates fluctuate within the limits considered to establish actuarial liabilities; however, interest rate fluctuations outside these limits would have an impact on the Combined Statements of Income of the life and health insurance subsidiaries. In addition, for the guarantees offered under segregated fund contracts, the actuarial liabilities are calculated using the current rates curve, and a change in these rates would have a direct impact on the value of these liabilities and, consequently, on the Combined Statements of Income. However, the life and health insurance subsidiary that sells these contracts has implemented a hedging program for these segregated fund products in order to minimize the impact of interest rate fluctuations on the Combined Statements of Income.

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" arising from the impact of a change in interest rates on the life and health insurance subsidiaries' actuarial liabilities and the assets backing these actuarial liabilities.

	2016	2015
1% increase in interest rates	**$ 43**	$ 41
1% decrease in interest rates	**(69)**	(45)

The interest rate risk management policy of the property and casualty insurance subsidiaries describes the techniques used to measure interest rate risk, the tolerated limits and the monitoring procedures to use in managing this risk. The policy sets out, in particular, the limit of the gap compared to the target duration of the consolidated fixed-income portfolio and as well as the limit of the gap between the duration of assets and liabilities to be backed. The property and casualty insurance subsidiaries' management is responsible for applying the policy and ensures that there are practices in place to administer and monitor interest rate risk. In addition, if needed, it may implement an action plan apply rebalancing techniques to correct or improve the backing status.

NOTE 15 – INSURANCE CONTRACT LIABILITIES *(continued)*

The following table shows, for the years ended December 31, the estimated impact on "Net surplus earnings for the year after member dividends" arising from the impact of a change in interest rates on the property and casualty insurance subsidiaries' provisions for claims and adjustment expenses and the assets backing these provisions.

	2016	2015
1% increase in interest rates	**$ 1**	$ 8
1% decrease in interest rates	**1**	(5)

Liquidity risk management

The life and health insurance subsidiaries manage liquidity risk in order to ensure that they have timely and cost-effective access to the funds needed to meet their financial obligations as they become due, in both routine and crisis situations.

For the life and health insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities, monitoring indicators and adopting a contingency plan to implement in the event of a liquidity crisis.

For the property and casualty insurance subsidiaries, managing this risk involves maintaining a sufficient level of liquid securities and spreading the collection of insurance premiums throughout the year, which generally supports a large portion of the cash outflows associated with claims and other expenses.

The following table presents the contractual maturity terms for actuarial liabilities and provisions for claims and adjustment expenses. The projections in this table are greater than the balances for actuarial liabilities and provisions for claims and adjustment expenses presented in the Combined Balance Sheets since they represent expected outflows that exclude, among others, the impact of discounting. The cash flows related to actuarial liabilities included in this table are presented net of expected periodic premium flows from insured parties. In addition, the amounts are presented net of reinsurance and represent estimated cash flows that may differ from actual cash flows.

	As at December 31, 2016	As at December 31, 2015
Less than 1 year	**$ 2,510**	$ 2,549
1 to 5 years	**5,608**	5,960
Over 5 years	**32,774**	30,374
Total	**$ 40,892**	$ 38,883

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES

CHARACTERISTICS OF THE DEFINED BENEFIT PLANS

Group pension plans

Group pension plans are plans whose risks are shared by entities under common control. Desjardins Group offers a majority of its employees group pension plans and group supplemental pension plans, which provide pension benefits in excess of statutory limits. The main group pension plan offered, the Desjardins Group Pension Plan (DGPP), is a funded defined benefit group plan. Participants and employers share the risks and costs related to the DGPP, including any deficit, on a prorata basis of 35% and 65%, respectively.

For the DGPP, benefits are determined on the basis of the number of years of membership and take into consideration the average salary of the employee's five most highly paid years, for years of service accumulated before 2013, and the eight most highly paid years, for years of service accumulated subsequently. Benefits are indexed annually using the consumer price index, up to a maximum of 3% for years of service accumulated before 2013 and 1% for a period of 10 years starting at age 65 for years of service accumulated subsequently.

The DGPP is governed by the *Supplemental Pension Plans Act* (SPPA). The SPPA requires that a retirement committee that assumes the role of administrator and trustee for the plan be formed. The Federation, through its Board of Directors, assumes the responsibilities of the DGPP's sponsor and ensures that the plan is well administered in accordance with the laws and regulations in effect. In addition, the Federation guarantees the obligations resulting from the participation in the plan of all the Desjardins Group employers. The Federation's Board of Directors, acting as the representative for all Desjardins Group employers, is the only governing body with the authority to amend or terminate the plan.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Group post-retirement benefit plan

Desjardins Group also offers a post-retirement benefit plan that provides medical, dental and life insurance to retiring employees and their dependents through an unfunded defined benefit group plan.

Other plans

The other defined benefit plans offered are pension plans as well as another post-retirement benefit plan that provides medical, dental and life insurance plans whose risks are not shared by entities under common control.

Pension and post-retirement benefit plan risks

Defined benefit pension plans are plans for which Desjardins Group has formally committed to a level of benefits and therefore assumes actuarial and, when the plans are funded, investment risks. Since the terms of the pension plans are such that changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the value of the defined benefit plan obligation are generally actuarially determined using various assumptions. Although management believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty that may cause future actual results to materially differ from these assumptions, which could give rise to actuarial gains or losses.

Actuarial calculations are made based on management's best estimate assumptions primarily concerning the plan obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate, the rate of increase in pension benefits and the members' future contributions that will be used to make up the deficit. The participants' estimated discounted contributions required to make up the deficit decrease the defined benefit plan obligation. A complete actuarial valuation is performed each year by a qualified actuary. The discount rates used have been determined by reference to the rates of high quality corporate bonds whose terms are consistent with those of the plans' cash flows.

The terms of the post-retirement benefit plans are such that changes in salary levels or healthcare costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over a portion of the service lives of employees using accounting policies comparable to those used for defined benefit pension plans.

Risk management

The Retirement Committee has set up a Risk Management Advisory Committee whose mandate is to analyze the main risks associated with managing the DGPP's operations. To that effect, it recommends every year the integrated risk profile and the asset allocation strategy to the Retirement Committee. The mandate of the Advisory Committee also includes issuing opinions on new investments to the DGPP's Investment Committee. The asset allocation strategy is based on the liability-driven investment principle. This approach provides for better management of the plan's financial position by investing in assets that are correlated with liabilities and that allow a reduction in the volatility of contributions. The liability-driven investment principle takes into account changes in the liability recorded on the Combined Balance Sheets and generating sufficient returns to ensure the plan's long-term funding.

In addition, the Retirement Committee adopts every year an investment policy that may be amended based on the long-term risk/return relationship on the markets, the DGPP's commitments and financial position, risk tolerance or the legislative environment. This policy provides for market risk mitigation mechanisms. Among other things, the policy establishes limits for each type of investments and limits for the allocation of assets between the various classes, as well as risk parameters for asset allocation. The actual mix of asset portfolios is regularly reviewed, and the rebalancing policy is applied when the actual allocation is outside the allowed limits. Foreign exchange risk is controlled through the adoption of a hedging policy approved by the Investment Committee. Lastly, the Retirement Committee has delegated to the Investment Committee the responsibility for ensuring that the investment policy is applied, complied with and followed.

Funding requirements

The DGPP is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employers' contributions must be equal to the amount that, added to the employees' contributions, is sufficient to cover the value of the obligations that currently accrue in the plan, including fees paid by the plan as well as special contributions required to amortize any deficit. Employers' contributions are determined using a percentage of the assessable payroll for their employees participating in the plan. The plan's annual cost comprises contributions for current service, administrative management fees and special contributions required to fund the plans' stabilization provision and deficit, if any.

Pursuant to the new SPPA requirements effective as of January 1, 2016, the DGPP's minimum funding is now determined on a going-concern basis. The required funding of a solvency deficit during the existence of a pension plan was eliminated. However, a stabilization provision must now be funded through special current service contributions and special amortization payments. Funding and stabilization deficits must be funded over a maximum period of 10 years. The value of net defined benefit plan liabilities presented in Desjardins Group's Combined Balance Sheets reflects the new provisions of the SPPA.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

RECOGNIZED AMOUNTS

Change in defined benefit plan liabilities

Defined benefit plan liabilities are as follows:

	Group pension plans			Group post-retirement benefit plan	Other plans			
	Obligation	Fair value of assets	Total	Obligation	Obligation	Fair value of assets	Total	Total
As at December 31, 2014	$ 11,344	$ 9,549	$ 1,795	$ 726	$ 244	$ 65	$ 179	$ 2,700
Amounts recognized in the Combined Statements of Income								
Current service cost	270	-	270	14	29	-	29	313
Net interest expense/income	470	392	78	30	31	18	13	121
Past service cost	-	-	-	(20)	(10)	-	(10)	(30)
	740	392	348	24	50	18	32	404
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	-	349	(349)	-	-	11	(11)	(360)
Actuarial losses (gains) arising from changes in demographic assumptions	10	-	10	(37)	4	-	4	(23)
Actuarial losses (gains) arising from changes in financial assumptions	(21)	-	(21)	37	(15)	-	(15)	1
Experience losses (gains)	68	-	68	16	(5)	-	(5)	79
	57	349	(292)	16	(16)	11	(27)	(303)
Other changes								
Participants' contributions	197	197	-	-	-	-	-	-
Employers' contributions[1]	-	447	(447)	-	-	6	(6)	(453)
Benefits paid	(416)	(413)	(3)	(17)	(23)	(14)	(9)	(29)
Other changes	3	3	-	2	-	(1)	1	3
Plan resulting from a business combination[2]	-	-	-	-	481	375	106	106
	(216)	234	(450)	(15)	458	366	92	(373)
As at December 31, 2015	$ 11,925	$ 10,524	$ 1,401	$ 751	$ 736	$ 460	$ 276	$ 2,428
Amounts recognized in the Combined Statements of Income								
Current service cost	**267**	**-**	**267**	**14**	**27**	**-**	**27**	**308**
Net interest expense/income	**440**	**382**	**58**	**27**	**28**	**18**	**10**	**95**
Past service cost	**(5)**	**-**	**(5)**	**-**	**7**	**-**	**7**	**2**
	702	**382**	**320**	**41**	**62**	**18**	**44**	**405**
Amounts recognized in the Combined Statements of Comprehensive Income								
Difference between the actual return on assets and interest income	**-**	**382**	**(382)**	**-**	**-**	**13**	**(13)**	**(395)**
Actuarial gains arising from changes in demographic assumptions	**(453)**	**-**	**(453)**	**(25)**	**(5)**	**-**	**(5)**	**(483)**
Actuarial losses arising from changes in financial assumptions	**549**	**-**	**549**	**29**	**26**	**-**	**26**	**604**
Experience losses	**86**	**-**	**86**	**8**	**7**	**-**	**7**	**101**
	182	**382**	**(200)**	**12**	**28**	**13**	**15**	**(173)**
Other changes								
Participants' contributions	**193**	**193**	**-**	**-**	**-**	**-**	**-**	**-**
Employers' contributions[1]	**-**	**348**	**(348)**	**-**	**-**	**26**	**(26)**	**(374)**
Benefits paid	**(470)**	**(467)**	**(3)**	**(18)**	**(24)**	**(15)**	**(9)**	**(30)**
Other changes	**(5)**	**(5)**	**-**	**-**	**(1)**	**(1)**	**-**	**-**
	(282)	**69**	**(351)**	**(18)**	**(25)**	**10**	**(35)**	**(404)**
As at December 31, 2016	**$ 12,527**	**$ 11,357**	**$ 1,170**	**$ 786**	**$ 801**	**$ 501**	**$ 300**	**$ 2,256**

(1) In 2016, no supplemental contributions were paid by the employer to the main group pension plan ($96 million in 2015).

(2) For more information, see Note 20, “Significant acquisitions”.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Funding status

	As at December 31, 2016				As at December 31, 2015			
	Group pension plans	**Group post-retirement benefit plan**	**Other plans**	**Total**	Group pension plans	Group post-retirement benefit plan	Other plans	Total
Funded plans								
Defined benefit plan obligation	**$ 12,408**	**$ -**	**$ 551**	**$ 12,959**	$ 11,812	$ -	$ 506	$ 12,318
Fair value of plan assets	**11,357**	**-**	**501**	**11,858**	10,524	-	460	10,984
	$ (1,051)	**$ -**	**$ (50)**	**$ (1,101)**	$ (1,288)	$ -	$ (46)	$ (1,334)
Unfunded plans								
Defined benefit plan obligation	**$ 119**	**$ 786**	**$ 250**	**$ 1,155**	$ 113	$ 751	$ 230	$ 1,094
	$ (119)	**$ (786)**	**$ (250)**	**$ (1,155)**	$ (113)	$ (751)	$ (230)	$ (1,094)

Allocation of the main group pension plan assets

The fair value of the main group pension plan assets is detailed as follows:

	As at December 31, 2016		As at December 31, 2015	
	Non-quoted in an active market	**Quoted in an active market**	Non-quoted in an active market	Quoted in an active market
Bonds				
Government of Canada	**$ -**	**$ 117**	$ -	$ 127
Provinces, municipal corporations and other public administrations	**125**	**3,346**	365	2,871
Other issuers	**1,848**	**-**	1,100	-
Shares	**339**	**2,630**	362	2,576
Real estate investments	**1,232**	**128**	1,096	119
Infrastructure investments	**1,382**	**63**	1,200	40
Cash and money market securities	**235**	**173**	225	118
Other	**621**	**278**	483	151
Total	**$ 5,782**	**$ 6,735**	$ 4,831	$ 6,002

As at December 31, 2016, the DGPP held eligible investments in money market securities and segregated funds issued by Desjardins Group entities having a total fair value of $104 million ($93 million as at December 31, 2015).

IMPACT ON CASH FLOWS

Principal actuarial assumptions

The principal actuarial assumptions used to measure the defined benefit plan obligation and cost are as follows:

	As at December 31, 2016		As at December 31, 2015	
	Group pension plans	**Group post-retirement benefit plan**	Group pension plans	Group post-retirement benefit plan
Discount rate for bond[(1)]	**4.00 %**	**3.95 %**	4.20 %	4.15 %
Discount rate for service cost[(1)]	**4.30**	**4.30**	4.05	4.05
Expected rate of salary increases	**3.00**	**3.00**	3.00	3.00
Rate used to calculate interest expense on the obligation and assets[(1)]	**3.62**	**3.52**	4.05	4.05
Rate used to calculate interest expense on service cost[(1)]	**3.97**	**4.12**	4.05	4.05
Estimated annual growth rate for covered healthcare cost	**-**	**4.05**	-	4.30

[(1)] Weighted average rate for all plans.

NOTE 16 – NET DEFINED BENEFIT PLAN LIABILITIES *(continued)*

Sensitivity of key assumptions

Because of the long-term nature of employee benefits, there are significant uncertainties related to the recognition of balances surrounding the assumptions used. The following table shows the impact of a one percentage point change in key assumptions on the defined benefit plan obligation and cost, with all other assumptions remaining constant. In reality, there may be correlations between these assumptions. However, to show the impact of changes in assumptions, they have been modified on an individual basis.

	As at December 31, 2016		As at December 31, 2015	
	Change in obligation	**Change in cost recognized**	Change in obligation	Change in cost recognized
Group pension plans				
Discount rate				
1% increase	**$ (1,919)**	**$ (95)**	$ (1,924)	$ (101)
1% decrease	**2,579**	**120**	2,596	136
Expected rate of salary increases				
1% increase	**488**	**41**	552	49
1% decrease	**(414)**	**(34)**	(467)	(37)
Group post-retirement benefit plan				
Discount rate				
1% increase	**(112)**	**(2)**	(109)	(3)
1% decrease	**145**	**2**	142	5
Expected rate of salary increases				
1% increase	**8**	**1**	6	2
1% decrease	**(8)**	**(1)**	(6)	(1)
Healthcare costs				
1% increase	**75**	**7**	78	9
1% decrease	**(61)**	**(6)**	(63)	(6)

Expected contributions for 2017

Desjardins Group expects to contribute $390 million to its defined benefit pension plans in the next year.

Pension plan obligation maturity profile

For 2016, the weighted average financial duration was approximately 17 years (18 years in 2015) for the main group pension plan and approximately 16 years (17 years in 2015) for the group post-retirement benefit plan.

NOTE 17 – OTHER LIABILITIES – OTHER

The following table presents the breakdown of “Other liabilities – Other”.

	As at December 31, 2016	As at December 31, 2015
Accounts payable	**$ 2,403**	$ 2,309
Interest payable	**839**	1,002
Deferred income related to loyalty programs	**288**	267
Provisions for risks and expenses	**252**	306
Taxes payable	**227**	225
Borrowings from financial institutions	**30**	36
Other	**1,980**	2,074
	$ 6,019	$ 6,219

NOTE 18 – SUBORDINATED NOTES

The subordinated notes presented in Desjardins Group's Combined Balance Sheets are senior notes issued by *Capital Desjardins inc*. whose gross proceeds are invested in notes issued by the Desjardins caisses in Quebec that are subordinated to the claims of depositors and certain other creditors. These senior notes rank prior, in right of payment, to the subordinated debt securities of *Capital Desjardins inc.* and are secured by a hypothec on the subordinated notes issued by the Desjardins caisses in Quebec.

Repayments and cancellations of the notes are subject to the consent and approval of the various regulatory authorities. These notes comprise the following items:

	As at December 31, 2016	As at December 31, 2015
Senior Series F notes (par value of $500 million), issued on June 1, 2009, maturing in June 2021, bearing interest at an annual rate of 5.541% for the first 7 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 3.88%, redeemable at the option of the issuer. [(1)]	**$ -**	$ 497
Senior Series G notes (par value of $900 million), issued on May 5, 2010, maturing in May 2020, bearing interest at an annual rate of 5.187%, redeemable at the option of the issuer.	**892**	889
Senior Series J notes (par value of $500 million), issued on December 15, 2011, maturing in December 2026, bearing interest at an annual rate of 4.954% for the first 10 years, and for the following 5 years, at an annual rate equal to the 90-day bankers' acceptance rate plus 2.67%, redeemable at the option of the issuer starting in 2021.	**486**	498
	$ 1,378	$ 1,884

[(1)] The right to call the Senior Series F notes was exercised on June 1, 2016.

Redemption

In 2016, all of the outstanding Series F subordinated notes, amounting to $500 million, have been called.

In 2015, all of the outstanding Series H subordinated notes, amounting to $700 million, have been called.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Desjardins Group's derivative financial instruments include the following types of contracts:

Interest rate contracts

Interest rate contracts include swaps, forward rate agreements and futures. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are forward transactions on interest rates, based on a notional amount, which call for cash settlement at a future date for the difference between the contractual interest rate and the market rate. Futures represent a future commitment to purchase or deliver financial instruments on a later specified date at a specified price. Futures are traded in predetermined amounts on organized exchanges and are subject to daily cash margining. Desjardins Group uses interest rate contracts primarily for asset and liability management purposes.

Foreign exchange contracts

Foreign exchange contracts include forward contracts, spot transactions and currency swaps. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed by both parties at the inception of the contract. Spot transactions are similar to forward exchange contracts, except that delivery must be made within two business days following the contract date. Currency swaps and cross-currency interest rate swaps are transactions in which the parties exchange interest payments on notional amounts in different currencies. Principal notional amounts are exchanged upon entering into the transaction and upon maturity. Desjardins Group uses currency swaps and cross-currency interest rate swaps to manage its foreign-currency denominated asset and liability exposures.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

Other financial derivative contracts

Other derivative financial contracts used by Desjardins Group include total return swaps and stock index options, which are related to financial index transactions, as well as credit default swaps, which are used to manage the credit risk associated with assets and liabilities. Total return swaps are transactions in which one party agrees to pay to or receive from the other party the rate of return on an underlying asset, group of assets or index in exchange for a remuneration specified in the contract. Credit default swaps are transactions in which one of the parties agrees to pay interest to the other party who, in turn, undertakes to make a payment if a predetermined credit incident occurs.

Options

Options are contractual agreements under which the seller grants the purchaser the right but not the obligation to buy (call option) or sell (put option) a specified amount of a financial instrument at a predetermined price, on or before a specified date. The seller receives a premium from the purchaser in exchange for this right. Desjardins Group enters into various options, such as interest rate, currency, stock index and commodity options, primarily to meet the needs of its members and clients and to manage its own asset-liability exposures.

DERIVATIVE FINANCIAL INSTRUMENTS MATURITIES

The following table presents the maturities of the notional amounts of derivative financial instruments.

	Terms to maturity				As at December 31, 2016	As at December 31, 2015
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Notional amount**	Notional amount
Interest rate contracts						
Over-the-counter contracts						
Interest rate swaps	**$ 25,717**	**$ 39,225**	**$ 29,251**	**$ 4,371**	**$ 98,564**	$ 98,248
Forward rate agreements	**1,255**	**-**	**-**	**-**	**1,255**	2,810
Options purchased	**1,313**	**1,417**	**708**	**-**	**3,438**	1,978
Options written	**550**	**-**	**-**	**-**	**550**	100
Contracts traded through a clearing house						
Interest rate swaps	**3**	**1,669**	**1,105**	**463**	**3,240**	5
Exchange-traded contracts						
Futures	**7,556**	**327**	**-**	**-**	**7,883**	7,093
Options purchased	**8,313**	**-**	**-**	**-**	**8,313**	33,264
Options written	**11,341**	**-**	**-**	**-**	**11,341**	20,619
	56,048	**42,638**	**31,064**	**4,834**	**134,584**	164,117
Foreign exchange contracts						
Over-the-counter contracts						
Forward contracts	**14,426**	**691**	**12**	**-**	**15,129**	16,946
Currency swaps	**6,479**	**5,764**	**2,136**	**53**	**14,432**	15,199
Options purchased	**551**	**192**	**-**	**-**	**743**	827
Options written	**646**	**199**	**-**	**-**	**845**	913
Exchange-traded contracts						
Forward contracts	**11**	**-**	**-**	**-**	**11**	15
	22,113	**6,846**	**2,148**	**53**	**31,160**	33,900
Other contracts[1]						
Over-the-counter contracts						
Swaps	**-**	**43**	**90**	**-**	**133**	453
Options purchased	**2,358**	**6,277**	**8,555**	**46**	**17,236**	13,547
Options written	**2,092**	**5,595**	**7,284**	**-**	**14,971**	13,032
Contracts traded through a clearing house						
Swaps	**-**	**-**	**644**	**-**	**644**	692
Exchange-traded contracts						
Futures	**1,111**	**-**	**-**	**-**	**1,111**	1,021
Options purchased	**-**	**2**	**-**	**-**	**2**	45
	5,561	**11,917**	**16,573**	**46**	**34,097**	28,790
Total derivative financial instruments	**$ 83,722**	**$ 61,401**	**$ 49,785**	**$ 4,933**	**$ 199,841**	$ 226,807

(1) Includes contracts related to indexed term savings products.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

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

	As at December 31, 2016			As at December 31, 2015		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges						
Interest rate contracts						
Swaps - Other	**$ 18,413**	**$ 235**	**$ 92**	$ 21,232	$ 438	$ 73
	18,413	**235**	**92**	21,232	438	73
Foreign exchange contracts						
Forward contracts	**109**	**-**	**1**	81	1	-
Currency swaps	**12,534**	**937**	**251**	14,034	1,857	-
	12,643	**937**	**252**	14,115	1,858	-
Total – Fair value hedges	**31,056**	**1,172**	**344**	35,347	2,296	73
Cash flow hedges						
Interest rate contracts						
Swaps	**20,961**	**143**	**88**	21,583	376	48
	20,961	**143**	**88**	21,583	376	48
Foreign exchange contracts						
Forward contracts	**37**	**4**	**-**	103	13	-
	37	**4**	**-**	103	13	-
Total – Cash flow hedges	**20,998**	**147**	**88**	21,686	389	48
Total – Designated as hedging instruments	**52,054**	**1,319**	**432**	57,033	2,685	121
Trading purposes						
Interest rate contracts						
Swaps traded through a clearing house	**3,240**	**7**	**19**	5	-	-
Swaps - Other	**59,190**	**657**	**187**	55,433	709	269
Forward rate agreements	**1,255**	**1**	**9**	2,810	14	26
Futures	**7,883**	**-**	**-**	7,093	-	-
Options purchased	**11,751**	**7**	**-**	35,242	7	-
Options written	**11,891**	**-**	**6**	20,719	-	1
	95,210	**672**	**221**	121,302	730	296
Foreign exchange contracts						
Forward contracts	**14,994**	**136**	**85**	16,777	294	213
Currency swaps	**1,898**	**85**	**14**	1,165	55	8
Options purchased	**743**	**20**	**-**	827	33	-
Options written	**845**	**-**	**20**	913	-	29
	18,480	**241**	**119**	19,682	382	250
Other contracts						
Swaps traded through a clearing house	**644**	**10**	**-**	692	4	-
Swaps - Other	**133**	**1**	**1**	453	1	4
Futures	**1,111**	**-**	**-**	1,021	-	-
Options purchased	**17,238**	**1,329**	**42**	13,592	1,016	-
Options written	**14,971**	**-**	**1,242**	13,032	-	1,018
	34,097	**1,340**	**1,285**	28,790	1,021	1,022
Total – Trading purposes	**147,787**	**2,253**	**1,625**	169,774	2,133	1,568
Total derivative financial instruments before impact of master netting agreements	**$199,841**	**$ 3,572**	**$ 2,057**	$226,807	$ 4,818	$ 1,689
Less:						
Impact of master netting agreements[(1)]	**-**	**597**	**597**	-	538	538
Total derivative financial instruments after impact of master netting agreements	**$199,841**	**$ 2,975**	**$ 1,460**	$226,807	$ 4,280	$ 1,151

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

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

HEDGING ACTIVITIES

The following table presents the gross amounts related to the ineffectiveness of fair value hedges and cash flow hedges that are recognized under "Net income on securities at fair value through profit or loss" in the Combined Statements of Income for the years ended December 31.

	2016	2015
Gains (losses) on hedged items	**$ 1,260**	$ (1,369)
Gains (losses) on derivative instruments	**(1,261)**	1,386
Fair value hedge ineffectiveness	**$ (1)**	$ 17
Cash flow hedge ineffectiveness	**$ (14)**	$ 19

Cash flows

The following tables present the expected dates of occurrence of hedged cash flows.

2016	**Terms to maturity**				
	Under 1 year	**1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**Total**
Cash inflows (assets)	**$ 392**	**$ 660**	**$ 233**	**$ 1**	**$ 1,286**
Cash outflows (liabilities)	**194**	**268**	**177**	**4**	**643**
Net cash flows	**$ 198**	**$ 392**	**$ 56**	**$ (3)**	**$ 643**

2015	Terms to maturity				
	Under 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Cash inflows (assets)	$ 409	$ 824	$ 417	$ 4	$ 1,654
Cash outflows (liabilities)	201	105	2	2	310
Net cash flows	$ 208	$ 719	$ 415	$ 2	$ 1,344

The net impact on excess cash flows related to interest is recognized using the effective interest method over the life or the underlying instrument. During the years ended December 31, 2016 and 2015, the main hedging transactions occurred as expected.

DERIVATIVE FINANCIAL INSTRUMENTS – CREDIT RISK

The credit risk associated with derivative financial instruments refers to the risk that a counterparty will fail to honour its contractual obligations toward Desjardins Group at a time when the fair value of the instrument is positive for Desjardins Group. The manner in which Desjardins Group assesses this risk as well as the objectives, policies and methods it uses to manage it are presented in Section 4.1, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

Notional amount	Contract amount to which a rate or price is applied in order to calculate the exchange of cash flows.
Replacement cost	The cost of replacing, at current market rates, all contracts with a positive fair value, without taking into consideration the impact of netting agreements or any collateral which may be obtained.
Credit risk equivalent	The total of the replacement cost and future credit exposure, which is represented by the change in value determined using a formula prescribed by the Bank for International Settlements (BIS), excluding items prescribed by the BIS, such as the replacement cost of forward exchange contracts with an original maturity of less than 14 days and exchange-traded derivatives subject to daily cash margining.
Risk-weighted balance	The balance weighted by the risk related to the creditworthiness of the counterparty calculated at the rates prescribed by the BIS.

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table gives an overview of Desjardins Group's derivative financial instruments portfolio and related credit risk, before and after the impact of master netting agreements.

	As at December 31, 2016				As at December 31, 2015			
	Notional amount	**Replacement cost**	**Credit risk equivalent**	**Risk-weighted balance**	Notional amount	Replacement cost	Credit risk equivalent	Risk-weighted balance
Interest rate contracts								
Swaps	**$ 101,804**	**$ 1,042**	**$ 1,470**	**$ 367**	$ 98,253	$ 1,523	$ 1,921	$ 596
Forward rate agreements	**1,255**	**1**	**10**	**10**	2,810	14	38	37
Futures	**7,883**	**-**	**-**	**-**	7,093	-	-	-
Options purchased	**11,751**	**7**	**16**	**5**	35,242	7	14	5
Options written	**11,891**	**-**	**-**	**-**	20,719	-	-	-
	134,584	**1,050**	**1,496**	**382**	164,117	1,544	1,973	638
Foreign exchange contracts								
Forward contracts	**15,140**	**140**	**323**	**151**	16,961	308	500	214
Currency swaps	**14,432**	**1,022**	**1,486**	**372**	15,199	1,912	2,546	660
Options purchased	**743**	**20**	**35**	**16**	827	33	43	20
Options written	**845**	**-**	**-**	**-**	913	-	-	-
	31,160	**1,182**	**1,844**	**539**	33,900	2,253	3,089	894
Other contracts								
Swaps	**777**	**11**	**17**	**3**	1,145	5	42	10
Futures	**1,111**	**-**	**-**	**-**	1,021	-	-	-
Options purchased	**17,238**	**1,329**	**2,637**	**858**	13,592	1,016	2,067	613
Options written	**14,971**	**-**	**-**	**-**	13,032	-	-	-
	34,097	**1,340**	**2,654**	**861**	28,790	1,021	2,109	623
Total derivative financial instruments before impact of master netting agreements	**$ 199,841**	**$ 3,572**	**$ 5,994**	**$ 1,782**	$ 226,807	$ 4,818	$ 7,171	$ 2,155
Less:								
Impact of master netting agreements[(1)]	**-**	**597**	**-**	**824**	-	538	-	1,026
Total derivative financial instruments after impact of master netting agreements	**$ 199,841**	**$ 2,975**	**$ 5,994**	**$ 958**	$ 226,807	$ 4,280	$ 7,171	$ 1,129

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

NOTE 19 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES *(continued)*

The following table presents derivative financial instruments by credit risk rating and type of counterparty.

	As at December 31, 2016		As at December 31, 2015	
	Replacement cost	**Risk-weighted balance**	Replacement cost	Risk-weighted balance
Credit risk rating[1]				
AAA, AA+, AA, AA-	**$ 1,963**	**$ 864**	$ 1,514	$ 519
A+, A, A-	**1,334**	**745**	2,911	1,266
BBB, B, BB-, BBB-	**50**	**91**	231	96
Not rated	**225**	**83**	162	274
Total	**3,572**	**1,783**	4,818	2,155
Less:				
Impact of master netting agreements[2]	**597**	**824**	538	1,026
Total after impact of master netting agreements	**$ 2,975**	**$ 959**	$ 4,280	$ 1,129
Type of counterparty				
Financial institutions	**$ 3,476**	**$ 1,635**	$ 4,643	$ 1,847
Other	**96**	**148**	175	308
Total	**3,572**	**1,783**	4,818	2,155
Less:				
Impact of master netting agreements[2]	**597**	**824**	538	1,026
Total after impact of master netting agreements	**$ 2,975**	**$ 959**	$ 4,280	$ 1,129

(1) Credit risk ratings are established by recognized credit agencies. Non-rated counterparties are mainly members or clients of Desjardins Group.

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

NOTE 20 – SIGNIFICANT ACQUISITIONS

ACQUISITIONS

Year ended December 31, 2016

Desjardins Group had made no significant acquisition during that year.

Year ended December 31, 2015

On January 1, 2015, Desjardins Group completed the acquisition of all of the Canadian property and casualty and life and health insurance, mutual fund, loan and living benefit businesses of State Farm. The acquisition of the property and casualty and life and health insurance businesses was carried out by transferring assets and assuming liabilities, while the acquisition of the other businesses was carried out by purchasing company shares. This acquisition has allowed Desjardins Group to develop a multi-product distribution network that gives it access to a new client base and to reach a scale, in particular in property and casualty insurance, that should provide it with competitive advantages.

The following table presents the fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date.

Net identifiable assets acquired		
Cash and deposits with financial institutions	$	12
Securities		6,409
Loans		197
Premiums receivable		442
Reinsurance assets		2
Property, plant and equipment		86
Intangible assets		91
Deferred tax assets		111
Other assets – Other		82
Insurance contract liabilities		(6,611)
Net defined benefit plan liabilities		(106)
Deferred tax liabilities		(9)
Other liabilities – Other		(453)
	$	253
Consideration		
Acquired cash and cash equivalents	$	12
Net cash used for the acquisition		76
Contingent consideration		113
Total consideration		201
Gain on acquisition	$	52

Securities of $5,090 million received as part of the acquisition were pledged as collateral pursuant to the reinsurance treaty that transfers the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

The acquisition agreement includes a price adjustment clause based on the favourable and unfavourable development of the provision for claims and adjustment expenses related to the property and casualty insurance contract liabilities transferred as part of the acquisition. State Farm will compensate Desjardins Group for 95% of the unfavourable development of these liabilities, while Desjardins Group will have to give State Farm 90% of the favourable development of these liabilities. As at the acquisition date, Desjardins Group determined that the fair value of the contingent consideration it expects to pay was $113 million. As at December 31, 2016, the value of the contingent consideration recognized under “Other liabilities – Other” amounted to $364 million ($258 million as at December 31, 2015).

As part of this transaction, State Farm and *Groupe des Assurances du Crédit Mutuel S.A.*, a minority partner in Desjardins General Insurance Group Inc. (DGIG), have respectively invested $450 million in non-voting preferred shares and $200 million in common shares, non-voting preferred shares and subordinated notes of DGIG’s insurance subsidiaries. Desjardins Group’s ownership interest in the common shares of these subsidiaries did not change as a result of these investments.

The determination of the fair value of the identifiable assets and liabilities acquired was completed during the year ended December 31, 2015.

As at December 31, 2015, the contribution of the Canadian businesses of State Farm to Desjardins Group’s “Total income” and “Net surplus earnings for the year after member dividends”, excluding the gain on acquisition, amounted to $848 million and $194 million, respectively. The gain on acquisition was recognized under “Other income – Other” in the Combined Statement of Income.

During the year ended December 31, 2015, closing costs of $7 million directly attributable to the acquisition of the Canadian businesses of State Farm were recognized under “Non-interest expense – Other” in the Combined Statements of Income.

NOTE 21 – CAPITAL STOCK

AUTHORIZED

Capital stock comprises qualifying shares, permanent shares, surplus shares and capital shares.

The caisses may issue an unlimited number of qualifying shares with a par value of $5, redeemable in the cases set forth in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issuance of an unlimited number of permanent and surplus shares with a par value of $10 and $1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. The interest is determined annually by the general meeting of each caisse. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after being approved by the general meeting of each caisse, which is held in the four months following year-end.

The Federation may issue an unlimited number of F capital shares with a par value of $10. These shares do not carry any voting rights. F capital shares may be issued only to members of Desjardins caisses in Quebec, including their auxiliary members. The Federation has the right, by resolution of the Board of Directors and with the authorization of the AMF, to redeem unilaterally, in whole or in part, F capital shares at any time. The Federation may also purchase, in whole or in part, F capital shares by private agreement, at any time, with the authorization of the AMF. The interest rate on F capital shares is determined by the Federation's Board of Directors. Interest is recognized under "Remuneration on capital stock" in the Combined Statements of Changes in Equity after being approved by the general meeting. The repayment of principal and payment of interest are subject to compliance with certain conditions.

ISSUED AND PAID SHARES

	As at December 31, 2016	As at December 31, 2015
Qualifying shares	**$ 25**	$ 25
Permanent shares	**1,026**	1,451
Surplus shares	**106**	145
F capital shares	**4,135**	3,537
	$ 5,292	$ 5,158

ISSUANCE OF SHARES

During the year ended December 31, 2016, the Federation issued 49,776,013 F capital shares for a cash consideration of $498 million. In addition, the Federation issued 10,062,747 F capital shares having a value of $100 million as interest payments when the holders elected to receive their remuneration in F capital shares.

In 2015, the Federation had issued 99,385,471 F capital shares for a cash consideration of $989 million, which represented the gross proceeds of this issuance of $994 million less certain items totalling $5 million. In addition, the Federation had issued 6,476,912 F capital shares having a value of $64 million as interest payments when the holders elected to receive their remuneration in F capital shares.

REDEMPTION OF SHARES

Permanent shares

During the year ended December 31, 2016, the AMF extended its authorization for the redemption for cancellation of a predetermined amount of permanent shares, subject to certain conditions, over a period ending December 31, 2017.

Surplus shares

In 2014, the AMF authorized the redemption for cancellation of all surplus shares subject to certain conditions.

NOTE 22 – SHARE CAPITAL

AUTHORIZED

There is an unlimited number of Class A preferred shares, offered only to member of caisses populaires of Ontario, non-voting, without par value, redeemable at the option of the issuer at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative.

There is an unlimited number of Class B preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. the *Fédération des caisses populaires de l'Ontario Inc.* or the caisses populaires of Ontario, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

There is an unlimited number of Class C preferred shares, non-voting, without par value, redeemable at the option of the issuer, i.e. the *Fédération des caisses populaires de l'Ontario Inc.*, at the paid-up amount plus declared and unpaid dividends, non-participating and non-cumulative. These shares may be issued in one or more series.

SPECIFIC CHARACTERISTICS OF ISSUED AND PAID CLASS B PREFERED – SERIES 2000, 2002 AND 2003 AND CLASS C PREFERRED SHARES – SERIES 2010 ISSUED AND PAID

The dividend rate will be equal to the higher of: the average interest rate for the year on non-redeemable term deposits of five years plus 0.50% or 6.00% for Class B – Series 2000; plus 1.00% or 5.25% for Class B – Series 2002; plus 1.00% or 4.00% for Class B – Series 2003; and plus 0.5% or 4.25% for Class C – Series 2010, i.e., the minimum rate. Should the issuer be unable to pay the dividend in full, a partial dividend may be declared. A dividend may be declared every time the issuer's surplus earnings allow it and that all regulatory requirements in terms of funding and cash have been met. The issuer may redeem, upon the holder's request and the Board of Directors' approval, up to a maximum of 10% of the issued and outstanding shares of the prior year. They have been redeemable at the option of the issuer since September 30, 2005 for Class B – Series 2000; since July 1, 2007 for Class B – Series 2002; since March 1, 2008 for Class B – Series 2003; and since January 1, 2015 for Class C – Series 2010. Shares can be redeemed only if the issuer does not or will not violate section 84 of the Ontario *Credit Unions and Caisses Populaires Act, 1994*, regarding capital adequacy.

ISSUED AND PAID SHARES

	As at December 31, 2016		As at December 31, 2015	
	Number of shares	**Amount**	Number of shares	Amount
Class A preferred shares	**528,900**	**$ 5**	580,700	$ 6
Class B preferred shares – Series 2000	**56,900**	**1**	53,300	1
Class B preferred shares – Series 2002	**462,200**	**5**	430,100	4
Class B preferred shares – Series 2003	**732,000**	**7**	695,000	7
Class C preferred shares – Series 2010	**7,002,200**	**70**	6,817,500	68
		$ 88		$ 86

During fiscal 2016, the issuer paid a dividend in the form of Class C preferred shares – Series 2010 (252,900 shares) and redeemed 68,200 Class C preferred shares – Series 2010 for a total amount of $2 million. In addition, it redeemed 51,800 Class A preferred shares for an amount of $1 million and issued 3,600 Class B preferred shares – Series 2000, 32,100 Class B preferred shares – Series 2002 and 37,000 Class B preferred shares – Series 2003 for a total amount of $1 million.

During fiscal 2015, the issuer paid a dividend in the form of Class C preferred shares – Series 2010 (244,100 shares) and redeemed 90,100 Class C preferred shares – Series 2010 for a total amount of $2 million. In addition, it redeemed 82,900 Class A preferred shares for an amount of $1 million.

NOTE 23 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at December 31, 2016		As at December 31, 2015	
	Group's share	**Non-controlling interests' share**	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 376**	**$ 14**	$ 324	$ 36
Net gains on derivative financial instruments designated as cash flow hedges	**136**	**1**	263	2
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**2**	**-**	2	-
Accumulated other comprehensive income	**$ 514**	**$ 15**	$ 589	$ 38

NOTE 24 – CAPITAL MANAGEMENT

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

DESJARDINS GROUP'S INTEGRATED CAPITAL MANAGEMENT FRAMEWORK

The regulatory capital adequacy and composition of Desjardins Group as a whole are evaluated using the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF. The AMF requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. The holding company Desjardins Financial Corporation Inc., which mainly holds the insurance companies, is deconsolidated and presented as a deduction to capital. This company is subject to the guideline on capital adequacy requirements for life and health insurers issued by the AMF.

Some Desjardins Group subsidiaries are subject to regulatory requirements issued by the AMF or other regulatory authorities. Most of these subsidiaries must comply with minimum capital requirements that could limit the ability of Desjardins Group to allocate a portion of such capital to other purposes.

The capital adequacy of Quebec caisses and *Caisse centrale Desjardins* is governed by the Federation's standards, which draw on those of the AMF and address capital base adequacy, items comprising capital base and proportions between those items. The capital adequacy of the *Fédération des caisses populaires de l'Ontario* and associated caisses is governed by a regulation and guidelines issued by the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario.

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 that is combined with the Integrated Capital Management Framework to forecast regulatory capital, trends, devise strategies and recommend action plans for achieving capital objectives and targets.

BASEL III

Desjardins Group's capital ratios are calculated according to the guideline and are expressed as regulatory capital as a percentage of risk-weighted assets. As it was designated by the AMF as a domestic systemically important financial institution, Desjardins Group must maintain a minimum Tier 1A capital ratio of 8.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively, including a 2.5% capital conservation buffer.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

The regulatory capital of Desjardins Group differs from the equity disclosed in the Combined Balance Sheets. It comprises the following components:

i) Tier 1 capital, which is designed to ensure going concern. It comprises two categories: Tier 1A (core capital) and Tier 1B (additional capital). Tier 1A capital consists, among other items, of eligible capital shares, reserves, undistributed surplus earnings, accumulated other comprehensive income and non-controlling interests. Tier 1B capital also includes a portion of non-controlling interests

ii) Tier 2 capital, which is designed to absorb losses in the event of a liquidation. It consists of subordinated notes, eligible qualifying shares, non-controlling interests and the eligible portion of the collective allowance.

The amount of non-controlling interests allocated to the various capital tiers is determined, in particular, based on the nature of the operations and the capitalization level of the investee.

Since January 1, 2014, the measures and requirements related to the credit valuation adjustment (CVA) charge have been phased in as set out in the guideline. This phased-in charge will reach 100% by 2019 for each of the capital ratios. As at December 31, 2016, the CVA charge applied to the Tier 1A capital ratio, the Tier 1 capital ratio and the total capital ratio was 64%, 71% and 77%, respectively.

In addition, Desjardins Group is required by the AMF to meet a minimum leverage ratio of 3%. 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.

The following table presents the composition of Desjardins Group's regulatory capital.

	As at December 31, 2016	As at December 31, 2015
Tier 1A capital		
F capital shares	**$ 4,142**	$ 3,544
Permanent shares and surplus shares subject to phase-out	**1,078**	1,471
Reserves	**15,052**	12,864
Undistributed surplus earnings	**1,502**	1,766
Eligible accumulated other comprehensive income	**392**	347
Non-controlling interests	**-**	15
Deductions[1]	**(3,446)**	(2,653)
Total net Tier 1A capital	**18,720**	17,354
Non-controlling interests	**12**	17
Total Tier 1B capital	**12**	17
Total Tier 1 capital	**$ 18,732**	$ 17,371
Tier 2 capital		
Subordinated notes subject to phase-out	**$ 1,206**	$ 1,892
Eligible collective allowance	**252**	282
Other eligible instruments	**25**	25
Non-controlling interests	**-**	2
Deductions[2]	**(872)**	(872)
Total net Tier 2 capital	**$ 611**	$ 1,329
Total regulatory capital (Tier 1 and 2)	**$ 19,343**	$ 18,700

(1) Represent essentially the portion of investments in the components deconsolidated for regulatory capital purposes (mainly the insurance subsidiaries) that exceeds 10% of capital net of regulatory adjustments. The non-deducted balance will be subject to risk-weighting at a rate of 250%.

(2) Represent mainly an investment in preferred shares of one of the life and health insurance subsidiaries deconsolidated for regulatory capital purposes.

NOTE 24 – CAPITAL MANAGEMENT *(continued)*

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total $2.1 billion.

In addition, the subordinated notes described in Note 18, “Subordinated notes”, are also subject to the 10% amortization. In order to be fully eligible as Tier 2 capital, such notes must meet Non-Viability Contingent Capital requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements are further clarified.

In terms of developing the Integrated Capital Management Framework, the financial goal for Desjardins Group’s Tier 1 capital ratio was maintained at a minimum of 15% under Basel III, given the global economic context and the new AMF regulatory requirements with respect to Basel III. In that respect, as at the date of conversion to Basel III, Desjardins Group elected to use the transitional provisions set out in the guideline and described in the previous paragraphs.

Desjardins Group's regulatory capital amounted to $19,343 million as at December 31, 2016, up $643 million from December 31, 2015. This increase is mainly explained by the growth of $1,924 million in reserves and undistributed surplus earnings and the issue of $598 million of capital shares of the Federation. However, the amortization of capital instruments that no longer meet the Basel III eligibility criteria reduced capital by approximately $1,079 million.

As mentioned in Note 21, “Capital stock”, in 2016, the Federation issued shares for net proceeds of $498 million. In addition, the Federation issued shares having a value of $100 million as interest payments to holders who elected to receive their remuneration in shares. Furthermore, on December 21, 2016, the Federation was authorized by the AMF to file a new prospectus for the issuance of additional shares totalling $250 million. This new issuance has started on January 24, 2017.

In addition, on June 1, 2016, Desjardins Group called all of its Series F subordinated notes in the amount of $500 million.

COMPLIANCE WITH REQUIREMENTS

Desjardins Group and all its components that are subject to regulatory requirements with respect to minimum capital were in compliance with said requirements as at December 31, 2016, as they were in the previous year. As at such date, Desjardins Group’s Tier 1A, Tier 1 and total capital ratios, calculated under the Basel III requirements, were 17.3%, 17.3% and 17.9%, respectively. The leverage ratio amounted to 8.1%.

NOTE 25 – NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

The following table presents the impact of income from financial instruments held for trading on the Combined Statements of Income for the years ended December 31.

	2016	2015
Income		
Net interest income	**$ 38**	$ 17
Net income on securities at fair value through profit or loss	**14**	94
	$ 52	$ 111

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table presents the impact of income from financial instruments designated as at fair value through profit or loss on the Combined Statements of Income for the years ended December 31.

	2016	2015
Income		
Net interest income	**$ 2**	$ 5
Net income on securities at fair value through profit or loss	**519**	715
	$ 521	$ 720

NOTE 26 – NON-INTEREST EXPENSE – OTHER

For the years ended December 31, "Non-interest expense – Other" presented in the Combined Statements of Income consisted of the following:

	2016	2015
Commissions	**$ 778**	$ 735
Recovery of expenses related to reinsurance	**(292)**	(264)
Professional fees	**503**	527
Business and capital taxes	**309**	286
Other employee expenses	**203**	194
Amortization of intangible assets	**102**	93
Sponsorships and donations	**82**	81
Expenses related to deposits, services and other	**69**	60
Other	**671**	573
	$ 2,425	$ 2,285

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS

INCOME TAXES ON SURPLUS EARNINGS FOR THE YEAR

The income tax expense (recovery) recognized in the Combined Financial Statements for the years ended December 31 is detailed as follows:

	2016	2015
Combined Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$ 596**	$ 522
Adjustments for current tax of prior years	**(9)**	(10)
Current tax recovery on remuneration on capital stock	**(54)**	(48)
Tax recovery on member dividends	**(39)**	(41)
	494	423
Deferred income taxes		
Origination and reversal of temporary differences	**(74)**	54
Changes in tax rates	**1**	(2)
	(73)	52
	421	475
Combined Statements of Comprehensive Income		
Current income taxes	**34**	(76)
Deferred income taxes	**(10)**	139
	24	63
Total income tax expense	**$ 445**	$ 538

Income taxes on surplus earnings presented in the Combined Statements of Income for the years ended December 31 are detailed as follows:

	2016	2015
Income taxes on surplus earnings	**$ 460**	$ 516
Tax recovery on member dividends	**(39)**	(41)
Income taxes on surplus earnings	**$ 421**	$ 475

NOTE 27 – INCOME TAXES ON SURPLUS EARNINGS *(continued)*

TAX RATE RECONCILIATION

The income tax expense (recovery) on surplus earnings recognized in the Combined Statements of Income for the years ended December 31 differs from the income tax expense (recovery) determined using the Canadian statutory rate for the following reasons:

	2016	2015
Income taxes at the combined Canadian federal and provincial statutory rate of 26.84% (26.83% in 2015)	**$ 599**	$ 663
Tax recovery on member dividends	**(39)**	(41)
Small business deduction and additional credit for credit unions	**(5)**	(9)
Non-taxable investment income and other items	**(79)**	(72)
Changes in tax rates	**1**	(2)
Non-deductible expenses	**15**	14
Adjustment for current tax of prior years	**(9)**	(10)
Current tax recovery on remuneration on capital stock	**(54)**	(48)
Gain on business combination, net of taxes	**-**	(15)
Other	**(8)**	(5)
	$ 421	$ 475

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Combined Balance Sheets		**Combined Statements of Income**	
	As at December 31, 2016	As at December 31, 2015	**2016**	2015
Deferred tax assets				
Insurance contract liabilities	**$ 14**	$ 39	**$ 25**	$ 37
Allowance for credit losses	**72**	86	**12**	(2)
Net defined benefit plan liabilities	**598**	644	**(1)**	10
Tax losses	**131**	78	**(62)**	17
Other	**70**	58	**(6)**	(13)
	885	905	**(32)**	49
Deferred tax liabilities				
Property, plant and equipment and investment property	**122**	127	**(20)**	(1)
Securities and other financial instruments	**68**	157	**(21)**	4
	190	284	**(41)**	3
Net deferred income tax assets	**$ 695**	$ 621	**$ (73)**	$ 52

For the purposes of presenting the Combined Balance Sheets, deferred tax assets and liabilities are measured by legal entities and presented as follows:

	As at December 31, 2016	As at December 31, 2015
Deferred tax assets[(1)]	**$ 874**	$ 784
Deferred tax liabilities[(1)]	**179**	163
	$ 695	$ 621

(1) Deferred income taxes will reverse mainly in the long term.

The amount of deductible temporary differences, tax losses and tax credits for which no deferred tax assets have been recognized in the Combined Balance Sheets was $22 million ($23 million as at December 31, 2015). This amount does not expire.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

COMMITMENTS AND FINANCIAL GUARANTEES

In the normal course of operations, Desjardins Group uses credit instruments and off-balance sheet guarantees to meet the financing needs of its members and clients. The following table shows the contractual amount of commitments as well as the maximum potential amount of future payments under the guarantees that Desjardins Group granted to third parties. The maximum credit risk associated with commitments corresponds to the full amount of additional credit that Desjardins Group could be required to grant if commitments were entirely used. The maximum credit risk associated with guarantees corresponds to the maximum cash outflows that Desjardins Group could be required to make in the event of a complete default by the parties to the guarantees, without taking into account the amounts it could possibly recover through collateral held, insurance policies or other credit risk mitigation methods. These commitments and guarantees do not necessarily represent future cash requirements since many of these instruments will expire or terminate without being funded. In both cases, the maximum risk of loss is substantially greater than the amount recognized in the Combined Balance Sheets.

The amounts shown in the following table represent the maximum exposure to credit risk for financial instruments whose maximum risk differs from the value recognized. Other financial instruments presented in the Combined Balance Sheets expose Desjardins Group to a credit risk. For such instruments, the maximum exposure to credit risk is equal to their carrying amount.

	As at December 31, 2016	As at December 31, 2015
Commitments		
Credit commitments[1]	**$ 91,211**	$ 84,152
Indemnification commitments related to securities lending	**1,772**	1,818
Documentary letters of credit	**25**	37
Financial guarantees		
Guarantees and standby letters of credit	**982**	1,065
Credit default swaps	**577**	637

[1] As at December 31, 2015, iIncluded the funding facility related to MAV 1. Additional information is provided in the "Asset-backed term notes" section of Note 6, Securities.

Credit commitments

Credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. The primary purpose of these instruments is to ensure that members and clients have funds available, when necessary, for variable maturity terms and under specific conditions.

Indemnification commitments related to securities lending

As part of its asset custody operations, Desjardins Group enters into securities lending agreements with members and clients. Desjardins Group makes indemnification commitments to certain clients who lend securities to ensure that the fair value of the securities lent will be reimbursed in the event that the borrower does not return the borrowed securities and the fair value of assets held as collateral is insufficient to cover the fair value of the securities lent. These commitments usually mature before being used.

The borrower must secure the loan at all times with marketable securities generally issued by the federal or provincial governments and representing 102% of the contractual amount. There is a risk of loss if the borrower defaults on its commitments and the value of the collateral is not adequate to cover the amount of the loan. To limit this risk, the value of the collateral pledged by the borrower is adjusted on a daily basis, which ensures a sufficient coverage.

Documentary letters of credit

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

Guarantees and standby letters of credit

Guarantees and standby letters of credit represent irrevocable commitments by Desjardins Group to make payments in the event that a member or client cannot meet financial obligations to third parties. Desjardins Group's policy with respect to collateral received for these instruments is generally the same as for loans.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

Credit default swaps

In the normal course of its investment operations, Desjardins Group entered into credit default swaps and undertook to assume the credit risk for the bonds that constitute the underlying assets for these swaps. The guarantee given is to provide partial or total payment for one security or a group of securities in the event of a payment default by the issuer.

The maximum amount of the guarantee is equal to the notional amount of the swap. The amounts that could be required to be paid depend on the nature of the default and the recovery rates of the securities in collection.

Other indemnification agreements

In the normal course of its operations, Desjardins Group enters into agreements containing indemnification provisions. These indemnifications are normally related to acquisition, disposal, service and lease contracts, clearing agreements and contracts entered into with directors or officers. Under these agreements, Desjardins Group may be liable for indemnifying a counterparty if certain events occur, such as amendments to statutes and regulations (including tax rules) as well as to disclosed financial positions, the existence of undisclosed liabilities, and losses resulting from third-party activities or as a result of third-party litigation. The indemnification provisions vary from one contract to the next. In several cases, no predetermined amount or limit is stated in the contract, and future events that would trigger a payment are difficult to foresee. Therefore, the maximum amount that Desjardins Group could be required to pay counterparties cannot be estimated. In the past, payments made under these indemnification agreements have been immaterial.

ASSETS PLEDGED AND HELD AS COLLATERAL

In the normal course of its operations, Desjardins Group enters into asset pledge agreements and receives from its members and clients assets as collateral that it is permitted to sell or repledge in the absence of default in accordance with the standardized terms and conditions for these types of transactions. Following are examples of terms and conditions for assets pledged as collateral:

- The risks and rewards of the assets pledged as collateral accrue to the borrower;
- Additional collateral is required when the market value of the transaction exceeds the threshold agreed upon with the borrower;
- The creditor's right to sell the assets or repledge them depends on the agreement under which the assets have been pledged as collateral;
- The assets pledged as collateral are returned to the borrower when mandatory terms and conditions are met. When the creditor is permitted to sell or repledge an asset held as collateral, a comparable asset is returned to the borrower.

The following table shows the carrying amount of Desjardins Group's financial assets pledged as collateral for liabilities or contingent liabilities as well as the fair value of assets from third parties held as collateral or repledged.

	As at December 31, 2016	As at December 31, 2015
Desjardins Group's financial assets pledged as collateral:		
Cash and deposits with financial institutions	**$ 33**	$ 15
Securities	**13,211**	12,971
Loans	**18,618**	25,717
	31,862	38,703
Assets from third parties:		
Assets held as collateral that may be sold or repledged	**8,981**	9,900
Less: Assets not sold or not repledged	**785**	3,661
	8,196	6,239
	$ 40,058	$ 44,942
Use of assets:		
Transactions involving commitments related to securities sold under repurchase agreements and securities lent and borrowed	**$ 10,223**	$ 10,206
Transactions involving commitments related to securities sold short	**7,186**	4,304
Securitization transactions	**8,085**	8,338
Covered bonds	**8,133**	8,119
Transactions on derivative financial instruments	**145**	114
Clearing systems, payment systems and depositories[(1)]	**2,932**	9,668
Transactions involving provisions for claims and adjustment expenses[(2)]	**3,222**	4,068
Caisse network money supply from the Bank of Canada	**132**	125
	$ 40,058	$ 44,942

(1) In the normal course of its operations, Desjardins Group must pledge intraday collateral to the Bank of Canada for the use of the Large Value Transfer System. Such collateral is excluded as it is released back at the end of the daily settlement cycle.

(2) Securities amounting to $5,090 million received as part of the acquisition have been pledged as collateral in connection with the reinsurance treaty that transfers the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

NOTE 28 – COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES *(continued)*

LITIGATION

In the normal course of its business, Desjardins Group is involved in various litigation matters and legal proceedings. It is not currently possible to predict the outcome of certain of these litigation matters and legal proceedings, the timing of such outcomes, or the potential impact on Desjardins Group's financial position. In management's opinion, the fair value of the contingent liabilities resulting from such litigation matters and legal proceedings, to the extent that it can be measured, could have an impact on Desjardins Group's profit or loss for a specific period, but would not have a significant adverse impact on its financial position.

NOTE 29 – LEASES

LEASES – AS LESSEE

Operating leases

The minimum future commitments under leases for premises and equipment for the years ended December 31 are presented in the following table.

	2016	2015
Under 1 year	**$ 152**	$ 182
1 to 5 years	**362**	407
Over 5 years	**185**	236
Total minimum future commitments	**$ 699**	$ 825

Lease payments recognized as expenses for the year ended December 31, 2016 totalled $98 million ($88 million in 2015).

LEASES – AS LESSOR

Operating leases

For the years ended December 31, future minimum lease payments to be received under non-cancellable leases for premises and equipment are as follows:

	2016	2015
Under 1 year	**$ 73**	$ 56
1 to 5 years	**228**	167
Over 5 years	**253**	97
Total future minimum payments	**$ 554**	$ 320

No contingent rents were recognized as income for the years ended December 31, 2016 and 2015.

NOTE 30 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Group is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Group assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in Section 4.1, "Risk Management", of the Management's Discussion and Analysis. The shaded areas containing text and tables presented in that section are an integral part of these Combined Financial Statements.

NOTE 31 – INTEREST RATE RISK EXPOSURE

The following table presents the exposure to interest rate risks. Financial instruments are presented based on their maturity date or repricing date, whichever is earlier.

	Floating rate	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive and provisions	As at December 31, 2016
Assets								
Cash and deposits with financial institutions	$ 900	$ 510	$ 3	$ -	$ -	$ -	$ 463	$ 1,876
Effective interest rate		*0.54 %*	*0.62 %*					
Securities	634	5,487	1,172	1,601	19,572	18,804	6,015	53,285
Effective interest rate		*1.13 %*	*0.93 %*	*1.32 %*	*1.77 %*	*3.63 %*		
Securities borrowed or purchased under reverse repurchase agreements	-	7,690	-	-	-	-	-	7,690
Effective interest rate		*0.43 %*						
Loans	41,625	28,457	19,728	26,165	46,163	3,427	450	166,015
Effective interest rate		*4.12 %*	*2.99 %*	*3.09 %*	*3.49 %*	*5.53 %*		
Segregated fund assets and other assets[1]	-	-	-	-	-	-	29,501	29,501
	$ 43,159	$ 42,144	$ 20,903	$ 27,766	$ 65,735	$ 22,231	$ 36,429	$ 258,367
Liabilities and equity								
Deposits	$ 31,949	$ 23,952	$ 6,532	$ 12,486	$ 46,104	$ 1,263	$ 38,260	$ 160,546
Effective interest rate		*1.00 %*	*1.76 %*	*1.81 %*	*1.83 %*	*2.34 %*		
Commitments related to securities sold short	86	2	90	92	3,212	4,012	702	8,196
Effective interest rate		*1.51 %*	*0.26 %*	*1.51 %*	*1.08 %*	*3.54 %*		
Commitments related to securities lent or sold under repurchase agreements	-	10,323	-	-	-	-	-	10,323
Effective interest rate		*0.50 %*						
Insurance contract liabilities	-	-	-	-	-	-	27,493	27,493
Other liabilities[1]	2	-	-	-	15	13	27,926	27,956
Subordinated notes	-	-	-	-	1,378	-	-	1,378
Effective interest rate			-		*5.03 %*	-		
Equity	-	-	-	-	-	-	22,475	22,475
	$ 32,037	$ 34,277	$ 6,622	$ 12,578	$ 50,709	$ 5,288	$ 116,856	$ 258,367
Gap – Combined Balance Sheet items	$ 11,122	$ 7,867	$ 14,281	$ 15,188	$ 15,026	$ 16,943	$ (80,427)	$ -
Gap – Derivative financial instruments, based on notional amounts	-	(32,822)	4,013	2,648	22,996	3,165	-	-
Total gap	$ 11,122	$ (24,955)	$ 18,294	$ 17,836	$ 38,022	$ 20,108	$ (80,427)	$ -

[1] Segregated fund assets and liabilities have no impact on Desjardins Group's interest rate risk exposure. For more information, see the "Segregated fund risk management" section of Note 15, “Insurance contract liabilities”.

NOTE 32 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. Accordingly, Desjardins Group's financial results are grouped in three business segments, namely Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an Other category.

Personal services and business and institutional services have similar economic characteristics and offer ranges of comparable products and services using the same distribution network. They are subject to the same regulatory environment and their performance is jointly assessed. Accordingly, these services are aggregated into one segment called "Personal Services and Business and Institutional Services". This segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day and convenience transactions, savings, card and payment services, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs.

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

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

The Other category includes financial information that is not specific to any particular business segment. It primarily includes treasury activities related to *Caisse centrale Desjardins*' operations and financial intermediation between surplus liquidity and the liquidity needs of the caisses. This category also includes the results of the support functions provided by the Federation to Desjardins Group as a whole, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins* as well as those related to ABTN securities held by Desjardins Group. It also includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments necessary to prepare the Combined Financial Statements, the intersegment balance eliminations are classified in this category.

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

NOTE 32 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of Desjardins Group's financial results by business segment for the years ended December 31.

	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income	**$ 3,957**	$ 4,025	**$ -**	$ -	**$ 1**	$ 1	**$ 287**	$ 227	**$ 4,245**	$ 4,253
Net premiums	**-**	-	**4,204**	4,057	**3,207**	3,113	**(243)**	(263)	**7,168**	6,907
Other income	**2,068**	1,983	**2,181**	2,205	**151**	332	**(563)**	(394)	**3,837**	4,126
Total income	**6,025**	6,008	**6,385**	6,262	**3,359**	3,446	**(519)**	(430)	**15,250**	15,286
Provision for credit losses	**333**	392	**-**	-	**-**	-	**(14)**	(15)	**319**	377
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**3,609**	3,524	**1,838**	1,922	**(1)**	(15)	**5,446**	5,431
Non-interest expense	**4,336**	4,265	**2,208**	2,104	**1,132**	1,070	**(423)**	(436)	**7,253**	7,003
Operating surplus earnings	**1,356**	1,351	**568**	634	**389**	454	**(81)**	36	**2,232**	2,475
Income taxes on surplus earnings	**412**	351	**107**	131	**93**	94	**(152)**	(60)	**460**	516
Surplus earnings before member dividends[(1)]	**944**	1,000	**461**	503	**296**	360	**71**	96	**1,772**	1,959
Member dividends, net of income tax recovery	**105**	113	**-**	-	**-**	-	**-**	-	**105**	113
Net surplus earnings for the year after member dividends	**$ 839**	$ 887	**$ 461**	$ 503	**$ 296**	$ 360	**$ 71**	$ 96	**$ 1,667**	$ 1,846
of which:										
Group's share	**$ 837**	$ 886	**$ 440**	$ 392	**$ 245**	$ 303	**$ 69**	$ 93	**$ 1,591**	$ 1,674
Non-controlling interests' share	**2**	1	**21**	111	**51**	57	**2**	3	**76**	172

(1) For the year ended December 31, 2016, the Group's share of "Surplus earnings before member dividends" was $942 million ($999 million in 2015) for the Personal Services and Business and Institutional Services segment $440 million ($392 million in 2015) for the Wealth Management and Life and Health Insurance, $245 million ($303 million in 2015) for the Property and Casualty Insurance segment and $69 million ($93 million in 2015) for the Other category.

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at December 31, 2016	**$ 196,749**	**$ 38,616**	**$ 14,568**	**$ 8,434**	**$ 258,367**
As at December 31, 2015	$ 187,759	$ 35,393	$ 14,420	$ 10,556	$ 248,128

NOTE 33 – RELATED PARTY DISCLOSURES

Desjardins Group's related parties mainly include associates, joint ventures and benefit plans for the benefit of employees, as well as certain entities for which the substance of the relationship indicates that they are related to Desjardins Group, including the Desjardins Funds. They also include Desjardins Group's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS GROUP'S RELATED PARTIES

Transactions with Desjardins Group's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with fund management and custody fees. They are also associated with management income from pension plans and interest expense paid to the Desjardins Group Pension Plan.

These transactions and balances as at the reporting dates are as follows:

	2016			2015		
	Associates	**Other related parties**	**Total**	Associates	Other related parties	Total
Combined Statements of Income						
Brokerage and investment fund services	**$ -**	**$ 440**	**$ 440**	$ -	$ 385	$ 385
Other income	**13**	**(9)**	**4**	14	85	99
Other expenses	**(10)**	**(4)**	**(14)**	(10)	24	14
Combined Balance Sheets						
Securities	**$ 9**	**$ 423**	**$ 432**	$ -	$ 250	$ 250
Securities borrowed or purchased under reverse repurchase agreements	**-**	**1,124**	**1,124**	-	651	651
Segregated fund net assets	**-**	**988**	**988**	-	784	784
Loans	**127**	**-**	**127**	100	60	160
Other assets	**2**	**22**	**24**	1	32	33
Deposits	**64**	**331**	**395**	32	396	428
Commitments related to securities lent or sold under repurchase agreements	**-**	**234**	**234**	-	113	113
Other liabilities	**2**	**36**	**38**	2	54	56
Other						
Credit commitments given	**$ -**	**$ 203**	**$ 203**	$ 10	$ 205	$ 215
Guarantees given	**-**	**234**	**234**	-	113	113
Guarantees received	**-**	**1,124**	**1,124**	-	651	651

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Group's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of Desjardins Group. In the normal course of operations, Desjardins Group carries out financial transactions with its management personnel. In addition to the compensation paid to key management personnel, the main financial transactions also include routine financial intermediation transactions as well as wealth management, life and health insurance, and property and casualty insurance transactions with the various Desjardins Group entities. These transactions were entered into under terms and conditions equivalent to those of arm's length transactions and were initially recognized at fair value.

For the years ended December 31, the compensation of Desjardins Group's key management personnel was as follows:

	2016	2015
Short-term benefits	**$ 16**	$ 14
Other long-term and post-employment benefits	**6**	8
Termination benefits	**9**	-
	$ 31	$ 22

NOTE 34 – SUBSEQUENT EVENT

On February 16, 2017, Desjardins Group announced an agreement to sell two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company, for a total transaction value of approximately $775 million. The total contribution of the subsidiaries to the net earnings before members' dividends amounts to $34 million for the year ended December 31, 2016, of which $31 million come from Western Financial Group Inc. and Western Life Insurance Company. The results of these subsidiaries are currently presented under the Property and Casualty Insurance segment.

The transaction is expected to close on the third quarter of 2017, subject to the required regulatory approvals and standard closing conditions.