

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

Desjardins Group records surplus earnings of \$427 million

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016 ⁽¹⁾	June 30, 2015 ⁽¹⁾	June 30, 2016	June 30, 2015 ⁽¹⁾
Net interest income	\$ 1,053	\$ 1,049	\$ 1,057	\$ 2,102	\$ 2,052
Net premiums	1,740	1,721	1,698	3,461	3,574
Other operating income ⁽²⁾	720	715	673	1,435	1,402
Operating income ⁽²⁾	3,513	3,485	3,428	6,998	7,028
Investment income (loss) ⁽²⁾	1,027	641	(413)	1,668	910
Total income	4,540	4,126	3,015	8,666	7,938
Provision for credit losses	75	91	103	166	192
Claims, benefits, annuities and changes in insurance contract liabilities	2,065	1,758	332	3,823	2,835
Non-interest expense	1,865	1,787	1,781	3,652	3,529
Income taxes on surplus earnings	108	108	170	216	289
Surplus earnings before member dividends	\$ 427	\$ 382	\$ 629	\$ 809	\$ 1,093
Return on equity ⁽²⁾	7.8%	7.1%	11.4%	7.4%	10.4%
Productivity index ⁽²⁾	75.4	75.5	66.4	75.4	69.2
Provisioning rate ⁽²⁾	0.19	0.23	0.27	0.21	0.25

⁽¹⁾ Prior-period data have been reclassified to reflect the current period's presentation.

⁽²⁾ See "Basis of presentation of financial information".

BALANCE SHEET AND INDICATORS

(in millions of dollars and as a percentage)	As at June 30, 2016	As at December 31, 2015
Balance sheet		
Assets	\$ 260,711	\$ 248,128
Net loans and acceptances	162,733	159,881
Deposits	163,662	156,574
Equity	22,017	21,725
Indicators		
Assets under management and under administration	\$ 409,890	\$ 403,350
Tier 1A capital ratio	15.9%	16.0%
Tier 1 capital ratio	15.9	16.0
Total capital ratio	16.6	17.2
Leverage ratio	7.5	7.8
Gross impaired loans/gross loans and acceptances ⁽¹⁾	0.35	0.34

⁽¹⁾ See "Basis of presentation of financial information".

MESSAGE FROM SENIOR MANAGEMENT

Lévis, August 12, 2016 — For the second quarter ended June 30, 2016, Desjardins Group, the leading financial cooperative group in Canada, recorded surplus earnings before member dividends of \$427 million, a reduction of \$202 million, or 32.1%, compared to the corresponding quarter of 2015. Second quarter 2015 surplus earnings were affected by an especially favourable claims experience, which had improved the loss ratio for P&C insurance to the historical low of 43.0%, whereas it was 67.4% in the second quarter of 2016. Other special items such as changes in actuarial assumptions related to life and health insurance operations and gains on the disposal of real estate investments had also enhanced surplus earnings in 2015.

This result reflects the contribution of \$226 million, or 52.9% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed \$124 million and \$49 million, respectively, representing 29.0% and 11.5% of surplus earnings. The operations grouped under the Other category made a contribution of \$28 million, or 6.6% of surplus earnings.

“We’re satisfied with these results, particularly given that the results from the same period last year benefited from specific items and were much higher than previous quarters,” said Guy Cormier, President and Chief Executive Officer. “With the new management team now in place, we’ve committed to ensuring that Desjardins is always simple to do business with, people-focused, modern and high-performing for our members and clients. Lastly, I am thrilled to see that Desjardins is one of the 20 most influential brands in Canada, compelling evidence of our growth and rising profile across the country.”

Desjardins Group complies with Basel III rules and still has very good capitalization. As at June 30, 2016, Desjardins Group’s Tier 1A and total capital ratios were 15.9% and 16.6%, respectively, compared to 16.0% and 17.2%, respectively, as at December 31, 2015.

Guy Cormier
Chair of the Board, President and Chief Executive Officer
Desjardins Group

Daniel Dupuis, CPA, CA
Senior Vice-President, Finance, and Chief Financial Officer
Desjardins Group

TABLE OF CONTENTS

1 Financial highlights	9 Review of financial results	38 Additional information
2 Message from senior management	9 Analysis of results	38 Controls and procedures
3 Management’s Discussion and Analysis	12 Results by business segment	38 Related party disclosures
3 Caution concerning forward-looking statements	19 Summary of interim results	38 Critical accounting policies and estimates
4 Desjardins Group profile	20 Balance sheet review	38 Future accounting changes
4 Significant events in 2016	20 Balance sheet management	39 Unaudited Condensed Interim Combined Financial Statements
4 Basis of presentation of financial information	21 Capital management	
7 Changes in the regulatory environment	25 Off-balance sheet arrangements	
8 Economic environment and outlook	26 Risk management	
	27 Risk management	
	37 Additional information related to certain risk exposures	

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated August 12, 2016 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended June 30, 2016, in comparison to previous periods. Desjardins Group reports financial information in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this National Instrument. However, it has chosen to apply the practices provided in this National Instrument to demonstrate its willingness to comply with best practices in financial governance. Information on Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements), including the notes thereto, as at June 30, 2016, and the 2015 Desjardins Group Annual Report (the 2015 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com (under the *Capital Desjardins inc.* profile). The Annual Information Forms of *Caisse centrale Desjardins* (under the *Caisse centrale Desjardins* profile) and of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can also be found on SEDAR. Further information is also available on the Desjardins website at <http://www.desjardins.com/ca/about-us/investor-relations>. However, none of the information presented on these sites is incorporated by reference into this MD&A.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

A number of factors, many of which are beyond Desjardins Group's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0, "Risk management", of the 2015 Annual Report, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include regulatory and legal environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance and liquidity regulatory guidance, or interpretations thereof, and amendments to and new interpretations of capital guidelines; and environmental risk, which is the risk of financial, operational or reputational loss for Desjardins Group as a result of environmental impacts or issues, whether they are a result of Desjardins Group's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by Desjardins Group for the benefit of its employees arising primarily from interest rate, price, foreign exchange and longevity risks.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to the economic and business conditions in regions in which Desjardins Group operates; changes in the economic and financial environment in Quebec, Canada and globally, including short- and long-term interest rates, inflation, debt market fluctuations, foreign exchange rates, the volatility of capital markets, tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by Desjardins Group in a given region; monetary policies; competition; changes in standards, laws and regulations; the accuracy and completeness of information concerning clients and counterparties; the accounting policies used by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; the ability to recruit and retain key management personnel, including senior management; business infrastructure; geographic concentration; acquisitions and joint arrangements; social media and credit ratings.

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

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in section 4.0, "Risk management" of the 2015 Annual Report. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events.

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

DESJARDINS GROUP PROFILE

Desjardins Group is the largest financial cooperative in Canada, with assets of \$260.7 billion. The organization brings together 313 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada. Desjardins Group's Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments offer a full range of financial services to members and clients, individuals and businesses alike, designed to meet their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 47,000 employees and the commitment of more than 4,600 elected officers.

Caisse centrale Desjardins, also a cooperative financial institution that is an integral part of Desjardins Group, is the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system.

SIGNIFICANT EVENTS IN 2016

Changes in senior management at Desjardins Group

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

Status of the wildfire in Fort McMurray, Alberta

Like its peers in the insurance industry, Desjardins Group continues to assess the financial impact of this catastrophe. It estimates that damages, after reinsurance, could amount to \$41 million before taxes. Desjardins Group will continue to support its members and its clients through the measures it has introduced to guide them through the entire claims process and help them deal with this difficult situation.

Sale of Western Financial Insurance Company

On May 17, 2016, Desjardins Group announced the sale of its pet insurance subsidiary, Western Financial Insurance Company, to Economical Insurance. The transaction should close in the third quarter of 2016, subject to the usual closing formalities, including obtaining the necessary regulatory approvals.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

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

Adjusted net surplus earnings – Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment are adjusted to exclude the gain at the acquisition date and the expenses, net of income taxes, incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm). These expenses include the costs related to the transaction and the integration of operations as well as processing expenses. These costs were not significant for the other business segments.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	\$ 49	\$ 39	\$ 194	\$ 88	\$ 270
Gain as at the acquisition date of State Farm's Canadian operations	-	-	-	-	(55)
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes	10	7	11	17	18
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&A	\$ 59	\$ 46	\$ 205	\$ 105	\$ 233

Productivity index

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

Gross impaired loans/gross loans and acceptances ratio

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

Average loans and acceptances – Average deposits

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

Combined ratio

The combined ratio is used to measure the profitability of the Property and Casualty Insurance segment. It is equal to incurred claims plus operating expenses expressed as a percentage of net premiums earned, excluding the market yield adjustment. Market yield adjustment is defined as the impact of changes in the discount rate on the provisions for claims and adjustment expenses based on the change in the market-based yield of the underlying assets for these provisions.

Expense ratio

The expense ratio is used to measure the profitability of the Property and Casualty Insurance segment and is equal to operating expenses expressed as a percentage of net premiums earned.

Loss ratio

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

Return on equity

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

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding investment income. The analysis therefore breaks down Desjardins Group's income into two parts, namely operating income and investment income, which make up total income. This measure is not directly comparable to similar measures used by other companies.

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

Investment income

Investment income includes net income on securities at fair value through profit or loss, net income on available-for-sale securities and net other investment income. These items, taken individually, correspond to those presented in the Combined Financial Statements. Investment income also includes income from the insurance subsidiaries' matching activities and from derivative financial instruments not designated as part of a hedging relationship.

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

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Presentation of income in the Combined Financial Statements					
Net interest income	\$ 1,053	\$ 1,049	\$ 1,057	\$ 2,102	\$ 2,052
Net premiums	1,740	1,721	1,698	3,461	3,574
Other income					
Deposit and payment service charges	119	118	122	237	240
Lending fees and credit card service revenues	155	168	156	323	310
Brokerage and investment fund services	286	260	267	546	519
Management and custodial service fees	92	88	95	180	184
Net income (loss) on securities at fair value through profit or loss	878	512	(612)	1,390	562
Net income on available-for-sale securities	99	79	107	178	212
Net other investment income	50	50	92	100	136
Foreign exchange income	22	16	21	38	47
Other	46	65	12	111	102
Total income	\$ 4,540	\$ 4,126	\$ 3,015	\$ 8,666	\$ 7,938
Presentation of income in Management's Discussion and Analysis					
Net interest income	\$ 1,053	\$ 1,049	\$ 1,057	\$ 2,102	\$ 2,052
Net premiums	1,740	1,721	1,698	3,461	3,574
Other operating income					
Deposit and payment service charges	119	118	122	237	240
Lending fees and credit card service revenues	155	168	156	323	310
Brokerage and investment fund services	286	260	267	546	519
Management and custodial service fees	92	88	95	180	184
Foreign exchange income	22	16	21	38	47
Other	46	65	12	111	102
Operating income	3,513	3,485	3,428	6,998	7,028
Investment income (loss)					
Net income (loss) on securities at fair value through profit or loss	878	512	(612)	1,390	562
Net income on available-for-sale securities	99	79	107	178	212
Net other investment income	50	50	92	100	136
	1,027	641	(413)	1,668	910
Total income	\$ 4,540	\$ 4,126	\$ 3,015	\$ 8,666	\$ 7,938

Provisioning rate

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

CHANGES IN THE REGULATORY ENVIRONMENT

Desjardins Group closely monitors changes in regulation as they relate to financial products and services, as well as new developments in fraud, corruption, protection of personal information, money laundering and terrorist financing in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard.

In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI), which subjects Desjardins Group to higher capital requirements and enhanced disclosure requirements, among other things, as instructed by the AMF. Since January 1, 2016, Desjardins Group has therefore been subject, as a D-SIFI, to an additional capital requirement of 1% on its minimum capital ratios. Based on the recommendations issued by the Enhanced Disclosure Task Force of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing to develop its external disclosures and is working on integrating these recommendations into its risk management disclosure framework. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis. Note that the Office of the Superintendent of Financial Institutions (OSFI) has also determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

On December 5, 2013, the then Quebec Minister of Finance and the Economy tabled his "Report on the application of the *Act respecting financial services cooperatives*" in the National Assembly. The report contains proposals that will serve as criteria for amendments to the current legislative framework aimed at adapting it to the changing realities of financial services cooperatives as well as the requirements of the new international standards imposed on financial institutions. The law amending the legislative framework is expected to come into force in the second half of 2016.

The Quebec *Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans* came into force on January 1, 2016. The changes to the funding rules are intended to promote the sustainability of private pension plans by ensuring funding that must include an explicit stabilization provision determined according to the plan's investment policy. Funding on a solvency basis is no longer required. On April 6, 2016, the Quebec government issued a draft regulation under the Act that outlines the rules for determining the stabilization provision. This provision will be based on two variables, i.e. the percentage of assets allocated to variable-income securities, and the ratio between the duration of plan assets and the duration of plan liabilities. Other draft regulations should be issued in 2016 to clarify, among other things, the requirements of the funding policy and the annuity purchase policy.

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

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

On August 1, 2014, the Government of Canada initiated public consultation on a proposed taxpayer protection and bank recapitalization regime applicable to national systemically important Canadian banks. The consultation period ended in September 2014, although no implementation date has been announced yet. This regime is not applicable immediately to Desjardins Group because it is regulated by the AMF. Moreover, the Quebec government has not yet publicly reacted, nor has it announced its intentions with regard to this subject.

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

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

The U.S. Federal Reserve (the Fed) has implemented a number of rules and standards that affect non-U.S. financial institutions with activities in the U.S. These measures have various repercussions on Desjardins Group. The rules resulting from the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, adopted in 2010, affect, in particular, the implementation of provisions on swap trading, proprietary trading and ownership interests in hedge funds (the Volcker rule), as well as those concerning the Enhanced Prudential Standards and the submission of a resolution plan. On December 10, 2013, the U.S. authorities issued the final rules implementing the Volcker Rule, which was adopted to limit speculation by financial institutions. Desjardins Group has implemented frameworks to ensure compliance with the Volcker Rule, which took effect on July 21, 2015. The Fed has allowed an additional period up to July 21, 2017 for the coming into force of certain requirements concerning hedge fund ownership. The Enhanced Prudential Standards, effective as of July 1, 2016, impose certain requirements regarding capital adequacy, maintaining of liquidity, risk management and stress testing. Desjardins Group will continue to closely monitor developments in these requirements to ensure compliance when they take effect.

The Organisation for Economic Co-operation and Development has set up a “Standard for Automatic Exchange of Financial Information in Tax Matters”, based on the same general principles and obligations as those of the *Foreign Account Tax Compliance Act* (FATCA), but globally. Canada confirmed its endorsement of the standard effective July 1, 2017, with the first exchange of information between Canada and the competent authorities scheduled for May 1, 2018. Desjardins Group has begun work to comply with the new regulation when it takes effect, while minimizing the impact on member and client experience.

Finally, Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision. To this end, in January 2015, the Committee issued a new standard related to the third pillar, which aims to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. Desjardins Group has assessed the impact of adopting this standard and has begun work to ensure compliance with the standard once it takes effect. However, the AMF must define the application rules for Desjardins and specify the implementation date. The “Capital management” section of this MD&A presents a summary of the main changes in capital currently under study.

ECONOMIC ENVIRONMENT AND OUTLOOK

The second quarter of 2016 began on a positive note. The renewed investor confidence that began in mid-February continued through April and May. By early June the North American stock indices had reached levels not seen in close to a year. The Toronto Stock Exchange performed well, with the index up over 10% since the start of 2016. Oil prices rallied to near USD 50/barrel as the large output surpluses in the global oil market appeared to be giving way to a balanced market. This left the door open for a second hike in the U.S. federal funds rate. However, a marked slowdown in U.S. job creation and uncertainty over the United Kingdom’s referendum on leaving the European Union (“Brexit”) convinced the Federal Reserve (the Fed) to leave its key interest rate unchanged at its June 15 meeting. Then the “Leave” campaign won the Brexit referendum, which led to higher volatility in the markets, a lower British pound and declines in the world’s stock exchanges. North American exchanges nevertheless erased most of their losses during the last trading sessions of June, ending the second quarter in positive territory.

The vote in favour of Brexit should convince the Fed not to tighten monetary policy before 2017. Some overseas central banks may even announce new monetary easing measures in the near term in order to offset the negative impacts of this event. The Bank of Canada is not expected to change its key interest rates before 2018. In this environment, bond rates are expected to remain low for several more quarters. The impact that Brexit will have on riskier assets is uncertain, as more accommodative monetary policies may compensate for weaker-than-expected global growth.

The Eurozone and Japanese economies demonstrated surprising strength in the first quarter of 2016, although growth in the eurozone dropped by half in the second quarter, while in Japan it probably slowed in this period. Furthermore, the uncertainty caused by Britain’s vote to have the United Kingdom withdraw from the European Union has added another negative factor. Beyond the actual impacts of future trade and financial constraints, the greater risk to the British, European Union and global economies in the short term is the climate of uncertainty. The outlook for the British economy can be expected to deteriorate over the next few quarters. The United Kingdom’s real GDP should grow 1.4% in 2016 and only 0.8% next year. In the eurozone, real GDP is expected to grow 1.5% this year and 1.3% in 2017. China’s economic growth should continue to slow: from 6.9% in 2015, growth in China’s real GDP is expected to fall to 6.4% in 2016 and 6.1% in 2017. The global economy’s real GDP should grow 3.0% in 2016 and 3.4% in 2017.

In the U.S., real GDP growth for the first quarter of 2016 was revised to 0.8%. Even if several factors, in particular consumer spending, suggested that growth would be stronger in the spring, annualized real GDP growth was only 1.2% in the second quarter. Brexit’s impact on the U.S. economy is expected to be relatively small. For 2016 as a whole, real GDP in the U.S. should climb 1.9%, followed by another 2.4% gain in 2017.

In Canada, expectations were high for strong economic growth in the first quarter of 2016. So the 2.4% increase in real GDP on an annualized quarterly basis reported by Statistics Canada fell short of expectations, even if it surpassed the economy’s performance in the four previous quarters. The general portrait of the Canadian economy is well aligned with the forecasts. Non-residential investments continued to fall as energy prices kept being adjusted downward. Other components of domestic demand have improved, and foreign trade has contributed to economic growth. The Canadian economy is nevertheless expected to have experienced some difficulties in the second quarter. The upward trend in exports faltered as exports slipped, and this should slow real GDP growth in the spring. On the other hand, the interruptions in crude oil output caused by the forest fires in Alberta will have a negative impact on real GDP, which is expected to have dropped approximately 1.5% in the second quarter. Economic growth should return in the summer as long as the uncertainties surrounding Brexit have minimal impacts on the Canadian economy. Real GDP is expected to grow 1.2% in 2016 and may grow another 2.3% in 2017.

In Quebec, consumer spending has increased since the first quarter of 2016. Growth should also be positive in the second quarter since consumer confidence is good, there has been sustained job growth, and the tax relief provided by the federal government is having a positive impact on the economy. However, residential real estate is in the midst of an adjustment period, although it has presented some positive signals. Existing home sales have rallied throughout the province, and the year-over-year price increase held steady at approximately 2% in the second quarter of 2016. However, the market is characterized by ample supply that is limiting the construction of new homes and condominiums. The residential market in Quebec is growing at a moderate pace, which is calming concerns over a sharp increase in prices and the risk of a sudden correction. The outlook is good for Quebec businesses. SMEs’ confidence rose at the end of the second quarter, and Statistics Canada’s survey on investment intentions for 2016 yielded good news for Quebec. Furthermore, the federal government’s infrastructure program will soon spur a return to growth in public investment in Quebec. The province’s real GDP is expected to grow 1.3% in 2016 compared to 1.1% in 2015.

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016 ⁽¹⁾	June 30, 2015 ⁽¹⁾	June 30, 2016	June 30, 2015 ⁽¹⁾
Results					
Net interest income	\$ 1,053	\$ 1,049	\$ 1,057	\$ 2,102	\$ 2,052
Net premiums	1,740	1,721	1,698	3,461	3,574
Other operating income					
Deposit and payment service charges	119	118	122	237	240
Lending fees and credit card service revenues	155	168	156	323	310
Brokerage and investment fund services	286	260	267	546	519
Management and custodial service fees	92	88	95	180	184
Foreign exchange income	22	16	21	38	47
Other	46	65	12	111	102
Operating income⁽²⁾	3,513	3,485	3,428	6,998	7,028
Investment income (loss) ⁽²⁾					
Net income (loss) on securities at fair value through profit or loss	878	512	(612)	1,390	562
Net income on available-for-sale securities	99	79	107	178	212
Net other investment income	50	50	92	100	136
	1,027	641	(413)	1,668	910
Total income	4,540	4,126	3,015	8,666	7,938
Provision for credit losses	75	91	103	166	192
Claims, benefits, annuities and changes in insurance contract liabilities	2,065	1,758	332	3,823	2,835
Non-interest expense	1,865	1,787	1,781	3,652	3,529
Income taxes on surplus earnings	108	108	170	216	289
Surplus earnings before member dividends	\$ 427	\$ 382	\$ 629	\$ 809	\$ 1,093
Contribution to combined surplus earnings by business segment⁽³⁾					
Personal Services and Business and Institutional Services	\$ 226	\$ 211	\$ 239	\$ 437	\$ 435
Wealth Management and Life and Health Insurance	124	97	195	221	293
Property and Casualty Insurance	49	39	194	88	270
Other	28	35	1	63	95
	\$ 427	\$ 382	\$ 629	\$ 809	\$ 1,093
Amount returned to members and the community					
Member dividends	\$ 22	\$ 30	\$ 34	\$ 52	\$ 74
Sponsorships and donations	22	16	23	38	38
Desjardins Member Advantages program	8	7	7	15	14
	\$ 52	\$ 53	\$ 64	\$ 105	\$ 126
Indicators					
Return on equity ⁽²⁾	7.8%	7.1%	11.4%	7.4%	10.4%
Productivity index ⁽²⁾	75.4	75.5	66.4	75.4	69.2
Provisioning rate ⁽²⁾	0.19	0.23	0.27	0.21	0.25

⁽¹⁾ Prior-period data have been reclassified to reflect the current period's presentation.

⁽²⁾ See "Basis of presentation of financial information".

⁽³⁾ The breakdown by line item is presented in Note 14, "Segmented information", to the Interim Combined Financial Statements.

ANALYSIS OF RESULTS

Comparison of the second quarters of 2016 and 2015

Surplus earnings

For the second quarter ended June 30, 2016, Desjardins Group recorded surplus earnings before member dividends of \$427 million, a reduction of \$202 million, or 32.1%, compared to the corresponding quarter of 2015. Second quarter 2015 surplus earnings were affected by an especially favourable claims experience, which had improved the loss ratio for P&C insurance to the historical low of 43.0%, whereas it was 67.4% in the second quarter of 2016. Other special items such as changes in actuarial assumptions related to life and health insurance operations and gains on the disposal of real estate investments had also enhanced surplus earnings in 2015.

This result reflects the contribution of \$226 million, or 52.9% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed \$124 million and \$49 million, respectively, representing 29.0% and 11.5% of surplus earnings. The operations grouped under the Other category made a contribution of \$28 million, or 6.6% of surplus earnings.

Return on equity was 7.8%, compared to 11.4% in the corresponding quarter of 2015. This decrease was mainly due to the reduction in surplus earnings, as explained above.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the second quarter of 2016. The amount set aside for member dividends therefore totalled \$22 million for the quarter, compared to \$34 million for the same period of the previous year. If we add this amount to the \$22 million given to various organizations in the form of donations and sponsorships, and the \$8 million paid out through the Desjardins Member Advantages program, the amount returned to the community totalled \$52 million for the second quarter, compared to \$64 million for the same quarter in 2015.

Operating income

Operating income stood at \$3,513 million, up \$85 million, or 2.5%, compared to the second quarter of 2015.

Net interest income was \$1,053 million, compared to \$1,057 million for the same period in the previous year, a decrease of \$4 million, or 0.4%, as a result of fierce competition in the market, which continued to put pressure on interest margins, despite growth in the entire portfolio of loans and acceptances outstanding, amounting to \$7.3 billion, or 4.7%, during the year. Higher income from treasury activities, generated by asset/liability matching management activities, partially offset this reduction.

Net premiums were up \$42 million, or 2.5%, to total \$1,740 million as at June 30, 2016.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of \$1,000 million for the second quarter of 2016, up \$22 million, or 2.2%, compared to the same period in 2015. Insurance premiums, essentially from individual insurance for \$13 million, increased by \$15 million, while annuity premiums increased by \$7 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$797 million for the second quarter of 2016, compared to \$785 million for the same period in 2015, an increase of \$12 million, or 1.5%, mainly on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims arising from new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions. The increase in premiums was partly offset, however, by a decrease in net premiums after unearned premiums transferred at the acquisition of State Farm's Canadian operations (which had generated significant income in the second quarter of 2015) were taken over as at January 1, 2015.

Other operating income totalled \$720 million, up \$47 million, or 7.0%, compared to the corresponding quarter in 2015, chiefly as a result of a lower increase in the contingent consideration payable arising from the claims taken over as part of the acquisition of State Farm's Canadian operations in the first quarter of 2015.

Investment income

Investment income was up \$1,440 million compared to the second quarter of 2015, primarily due to changes in the fair value of assets backing liabilities related to insurance operations. This increase was partly offset by higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were for the most part due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. In addition, favourable changes in the fair value of available-for-sale securities in second quarter 2016 helped to raise investment income. However, gains on the disposal of real estate investments in the second quarter of 2015 mitigated this increase.

Total income

Total income amounted to \$4,540 million, up \$1,525 million, or 50.6%, compared to the same period in 2015, mainly because of the increase in investment income, as explained earlier.

Provision for credit losses

The provision for credit losses totalled \$75 million for the second quarter of 2016, down by \$28 million, or 27.2%, compared to the corresponding quarter in 2015, mainly due to favourable developments in the parameters used in the model for measurement of provisions and the improved risk profile of the business loan portfolio. In addition, the lower rate of losses on the loan portfolio at Card and Payment Services contributed to this change. The provisioning rate was 0.19%, compared to 0.27% in the corresponding quarter of 2015. Desjardins Group's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptances portfolio, was 0.35% as at June 30, 2016, up slightly from 0.34% in the corresponding quarter of 2015.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$2,065 million, up \$1,733 million compared to the corresponding quarter of 2015.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$1,492 million related to claims, benefits, annuities and changes in insurance contract liabilities, an increase of \$1,392 million compared to 2015. This change mainly resulted from a \$1,402 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase of \$1,299 million in the fair value of investments. In addition, a favourable change in assumptions made in 2015 following changes to the investment portfolio contributed \$44 million to the reduction in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$569 million for the second quarter, for an increase of \$333 million, or 141.1%, compared to the second quarter of 2015. The increase was mainly due to significant favourable developments, in the second quarter of 2015, of automobile insurance claims from previous years taken over from State Farm as at January 1, 2015. In addition, the lower discount rates used to measure the provision for claims contributed to the higher cost of claims, whereas an increase in discount rates had had the opposite effect in the same period in 2015. The loss ratio of the P&C insurers was 67.4% for the second quarter of 2016, compared to 43.0% in the corresponding quarter of 2015. The increase was due to a higher claims experience in automobile insurance as a result of favourable developments in claims from previous years and the higher claims experience for the current period than in the second quarter of 2015. Home insurance claims were also higher than in the corresponding quarter of 2015, mainly because of damage related to the Fort McMurray wildfire.

Non-interest expense and other item

Non-interest expense totalled \$1,865 million, up \$84 million, or 4.7%, compared to the second quarter of 2015, chiefly due to business growth, particularly in credit card and point-of-sale financing activities, as well as in insurance operations. It was also affected by annual salary indexing and an increase in IT expenses.

The productivity index stood at 75.4% for the second quarter of 2016, compared to 66.4% for the same quarter a year earlier. Second quarter 2015 surplus earnings were affected by an especially favourable claims experience, which had improved the loss ratio for P&C insurance to the historical low of 43.0%, whereas it was 67.4% in the second quarter of 2016. Other special items such as changes in actuarial assumptions related to life and health insurance operations and gains on the disposal of real estate investments had also enhanced the productivity index in 2015.

Income taxes

Income taxes on surplus earnings before member dividends totalled \$108 million for the second quarter of 2016, a \$62 million decrease compared to the corresponding quarter in 2015. The effective tax rate was 20.2%, compared to 21.3% for the same quarter in 2015.

Comparison of the first six months of 2016 and 2015

Surplus earnings

For the first six months ended June 30, 2016, Desjardins Group recorded surplus earnings before member dividends of \$809 million, a reduction of \$284 million, or 26.0%, compared to the corresponding six months of 2015. Surplus earnings in the first six months of 2015 were affected by a more favourable claims experience as well as by special items such as changes in actuarial assumptions related to life and health insurance operations, the gain as at the acquisition date of State Farm's Canadian operations and gains on the disposal of real estate investments, which had also enhanced surplus earnings in 2015.

This result reflects the contribution of \$437 million, or 54.0% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed \$221 million and \$88 million, respectively, representing 27.3% and 10.9% of surplus earnings. The operations grouped under the Other category made a contribution of \$63 million, or 7.8%, of surplus earnings.

Return on equity was 7.4%, compared to 10.4% in the corresponding six months of 2015. This decrease was mainly due to the reduction in surplus earnings, as explained above.

By its very nature as a cooperative financial group, Desjardins Group's mission is to improve the economic and social well-being of people and communities, which it continued to strive to achieve in the first half of 2016. The amount set aside for member dividends therefore totalled \$52 million for the first six months, compared to \$74 million for the same period of the previous year. If we add this amount to the \$38 million given to various organizations in the form of donations and sponsorships, and the \$15 million paid out through the Desjardins Member Advantages program, the amount returned to the community totalled \$105 million for the first six months, compared to \$126 million for the same period in 2015.

Operating income

Operating income stood at \$6,998 million, down \$30 million, or 0.4%, compared to the first six months of 2015.

Net interest income was \$2,102 million, compared to \$2,052 million for the same period in the previous year, an increase of \$50 million, or 2.4%, as a result of growth in the entire loan portfolio outstanding, amounting to \$7.3 billion, or 4.7%, during the year. Fierce competition in the market continued to put pressure on interest margins. In addition, higher income from treasury activities, generated by asset/liability matching management activities, also contributed to this increase.

Net premiums were down \$113 million, or 3.2%, to total \$3,461 million as at June 30, 2016. The reduction was mostly due to Property and Casualty Insurance segment operations, as described below.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of \$2,003 million for the first six months of 2016, compared to \$1,982 million for the same period in 2015, an increase of \$21 million, or 1.1%. Insurance premiums, essentially from individual insurance for \$22 million, increased by \$24 million, while annuity premiums decreased by \$3 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$1,580 million for the first six months of 2016, compared to \$1,723 million for the same period in 2015, down \$143 million, or 8.3%, mainly on account of a decrease in net premiums after unearned premiums transferred at the acquisition of State Farm's Canadian operations (which had generated significant income in the first half of 2015) were taken over as at January 1, 2015. This impact is also reflected in the cost of claims. The reduction in net premium income was offset by business growth and by the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims arising from new business and renewals after the acquisition date.

Other operating income totalled \$1,435 million, up \$33 million, or 2.4%, compared to the corresponding six months in 2015. Income from growth in credit card and point-of-sale financing activities and in assets under management from the sale of various products was the main factor in this increase. In addition, the lower increase in the contingent consideration payable arising from the claims taken over as part of the acquisition of State Farm's Canadian operations in the first quarter of 2015 also contributed to the increase, which was however mitigated by the gain as at the acquisition date in 2015.

Investment income

Investment income was up \$758 million compared to the first half of 2015, primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations. This increase was partly offset by higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were for the most part due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. However, higher gains on the disposal of real estate investments and on the disposal of available-for-sale securities in the first half of 2015 partially offset this increase.

Total income

Total income amounted to \$8,666 million, up \$728 million, or 9.2%, compared to the same period in 2015, mainly because of the increase in investment income, as explained earlier.

Provision for credit losses

The provision for credit losses totalled \$166 million for the first half of 2016, down by \$26 million, or 13.5%, compared to the corresponding period in 2015, mainly due to favourable developments in the parameters used in the model for measurement of the collective allowance and the allowance for off-balance sheet items. The provisioning rate was 0.21%, compared to 0.25% in the corresponding period of 2015. Desjardins Group's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptances portfolio, was 0.35% as at June 30, 2016, up slightly from 0.34% in the corresponding period of 2015.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$3,823 million, up \$988 million, or 34.9%, compared to the corresponding period of 2015.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$2,671 million related to claims, benefits, annuities and changes in insurance contract liabilities, an increase of \$921 million compared to the first six months of 2015. This change mainly resulted from a \$944 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase of \$838 million in the fair value of investments. In addition, a favourable change in assumptions made in 2015 following changes to the investment portfolio contributed \$44 million to the reduction in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$1,153 million for the first six months of 2016, for an increase of \$61 million, or 5.6%, compared to the corresponding period of 2015. The increase was mainly due to a higher claims experience in automobile insurance than in the corresponding period of 2015. The loss ratio of the P&C insurers was 70.7% for the first half of 2016, compared to 62.8% in the corresponding period of 2015. The increase was due to a higher claims experience in automobile insurance as a result of favourable developments in claims from previous years and the higher claims experience for the current period than in the first half of 2015.

Non-interest expense and other item

Non-interest expense totalled \$3,652 million, up \$123 million, or 3.5%, compared to the first half of 2015, chiefly due to business growth, particularly in credit card and point-of-sale financing activities, as well as in insurance operations. It was also affected by annual salary indexing and an increase in IT expenses.

The productivity index stood at 75.4% for the first half of 2016, compared to 69.2% for the same period a year earlier. Surplus earnings in the first half of 2015 were affected by a more favourable claims experience as well as by special items such as changes in actuarial assumptions related to life and health insurance operations, the gain as at the acquisition date of State Farm's Canadian operations and gains on the disposal of real estate investments, which had also enhanced surplus earnings in 2015.

Income taxes

Income taxes on surplus earnings before member dividends totalled \$216 million for the first half of 2016, a \$73 million decrease compared to the corresponding period in 2015. The effective tax rate was 21.1%, compared to 20.9% for the same period in 2015.

RESULTS BY BUSINESS SEGMENT

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

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

Additional information about each business segment, particularly its profile, activities, industry and 2016 strategies and priorities, can be found on pages 36 to 47 of the 2015 Annual Report.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, Desjardins Business centres as well as specialized teams. It also makes its products and services available through complementary distribution networks and mortgage representatives, by phone, online, via applications for mobile devices, as well as at ATMs.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016	June 30, 2015 ⁽¹⁾	June 30, 2016	June 30, 2015 ⁽¹⁾
Net interest income	\$ 982	\$ 977	\$ 1,003	\$ 1,959	\$ 1,944
Other operating income	493	494	499	987	970
Operating income	1,475	1,471	1,502	2,946	2,914
Investment income	18	15	12	33	23
Total income	1,493	1,486	1,514	2,979	2,937
Provision for credit losses	79	94	103	173	192
Non-interest expense	1,105	1,102	1,086	2,207	2,157
Income taxes on surplus earnings	83	79	86	162	153
Surplus earnings before member dividends	226	211	239	437	435
Member dividends, net of income tax recovery	16	22	24	38	54
Net surplus earnings for the period after member dividends	\$ 210	\$ 189	\$ 215	\$ 399	\$ 381
Of which:					
Group's share	\$ 210	\$ 188	\$ 215	\$ 398	\$ 380
Non-controlling interests' share	-	1	-	1	1
Indicators					
Average gross loans and acceptances ⁽²⁾	\$ 157,973	\$ 156,636	\$ 151,253	\$ 157,480	\$ 150,014
Average deposits ⁽²⁾	131,406	127,592	124,237	129,497	123,477
Provisioning rate ⁽²⁾	0.20%	0.24%	0.27%	0.22%	0.26%
Gross impaired loans/gross loans and acceptances ⁽²⁾	0.36	0.36	0.35	0.36	0.35

⁽¹⁾ Data for 2015 have been reclassified to reflect the current period's presentation.

⁽²⁾ See "Basis of presentation of financial information".

Comparison of the second quarters of 2016 and 2015

For the second quarter of 2016, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled \$226 million, down \$13 million, or 5.4%, compared to the corresponding quarter of 2015. The decrease in surplus earnings was mainly on account of lower net interest income, partially offset by a reduction in the provision for credit losses.

Operating income totalled \$1,475 million, down \$27 million, or 1.8%. It was affected by a \$21 million, or 2.1%, decrease in net interest income as a result of fierce competition in the market, which continued to put pressure on interest margins, despite growth in the average overall portfolio outstanding of loans and acceptances, amounting to \$6.7 billion, or 4.4%, during the year.

Other operating income was down \$6 million, or 1.2%, compared to the same period in 2015, to total \$493 million.

Investment income was \$18 million, an increase of \$6 million compared to June 30, 2015, due to gains on the disposal of securities in the second quarter of 2016.

Total income for the segment was \$1,493 million, a decrease of \$21 million, or 1.4%, compared to the second quarter of 2015.

The provision for credit losses was \$79 million for the second quarter of 2016, down \$24 million, or 23.3%, compared to the same period in 2015, mainly due to favourable developments in the parameters used in the model for measurement of provisions and the improved risk profile of the business loan portfolio. In addition, the lower rate of losses on the loan portfolio at Card and Payment Services contributed to this change.

Non-interest expense was \$1,105 million, for an increase of \$19 million, or 1.7%, compared to the same period in 2015, primarily because of business growth, including growth in credit card and point-of-sale financing activities.

Comparison of the first six months of 2016 and 2015

For the first six months of 2016, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled \$437 million, which is stable compared to the corresponding period of 2015.

Operating income totalled \$2,946 million, up \$32 million, or 1.1%. It was affected by a \$15 million, or 0.8%, increase in net interest income as a result of growth in the average overall portfolio outstanding of loans and acceptances, amounting to \$7.5 billion, or 5.0%, during the year. Fierce competition in the market continued to put pressure on interest margins.

Other operating income was up \$17 million, or 1.8%, compared to the same period in 2015, to total \$987 million, primarily because of income from growth in credit card and point-of-sale financing activities and an increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds. However, it was partially offset by lower income from share issuances.

Investment income was \$33 million, an increase of \$10 million compared to June 30, 2015, due to higher trading income on capital markets, partially offset by the lower gains on the disposal of securities in the first half of 2016.

Total income for the segment was \$2,979 million, up \$42 million, or 1.4%, compared to the first half of 2015.

The provision for credit losses was \$173 million for the first half of 2016, down \$19 million, or 9.9%, compared to the same period in 2015, mainly due to favourable developments in the parameters used in the model for measurement of the collective allowance and the allowance for off-balance sheet items.

Non-interest expense was \$2,207 million, for an increase of \$50 million, or 2.3%, compared to the same period in 2015, primarily because of business growth, including growth in credit card and point-of-sale financing activities, as well as growth in investments aimed, in particular, at enhancing the service offer to caisse members and clients. In addition, expenses increased due to higher trading income on capital markets that performed well.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

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

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016 ⁽¹⁾	June 30, 2015 ⁽¹⁾	June 30, 2016	June 30, 2015 ⁽¹⁾
Net premiums	\$ 1,000	\$ 1,003	\$ 978	\$ 2,003	\$ 1,982
Other operating income	342	341	319	683	634
Operating income	1,342	1,344	1,297	2,686	2,616
Investment income (loss)	854	512	(435)	1,366	558
Total income	2,196	1,856	862	4,052	3,174
Claims, benefits, annuities and changes in insurance contract liabilities	1,492	1,179	100	2,671	1,750
Non-interest expense	548	551	521	1,099	1,055
Income taxes on surplus earnings	32	29	46	61	76
Net surplus earnings for the period	\$ 124	\$ 97	\$ 195	\$ 221	\$ 293
Of which:					
Group's share	\$ 115	\$ 86	\$ 147	\$ 201	\$ 235
Non-controlling interests' share	9	11	48	20	58
Indicators					
Net sales of savings products ⁽²⁾	\$ 1,679	\$ 2,271	\$ 1,725	\$ 3,950	\$ 4,497
Insurance sales ⁽²⁾	119	141	129	260	246
Group insurance premiums	762	754	760	1,516	1,514
Individual insurance premiums	194	193	181	387	365
Annuity premiums	44	56	37	100	103
Segregated fund receipts ⁽³⁾	297	560	223	857	1,315

⁽¹⁾ Prior-period data have been reclassified to reflect the current period's presentation.

⁽²⁾ See "Basis of presentation of financial information".

⁽³⁾ Segregated fund receipts are used to measure the growth of the Wealth Management and Life and Health Insurance segment's operations. They are the amounts invested by clients in the segregated funds offered, which are comprised of investment funds whose capital is guaranteed upon death or at maturity.

Comparison of the second quarters of 2016 and 2015

For the second quarter of 2016, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$124 million, down \$71 million, or 36.4%, compared to the corresponding period in 2015, mainly as a result of adjustments to actuarial assumptions related to the Canadian life and health operations acquired from State Farm as well as the gains on the disposal of real estate investments that had contributed favourably in the second quarter of 2015.

Operating income stood at \$1,342 million, up \$45 million, or 3.5%, compared to the same period in 2015. Insurance premiums were up \$15 million essentially due to growth of \$13 million in individual insurance premiums while annuity premiums increased by \$7 million.

Other operating income grew by \$23 million, or 7.2%, to total \$342 million for the second quarter of 2016, chiefly because of income related to growth in assets under management arising from the sale of various products.

Investment income was up \$1,289 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. However, gains on the disposal of real estate investments in the second quarter of 2015 mitigated this increase.

The segment's total income was \$2,196 million, for an increase of \$1,334 million, or 154.8%, compared to the corresponding quarter in 2015, mainly because of the higher investment income, as previously explained.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at \$1,492 million, up \$1,392 million compared to 2015. This change primarily resulted from a \$1,402 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a \$1,299 million increase in the fair value of investments. Furthermore, a favourable change in assumptions in 2015, following changes made to the investment portfolio, helped to push down actuarial liabilities by \$44 million.

Non-interest expense was \$548 million for the second quarter of 2016, up \$27 million, or 5.2%, compared to the same period in 2015. This increase was mainly the result of the higher expenses resulting from growth in average outstanding Desjardins Funds and Market-Linked Guaranteed Investments.

Comparison of the first six months of 2016 and 2015

For the first six months of 2016, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$221 million, down \$72 million, or 24.6%, mainly as a result of adjustments to actuarial assumptions related to the Canadian life and health operations acquired from State Farm as well as the gains on the disposal of real estate investments that had contributed favourably in the first half of 2015. The decrease in net surplus earnings was also due to a deterioration in claims experience for certain group and individual insurance products.

Operating income stood at \$2,686 million, up \$70 million, or 2.7%, compared to the same period in 2015. Insurance premiums were up \$24 million essentially due to growth of \$22 million in individual insurance premiums while annuity premiums fell by \$3 million.

Other operating income grew by \$49 million, or 7.7%, to total \$683 million for the first half of 2016, chiefly because of income related to growth in assets under management arising from the sale of various products.

Investment income was up \$808 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. However, lower gains on the disposal of real estate investments in the first six months of 2016 compared to the same period in 2015 partially offset the increase in investment income.

The segment's total income was \$4,052 million, for an increase of \$878 million, or 27.7%, compared to the corresponding six months in 2015, mainly because of the higher investment income, as previously explained.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at \$2,671 million, up \$921 million compared to 2015. This change primarily resulted from a \$944 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a \$838 million increase in the fair value of investments. Furthermore, a favourable change in assumptions in 2015, following changes made to the investment portfolio, helped to push down actuarial liabilities by \$44 million.

Non-interest expense was \$1,099 million for the first six months of 2016, up \$44 million, or 4.2%, compared to the same period in 2015. This increase was mainly the result of the higher expenses resulting from growth in average outstanding Desjardins Funds and Market-Linked Guaranteed Investments.

PROPERTY AND CASUALTY INSURANCE SEGMENT

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

PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net interest income	\$ 1	\$ -	\$ -	\$ 1	\$ -
Net premiums	797	783	785	1,580	1,723
Other operating income	42	43	(12)	85	64
Operating income	840	826	773	1,666	1,787
Investment income	121	79	14	200	200
Total income	961	905	787	1,866	1,987
Claims, benefits, annuities and changes in insurance contract liabilities	569	584	236	1,153	1,092
Non-interest expense	326	269	293	595	553
Income taxes on surplus earnings	17	13	64	30	72
Net surplus earnings for the period	\$ 49	\$ 39	\$ 194	\$ 88	\$ 270
Gain as at the acquisition date of State Farm's Canadian operations ⁽¹⁾	-	-	-	-	(55)
Expenses related to the acquisition of State Farm's Canadian operations net of income taxes ⁽¹⁾	10	7	11	17	18
Adjusted net surplus earnings for the period⁽¹⁾	\$ 59	\$ 46	\$ 205	\$ 105	\$ 233
According to net surplus earnings for the period:					
Group's share	\$ 39	\$ 30	\$ 169	\$ 69	\$ 232
Non-controlling interests' share	10	9	25	19	38
Indicators					
Gross written premiums ⁽¹⁾⁽²⁾	\$ 1,357	\$ 1,100	\$ 1,196	\$ 2,458	\$ 2,147
Loss ratio ⁽¹⁾	67.4%	74.1%	43.0%	70.7%	62.8%
Expense ratio ⁽¹⁾	31.6	27.6	29.8	29.6	25.4
Adjusted expense ratio ⁽¹⁾	29.8	26.2	27.8	28.0	24.0
Combined ratio ⁽¹⁾	99.0	101.7	72.8	100.3	88.2
Adjusted combined ratio ⁽¹⁾	97.2	100.3	70.8	98.7	86.8

⁽¹⁾ See "Basis of presentation of financial information".

⁽²⁾ Includes Western Financial Group Inc. life insurance premiums.

Comparison of the second quarters of 2016 and 2015

For the second quarter of 2016, the Property and Casualty Insurance segment's net surplus earnings totalled \$49 million, down \$145 million, or 74.7%, compared to the second quarter of 2015. The adjusted net surplus earnings stood at \$59 million, down \$146 million, or 71.2%. Surplus earnings for the second quarter of 2015 were affected by an especially favourable claims experience that had improved the loss ratio of P&C insurance to a historic low of 43.0%, whereas it was 67.4% in the second quarter of 2016.

Operating income totalled \$840 million, up \$67 million, or 8.7%, including an increase of \$12 million, or 1.5%, in net premiums compared to the second quarter of 2015. This increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims on new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions. The increase in premiums was partly offset, however, by a decrease in net premiums after unearned premiums transferred at the acquisition of State Farm's Canadian operations (which had generated significant income in the second quarter of 2015) were taken over as at January 1, 2015.

Other operating income was up \$54 million, chiefly as a result of the smaller increase in the contingent consideration payable, compared to the second quarter of 2015, because of favourable developments in the claims taken over as part of the acquisition of State Farm's Canadian operations.

Investment income was up \$107 million, compared to the same period in 2015, mainly due to an increase in the fair value of bonds arising from lower interest rates on the markets, while a significant decrease had been recorded for the second quarter of 2015. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

The segment's total income rose to \$961 million for the second quarter of 2016, up \$174 million, or 22.1%, compared to the second quarter of 2015.

The Property and Casualty Insurance segment's cost of claims was \$569 million for the second quarter, for an increase of \$333 million, or 141.1%, compared to the second quarter of 2015. The increase was mainly due to significant favourable developments, in the second quarter of 2015, of automobile insurance claims from previous years taken over from State Farm as at January 1, 2015. In addition, the lower discount rates used to measure the provision for claims helped to increase the cost of claims, whereas an increase in discount rates had had the opposite effect in the same period in 2015. The loss ratio of the P&C insurers was 67.4% for the second quarter of 2016, compared to 43.0% in the corresponding quarter of 2015. The increase was due to a higher claims experience in automobile insurance as a result of favourable developments in claims from previous years and the higher claims experience for the current period than in the second quarter of 2015. Home insurance claims were also higher than in the corresponding quarter of 2015, mainly because of damage related to the Fort McMurray wildfire.

Non-interest expense was \$326 million for the second quarter of 2016, up \$33 million, or 11.3%, compared to the same quarter a year earlier. If expenses related to the acquisition of State Farm's Canadian operations are excluded, non-interest expense was \$313 million, up \$35 million, or 12.6%. This last increase is primarily due to organic business growth.

Comparison of the first six months of 2016 and 2015

For the first six months of 2016, the Property and Casualty Insurance segment's net surplus earnings totalled \$88 million, down \$182 million, or 67.4%, compared to the first half of 2015. The adjusted net surplus earnings stood at \$105 million, down \$128 million, or 54.9%. This decrease in surplus earnings was mainly due to the higher claims experience in 2016, and the gain on the acquisition of State Farm's Canadian operations in the first half of 2015.

Operating income totalled \$1,666 million, down \$121 million, or 6.8%, mainly due to the decrease in net premiums after unearned premiums transferred at the acquisition of State Farm's Canadian operations (which had generated significant income in the first half of 2015) were taken over as at January 1, 2015. This impact was also reflected in the cost of claims. The decrease in net premium income was offset by business growth and the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The treaty provides for the cession, scaled down over a five-year term, of the premiums and claims on new business and renewals after the acquisition date.

Other operating income was up \$21 million, or 32.8%, chiefly as a result of the smaller increase in the contingent consideration payable, compared to the first half of 2015, because of favourable developments in the claims taken over as part of the acquisition of State Farm's Canadian operations. This increase was partially offset by the gain recognized as at the acquisition date of State Farm's Canadian operations in the first half of 2015.

Investment income remained stable, compared to the same period in 2015.

The segment's total income rose to \$1,866 million for the first six months of 2016, down \$121 million, or 6.1%, compared to the first half of 2015.

The Property and Casualty Insurance segment's cost of claims was \$1,153 million for the first half of 2016, up \$61 million, or 5.6%, compared to the first six months of 2015. The increase was mainly due to a higher claims experience in automobile insurance for the corresponding six months in 2015. The loss ratio of the P&C insurers was 70.7% for the first half of 2016, compared to 62.8% in the corresponding six months of 2015. This increase was due to a higher claims experience in automobile insurance arising from favourable developments in claims from previous years and a higher claims experience for the current period than in the first half of 2015.

Non-interest expense was \$595 million for the first half of 2016, up \$42 million, or 7.6%, compared to the same period a year earlier. If expenses related to the acquisition of State Farm's Canadian operations are excluded, non-interest expense was \$572 million, up \$43 million, or 8.1%. This last increase is primarily due to organic business growth.

OTHER CATEGORY

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities related to *Caisse centrale Desjardins's* operations and financial intermediation between the caisses' liquidity surpluses and needs. This category also includes the results for the support functions provided by the Federation to Desjardins Group as a whole, the operations of *Capital Desjardins inc.* and *Fonds de sécurité Desjardins*, as well as the activities related to asset-backed term notes (ABTN) held by Desjardins Group. It further includes Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Combined Financial Statements, this category also contains the intersegment balance eliminations.

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

OTHER CATEGORY

(in millions of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Treasury activities	\$ 49	\$ 42	\$ 39	\$ 91	\$ 103
<i>Fonds de sécurité Desjardins</i> operations	25	22	18	47	35
Activities related to asset-backed term notes	3	3	3	6	25
Activities related to derivatives associated with hedging activities	(4)	(2)	(13)	(6)	20
Other ⁽¹⁾	(45)	(30)	(46)	(75)	(88)
Net surplus earnings for the period	\$ 28	\$ 35	\$ 1	\$ 63	\$ 95
Of which:					
Group's share	\$ 26	\$ 35	\$ -	\$ 61	\$ 93
Non-controlling interests' share	2	-	1	2	2

⁽¹⁾ Includes support function activities, various adjustments required to prepare the Interim Combined Financial Statements, and intersegment balance eliminations.

Contribution to surplus earnings

Comparison of the second quarters of 2016 and 2015

Net surplus earnings for the period arising from operations grouped under the Other category totalled \$28 million for the second quarter of 2016, compared to \$1 million for the corresponding period in 2015.

Treasury activities contributed \$49 million to surplus earnings, up \$10 million, due mainly to higher income generated by asset/liability matching management activities as well as trading activities. This increase was mitigated by the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments not qualifying for hedge accounting used to hedge foreign currency deposits. Higher fees on project-related outsourcing agreements also helped to partially offset this increase.

The operations of *Fonds de sécurité Desjardins* contributed surplus earnings of \$25 million, compared to \$18 million in the corresponding period of 2015. This increase was due to the higher gains on the disposal of available-for-sale securities in 2016, compared to 2015.

Surplus earnings arising from ABTN activities totalled \$3 million, unchanged from the corresponding period in 2015.

Activities related to derivatives associated with hedging activities recorded a deficit of \$4 million, compared to a deficit of \$13 million for the corresponding period in 2015, for an improvement of \$9 million, mainly as a result of an increase in the fair value of swaps related to the lower interest rates in the second quarter of 2016, compared to the corresponding period in 2015. The improvement was partially offset by a decrease in amortization related to terminations of hedges and a reduction in the portion not qualifying for hedge accounting.

Other activities were affected in 2016 and 2015, primarily by the expenses related to the continued implementation of Desjardins-wide strategic projects. Projects such as the Desjardins Member Advantages program and the accelerated transformation of the caisse network aim to enhance the products and services offered to members and clients by better meeting their needs, at the best price.

Comparison of the first six months of 2016 and 2015

Net surplus earnings for the period arising from operations grouped under the Other category totalled \$63 million for the first half of 2016, compared to \$95 million for the corresponding period in 2015.

Treasury activities contributed \$91 million to surplus earnings, for a decrease of \$12 million, due mainly to the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments not qualifying for hedge accounting used to hedge foreign currency deposits, and to the higher fees on project-related outsourcing agreements. This was partially offset by higher income generated by asset/liability matching management activities as well as trading activities.

The operations of *Fonds de sécurité Desjardins* contributed surplus earnings of \$47 million, compared to \$35 million in the corresponding period of 2015. This increase was due to the higher gains on the disposal of available-for-sale securities in 2016, compared to 2015.

Surplus earnings arising from ABTN activities totalled \$6 million, down \$19 million compared to the corresponding period in 2015 as a result of the increase in the fair value of the ABTN portfolio, net of hedging positions, which was lower in 2016 than in 2015. Desjardins Group's exposure with regard to these activities is decreasing.

Activities related to derivatives associated with hedging activities recorded a deficit of \$6 million, compared to a surplus of \$20 million for the corresponding period in 2015, for a decrease of \$26 million, mainly as a result of the reduction in the portion not qualifying for hedge accounting and in the amortization related to terminations of hedges.

Other activities were affected in 2016 and 2015, primarily by the expenses related to the continued implementation of Desjardins-wide strategic projects. Projects such as the Desjardins Member Advantages program and the accelerated transformation of the caisse network aim to enhance the products and services offered to members and clients by better meeting their needs, at the best price.

SUMMARY OF INTERIM RESULTS

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

RESULTS OF THE MOST RECENT EIGHT QUARTERS

(in millions of dollars)	2016		2015				2014	
	Q2	Q1 ⁽¹⁾	Q4 ⁽¹⁾	Q3 ⁽¹⁾	Q2 ⁽¹⁾	Q1 ⁽¹⁾	Q4	Q3
Net interest income	\$ 1,053	\$ 1,049	\$ 1,107	\$ 1,094	\$ 1,057	\$ 995	\$ 1,021	\$ 1,013
Net premiums	1,740	1,721	1,641	1,692	1,698	1,876	1,480	1,496
Other operating income								
Deposit and payment service charges	119	118	124	125	122	118	127	128
Lending fees and credit card service revenues	155	168	161	149	156	154	157	147
Brokerage and investment fund services	286	260	263	255	267	252	239	252
Management and custodial service fees	92	88	67	90	95	89	95	88
Foreign exchange income	22	16	21	20	21	26	22	24
Other	46	65	56	7	12	90	84	52
Operating income	3,513	3,485	3,440	3,432	3,428	3,600	3,225	3,200
Investment income (loss)								
Net income (loss) on securities at fair value through profit or loss	878	512	230	17	(612)	1,174	686	288
Net income on available-for-sale securities	99	79	72	34	107	105	83	36
Net other investment income	50	50	48	51	92	44	36	71
	1,027	641	350	102	(413)	1,323	805	395
Total income	4,540	4,126	3,790	3,534	3,015	4,923	4,030	3,595
Provision for credit losses	75	91	83	102	103	89	68	109
Claims, benefits, annuities and changes in insurance contract liabilities	2,065	1,758	1,350	1,246	332	2,503	1,760	1,369
Non-interest expense	1,865	1,787	1,782	1,668	1,781	1,748	1,745	1,582
Income taxes on surplus earnings	108	108	113	114	170	119	103	126
Surplus earnings before member dividends	427	382	462	404	629	464	354	409
Member dividends, net of income tax recovery	16	22	33	26	24	30	5	49
Surplus earnings for the period after member dividends	\$ 411	\$ 360	\$ 429	\$ 378	\$ 605	\$ 434	\$ 349	\$ 360
Of which:								
Group's share	\$ 390	\$ 339	\$ 373	\$ 361	\$ 531	\$ 409	\$ 326	\$ 348
Non-controlling interests' share	21	21	56	17	74	25	23	12

⁽¹⁾ Prior-period data have been reclassified to reflect the current period's presentation.

Quarterly income, expenses and surplus earnings before member dividends fluctuate based on certain trends, including seasonal variations and changes in general economic and market conditions. For more information about quarterly trends, see page 50 of the 2015 Annual Report.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

COMBINED BALANCE SHEETS

(in millions of dollars and as a percentage)

	As at June 30, 2016		As at December 31, 2015	
Assets				
Cash and deposits with financial institutions	\$ 2,183	0.8%	\$ 1,716	0.7%
Securities	56,213	21.6	51,987	21.0
Securities borrowed or purchased under reverse repurchase agreements	10,362	4.0	7,881	3.2
Net loans and acceptances	162,733	62.4	159,881	64.4
Segregated fund net assets	10,255	3.9	9,781	3.9
Derivative financial instruments	3,919	1.5	4,818	1.9
Other assets	15,046	5.8	12,064	4.9
Total assets	\$ 260,711	100.0%	\$ 248,128	100.0%
Liabilities and equity				
Deposits	\$ 163,662	62.8%	\$ 156,574	63.0%
Commitments related to securities sold short	6,945	2.7	5,464	2.2
Commitments related to securities lent or sold under repurchase agreements	10,601	4.1	10,383	4.2
Derivative financial instruments	1,889	0.7	1,689	0.7
Insurance contract liabilities	28,371	10.9	26,734	10.8
Segregated fund net liabilities	10,247	3.9	9,776	3.9
Other liabilities	15,595	6.0	13,899	5.6
Subordinated notes	1,384	0.5	1,884	0.8
Equity	22,017	8.4	21,725	8.8
Total liabilities and equity	\$ 260,711	100.0%	\$ 248,128	100.0%

TOTAL ASSETS

As at June 30, 2016, Desjardins Group's total assets stood at \$260.7 billion, up by \$12.6 billion, or 5.1%, since December 31, 2015. This growth was mainly attributable to a \$6.7 billion increase in securities and \$2.9 billion growth in the loans and acceptances portfolio.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at June 30, 2016, Desjardins Group's cash and deposits with financial institutions amounted to \$2.2 billion, an increase of \$467 million, or 27.2%, since December 31, 2015. The volume of securities, including securities borrowed or purchased under reverse repurchase agreements, was up \$6.7 billion, or 11.2%, to total \$66.6 billion as at June 30, 2016. The increase was due to growth in market activities and deposits.

LOANS AND ACCEPTANCES

(in millions of dollars and as a percentage)

	As at June 30, 2016		As at December 31, 2015	
Residential mortgages	\$ 104,977	64.3%	\$ 102,323	63.8%
Consumer, credit card and other personal loans	21,486	13.2	21,204	13.2
Business and government	36,729	22.5	36,809	23.0
	163,192	100.0%	160,336	100.0%
Allowance for credit losses	(459)		(455)	
Total loans and acceptances by borrower category	\$ 162,733		\$ 159,881	
Loans guaranteed and/or insured ⁽¹⁾	\$ 44,397		\$ 44,817	

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

As at June 30, 2016, Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was \$162.7 billion, an increase of \$2.9 billion, or 1.8%, since December 31, 2015. This increase was due to residential mortgages, which represented 64.3% of its portfolio for the second quarter.

Outstanding residential mortgages stood at \$105.0 billion as at June 30, 2016, up \$2.7 billion, or 2.6%, since December 31, 2015. These results demonstrate Desjardins's dynamic presence in the Quebec and Ontario housing markets. The good performance of home resales created a favourable environment for business development.

Consumer, credit card and other personal loans outstanding amounted to \$21.5 billion as at June 30, 2016, up \$282 million, or 1.3%, since December 31, 2015. Outstanding business and government loans, including acceptances, totalled \$36.7 billion as at June 30, 2016, a slight decrease of \$80 million, or 0.2%, during the same period.

Credit quality

Information about the quality of Desjardins Group's loan portfolio is presented in the "Risk management" section on page 28 of this MD&A.

DEPOSITS

(in millions of dollars and as a percentage)	As at June 30, 2016		As at December 31, 2015	
Individuals	\$ 93,588	57.2%	\$ 91,243	58.2%
Business and government	68,055	41.6	63,833	40.8
Deposit-taking institutions and other	2,019	1.2	1,498	1.0
Total deposits	\$ 163,662	100.0%	\$ 156,574	100.0%

As at June 30, 2016, Desjardins Group's outstanding deposits totalled \$163.7 billion, up by \$7.1 billion, or 4.5%, since December 31, 2015. Deposits from businesses and governments, which comprised 41.6% of this portfolio, were mainly responsible for its growth. They grew by \$4.2 billion, or 6.6%, during the same period, to total \$68.1 billion as at June 30, 2016, particularly because of the various issuances made on the U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

Outstanding deposits from individuals, which accounted for 57.2% of the total deposit portfolio, totalled \$93.6 billion as at June 30, 2016, for an increase of \$2.3 billion, or 2.6%, during the same period. Lastly, savings from deposit-taking institutions and other sources totalled \$2.0 billion as at June 30, 2016, up \$521 million, or 34.8%, during the same period.

EQUITY

As at June 30, 2016, equity totalled \$22.0 billion, up \$292 million, or 1.3%, since the prior year-end. Net surplus earnings after member dividends, totalling \$771 million for the first half of 2016 and partially offset by the remeasurement of net defined benefit plan liabilities, were the primary source of this growth.

Note 21, "Capital stock", to the Annual Combined Financial Statements provides additional information about Desjardins Group's capital stock.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group.

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

The global financial crisis prompted the industry to place more emphasis on sound capitalization of its operations. Now more than ever, rating agencies and the market favour the best-capitalized institutions. These factors argue in favour of a general increase in the level and quality of capital issued by financial institutions. This is also reflected in the enhanced requirements under Basel III implemented on January 1, 2013. It was against this backdrop that Desjardins Group set its target for Tier 1A and Tier 1 capital at 15%.

Desjardins Group's Integrated Capital Management Framework

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

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

Regulatory framework and internal policies

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

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

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

Regulatory authorities require that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components, mainly the caisses, the Federation (non-consolidated), *Caisse centrale Desjardins*, *Fonds de sécurité Desjardins*, *Capital Desjardins inc.*, Zag Bank, Desjardins Securities Inc. and Desjardins Trust Inc.

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

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

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

Basel III

The Basel III regulatory framework increases capital requirements. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, the AMF required Desjardins Group to meet the Tier 1A capital ratio requirements for 2019 in the first quarter of 2013. For the Tier 1 and total capital ratios, the AMF required Desjardins Group to meet the levels established for 2019 in the first quarter of 2014. The AMF may also set higher target ratios at its discretion when circumstances warrant.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). As such, Desjardins Group has been subject since January 1, 2016, to an additional capital requirement of 1% of its minimum capital ratios. The OSFI has also determined that the six largest Canadian financial institutions meet the criteria to be designated D-SIFIs.

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

SUMMARY OF RATIOS REGULATED BY THE AMF UNDER BASEL III⁽¹⁾⁽²⁾

	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs ⁽³⁾	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at June 30, 2016
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	15.9%
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	15.9
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	16.6
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	7.5

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

⁽²⁾ The leverage ratio is calculated according to the general instructions on Leverage Ratio Disclosure Requirements (Basel III) issued by the AMF and is defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet exposures.

⁽³⁾ In effect since January 1, 2016.

Future regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS).

In this regard, the BCBS issued two consultative documents in December 2014 entitled "Capital floors: the design of a framework based on standardised approaches" and "Revisions to the standardized approach for credit risk", the latter document having been revised a second time in December 2015. The capital floor is meant to mitigate the risk related to internal models for calculating credit risk and to enhance the comparability of risk across financial institutions. The new floor would replace the existing one based on the Basel I framework. The new standardized approach for credit risk seeks to reduce reliance on rating agencies and enhance sensitivity to certain risks.

In July 2015, the BCBS issued a consultative document on the review of the credit valuation adjustment (CVA) framework, as defined in the current Basel III capital standards for the treatment of counterparty credit risk. The revised framework proposes to make capital standards more compatible with the fair value measurement method for the CVA charge included in a number of accounting frameworks, and the proposed revision of the market risk framework according to the study entitled "Fundamental Review of the Trading Book".

On January 14, 2016, the BCBS issued a revised version of the minimum capital requirements for market risk. The objective of the revised framework is to arrange that, for the treatment of market risk, the Standardized Approach and the Internal Ratings-Based Approach produce credible results regarding the capital base and promote the harmonious implementation of standards in all jurisdictions. The BCBS will require financial institutions to present information according to the new standards by the end of 2019. The AMF has not established a timetable for this yet.

On March 4, 2016, the BCBS filed a consultative document that proposed a new approach to calculating regulatory capital for operational risk called the "Standardised Measurement Approach for operational risk". This new approach would replace the Standardized Approach currently described in the guidelines, thus scrapping the Advanced Measurement Approach.

On March 24, 2016, the BCBS issued a document on the review of internal ratings-based approaches. The objective is to better regulate the use of these approaches by removing the option to use them for certain portfolios, by setting up thresholds for certain risk parameters and by further regulating the modelling of parameters of certain portfolios eligible for internal ratings with a view to reducing volatility.

On April 6, 2016, the BCBS released a consultative document on revisions to the Basel III leverage ratio framework and reaffirmed the minimum regulatory requirement of 3%. However, it is examining the possibility of imposing higher requirements for global systemically important banks. These higher requirements would not apply to Desjardins Group.

On April 21, 2016, the BCBS issued a document entitled "Interest rate risk in the banking book", intended as an update of the document issued in 2004, "Principles for the management and supervision of interest rate risk", dealing with risk management, the treatment of capital and supervision of interest rate risk in the banking book. Its aim is to ensure that financial institutions have appropriate capital to cover potential losses in the banking book stemming from interest rate fluctuations and thereby limit capital arbitrage between the trading book and the banking book. Application is required as of 2018.

Compliance with requirements

As at June 30, 2016, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 15.9%, 15.9% and 16.6%, respectively. The leverage ratio was 7.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at June 30, 2016.

Regulatory capital

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

MAIN CAPITAL COMPONENTS

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

⁽¹⁾ 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.

⁽²⁾ Represents the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from Tier 1A capital. The net non-deducted balance will be subject to risk-weighting at a rate of 250%.

CAPITAL, RISK-WEIGHTED ASSETS AND CAPITAL RATIOS

(in millions of dollars and as a percentage)	As at June 30, 2016	As at December 31, 2015
Capital		
Tier 1A capital	\$ 17,397	\$ 17,354
Tier 1 capital	17,414	17,371
Total capital	18,230	18,700
Risk-weighted assets		
Credit risk	\$ 76,522	\$ 74,845
Market risk	2,318	2,157
Operational risk	13,215	13,032
Total risk-weighted assets before the threshold	\$ 92,055	\$ 90,034
Risk-weighted assets (RWA) after transitional provisions for the credit valuation adjustment (CVA) charge⁽¹⁾		
RWA for Tier 1A capital	\$ 91,731	\$ 89,706
RWA for Tier 1 capital	91,794	89,769
RWA for total capital	91,848	89,824
Transitional threshold adjustment⁽¹⁾⁽²⁾	\$ 17,955	\$ 18,778
Total risk-weighted assets	\$ 109,686	\$ 108,484
Ratios and leverage ratio exposure		
Tier 1A capital	15.9%	16.0%
Tier 1 capital	15.9	16.0
Total capital	16.6	17.2
Leverage	7.5	7.8
Leverage ratio exposure	\$ 218,125	\$ 222,825

⁽¹⁾ As prescribed in Section 1.6 of the AMF guideline. The threshold was presented to account for RWA after the transitional provisions for the CVA charge for capital.

⁽²⁾ The scaling factors used since January 1, 2014 to account for the requirements for the CVA charge are being phased in to calculate the Tier 1A, Tier 1 and total capital ratios, which are 64%, 71% and 77%, respectively, as in 2015. They will reach 100% for each capital category by 2019.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013. 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 on January 1, 2013. These instruments include permanent shares and surplus shares issued before September 12, 2010, which total \$2.1 billion.

In addition, the subordinated notes issued by *Capital Desjardins inc.* are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. 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 have been further clarified.

On December 18, 2015, the Federation filed a prospectus to issue additional capital shares totalling \$500 million. This new issue started on January 25, 2016. During the first six months of 2016, the Federation issued capital shares for gross proceeds of \$426 million compared to \$762 million for the same period in 2015, including \$100 million in interest paid when the holder elected to receive the remuneration in F capital shares.

On June 1, 2016, *Capital Desjardins inc.* called all Series F senior notes for early redemption, in the amount of \$500 million.

As at June 30, 2016, the Tier 1A capital ratio was down slightly by 14 basis points compared to 2015, essentially because of growth in risk-weighted assets.

CHANGE IN REGULATORY CAPITAL

For the six-month period ended

(in millions of dollars)

	June 30, 2016
Tier 1A capital	
Balance at beginning of period	\$ 17,354
Increase in reserves and undistributed surplus earnings ⁽¹⁾	395
Eligible accumulated other comprehensive income	136
Federation's capital shares ⁽²⁾	425
Permanent shares and surplus shares subject to phase-out	(277)
Non-controlling interests	-
Deductions	(636)
Balance at end of period	17,397
Tier 1B capital	
Balance at beginning of period	17
Non-controlling interests	-
Balance at end of period	17
Total Tier 1 capital	17,414
Tier 2 capital	
Balance at beginning of period	1,329
Eligible qualifying shares	(1)
Non-controlling interests	1
Senior notes subject to phase-out	(501)
Eligible collective allowance	(12)
Deductions	-
Balance at end of period	816
Total capital	\$ 18,230

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

Desjardins Group calculates the risk-weighted assets for credit risk, market risk and operational risk. Since March 2009, Desjardins has been using the Internal Ratings-Based Approach for credit risk related to retail loan portfolios – Personal. Other exposures to credit and market risk are measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. In addition, Desjardins Group is subject to a threshold defined under Basel I, where the threshold is determined by the difference between the minimum regulatory capital requirement in accordance with the rules of the last version of the AMF guideline based on Basel I and the minimum regulatory capital requirement calculated under Basel III.

For credit risk, movements in RWA during the second quarter of 2016 are presented as two separate items, namely credit risk, and then counterparty and issuer risk. In credit risk, the main fluctuations were due to changes in the portfolio's size, resulting in a \$0.7 billion increase. An improvement in portfolio quality caused a decrease of \$0.2 billion. Finally, a change in method and policy led to a drop of \$0.1 billion. In counterparty and issuer risk, the quality deterioration in the various portfolios subject to counterparty and issuer risk and the higher transaction volume produced an increase of \$0.1 billion.

In market risk, a \$0.1 billion increase was observed due to a slight change in portfolio quality. A small change was also noted in operational risk, due to fluctuations in income generated, which caused a \$0.1 billion increase.

The threshold adjustment as previously defined has decreased by \$0.2 billion since March 31, 2016, partially as a result of changes in the portfolio, which caused a \$0.4 billion reduction in the threshold. The deterioration in portfolio quality and changes in method and policy led to a \$0.2 billion increase.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization.

Assets under management and under administration

As at June 30, 2016, Desjardins Group administered and managed, for the account of its members and clients, assets worth \$409.9 billion, for an increase of \$6.5 billion, or 1.6%, since December 31, 2015. The financial assets entrusted to Desjardins Group as wealth manager totalled \$48.9 billion as at June 30, 2016, up \$2.8 billion, or 6.1%, since December 31, 2015.

Structured entities

In the normal course of operations, Desjardins Group enters into various financial transactions with structured entities to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they frequently have limited activities. Often the structured entities have insufficient equity to permit them to finance their activities without subordinated financial support, or they often use financing in the form of multiple contractually linked instruments issued to investors. These entities may be included in Desjardins Group's Combined Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities not included in Desjardins Group's Combined Balance Sheets is provided below. Note 13, "Interests in other entities", to Desjardins Group's Annual Combined Financial Statements provides more information on structured entities.

Master Asset Vehicle (MAV) trusts

Desjardins Group holds financial interests in MAV trusts, which are structured entities not included in its Combined Balance Sheets. These trusts carry out transactions involving synthetic assets, ineligible assets and traditional assets associated with the asset-backed term notes (ABTN) portfolio. Desjardins Group entered into several different types of transactions to reduce the risk associated with the ABTN portfolio, the margin funding facility (MFF) related to the ABTN portfolio and other restructured securities. The implementation of credit index hedges on a significant portion of MAV portfolios, the acquisition of protection for Desjardins Group's commitments under the MFF, and the disposal of various restructured portfolios reduced the risk related to these portfolios very significantly.

These trusts had assets of approximately \$6,358 million as at June 30, 2016, compared to \$6,392 million as at December 31, 2015, and they had no equity. As at June 30, 2016, Desjardins Group had an MFF of \$1,193 million and held notes with a fair value of \$806 million, compared to the respective amounts of \$1,193 million and \$801 million as at December 31, 2015. The aggregate of these amounts represents the maximum risk of loss with respect to the MAVs, excluding the effect of the economic hedging strategy. Note 5, "Securities", to Desjardins Group's Interim Combined Financial Statements provides more information on this subject.

Securitization of Desjardins Group's financial assets

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this Program require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 8, "Derecognition of financial assets", to the Annual Combined Financial Statements provides more information about the financial assets transferred by Desjardins Group under securitization transactions. As at June 30, 2016, outstanding mortgage-backed securities issued by Desjardins Group and sold to the CHT totalled \$6.3 billion, compared to \$6.6 billion as at December 31, 2015.

RISK MANAGEMENT

ENHANCED DISCLOSURE TASK FORCE

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

Desjardins Group is continuing to develop its external disclosures and is working on enhancing its risk management reporting on an ongoing basis.

Information regarding the EDTF recommendations is presented in the 2015 Annual Report, the interim financial report for the second quarter of 2016 and the "Supplemental Financial Information" report, which are available on Desjardins Group's website at www.desjardins.com/en/about_us. The "Supplemental Financial Information" report is not incorporated by reference in this MD&A.

Below is a summary of disclosures under the EDTF recommendations and the location of the disclosures:

SUMMARY OF EDTF RECOMMENDATIONS

Type of risk	Disclosure	Pages		
		2015 Annual Report	Interim Financial Report	Supplemental Financial Information
General	Summary of risk information	61, 62	Current page	
	Risk terminology, risk measures and key parameters	62-88, 201-207		
	Top and emerging risks	55, 63, 64, 68, 78	22, 31, 32	
	New regulatory ratios	54-57, 78, 79, 170-172	21-25, 31-33	7, 8
Risk governance, risk management and business models	Organizational risk management structure	65-67		
	Risk management culture	65-67		
	Risks from business model and risk appetite	23, 63-65, 68		
	Stress testing	64		
Capital adequacy and risk-weighted assets	Minimum regulatory capital requirements	55	22	
	Reconciliation of the accounting balance sheet and the regulatory balance sheet	56, 57, 170-172	23-25	7, 8, 10-12
	Movements in regulatory capital	56, 57	23-25	9
	Capital management and planning	54-57	21-25	6
	Breakdown of capital requirements by type of risk and by calculation method	57, 58, 69, 70, 76, 77	30	14
	Credit risk			17-22
	Movements in risk-weighted assets by type of risk	58, 59	25	15, 16
	Back testing and validation of credit models	70		
Liquidity	Management of liquidity needs and reserve	78-80	31-34	
Funding	Encumbered and unencumbered assets	81-83, 175-177	34-36	
	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	81	34, 35	
	Funding sources and strategies	53, 54, 78, 81, 82	32, 34-36	
Market risk	Market risk factors	75-77, 156-160, 178	29-31	
	Assumptions, limitations and validation procedures for market risk models	76, 77	30, 31	
	Extreme loss measures	76, 77	30, 31	
Credit risk	Credit risk profile	51-53, 64, 70, 74, 75, 89	20, 28	14, 17-25
	Policy for identifying gross impaired loans	71, 72, 109-125		
	Reconciliation of gross impaired loans and allowance for credit losses	51-53, 70, 73, 74, 109-125, 139	20, 28, 56	
	Counterparty risk related to derivatives Credit risk mitigation techniques	74, 75, 161-166 71, 74, 75, 161-166		31, 32
Other risks	Management of other risks	57, 58, 68, 84-88	25	
	Publicly known risk events	84, 85, 175-177		

RISK MANAGEMENT

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

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

Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial stability as well as its sustained and profitable growth, while complying with regulatory requirements. Desjardins Group considers risk an inextricable part of its development, and consequently strives to promote a culture in which each of its business segments, employees and managers is responsible for risk management.

In the first six months of fiscal 2016, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which it is exposed (including insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 61 to 89 of the 2015 Annual Report.

Risk disclosure developments will be further promoted so as to comply, in coming years, with the principles of effective risk data aggregation and risk reporting (RDARR), which will strengthen risk governance as well as risk data aggregation and risk reporting capabilities, given Desjardins Group's designation as a domestic systemically important financial institution (D-SIFI).

CREDIT RISK

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

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

Quality of loan portfolio

As at June 30, 2016, gross impaired loans outstanding stood at \$567 million, up \$26 million since December 31, 2015. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptance portfolio, was 0.35% for the second quarter of 2016, up slightly from 0.34% as at December 31, 2015. Desjardins Group's loan portfolio continues to be of high quality.

Individual allowances for credit losses, which totalled \$125 million as at June 30, 2016, made it possible to obtain a total coverage ratio of 22.0% of the gross impaired loans portfolio, compared to a ratio of 22.4% as at December 31, 2015.

The collective allowance stood at \$334 million as at June 30, 2016, unchanged since year-end 2015. In addition, an allowance for risk related to off-balance sheet arrangements of \$88 million was recognized under "Other liabilities – Other" on the Combined Balance Sheets as at June 30, 2016, down \$17 million compared to the amount recorded as at December 31, 2015. The collective allowance reflects the best estimate of the allowance for credit losses that have not yet been designated as impaired loans individually.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)	As at June 30, 2016				As at December 31, 2015
	Gross loans and acceptances	Gross impaired loans	Individual allowances for credit losses	Net impaired loans	Net impaired loans
Residential mortgages	\$ 104,977	\$ 199	\$ 20	\$ 179	\$ 164
Consumer, credit card and other personal loans	21,486	93	16	77	81
Business and government	36,729	275	89	186	175
Total	\$ 163,192	\$ 567	\$ 125	\$ 442	\$ 420
As a percentage of gross loans and acceptances		0.35%		0.27%	0.26%

SPECIFIC COVERAGE RATIO

(as a percentage)	As at June 30, 2016	As at December 31, 2015
Residential mortgages	10.1%	9.9%
Consumer, credit card and other personal loans	17.2	18.2
Business and government	32.4	32.7
Impaired loan portfolio coverage ratio	22.0	22.4

Counterparty and issuer risk

Counterparty and issuer risk is a credit risk relative to different types of securities, derivative financial instrument and securities lending transactions.

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

A large proportion of Desjardins Group's exposure is to the different levels of government in Canada, Quebec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Desjardins Group's exposure to U.S. and European financial institutions is low, and its exposure to sovereign debt is concentrated in Canada and the U.S. The situation in Europe needs to be monitored following the unexpected results of the Brexit vote in the United Kingdom at the end of June. Certain countries in the eurozone could be required to recapitalize their banks because of the deterioration in local economies.

MARKET RISK

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

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

All financial instruments generate a market risk for trading activities, structural interest rate risk management activities and insurance activities. The main measurement for structural interest rate risk management and insurance activities is presented in the "Interest rate sensitivity" table. Aggregate VaR and Aggregate VaR under stress conditions presented in the "VaR by risk category" table are primarily used to monitor trading activities. These different measurements are completed by stress testing programs.

Structural Interest rate risk management

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

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

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

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

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

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

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

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

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)⁽¹⁾

(in millions of dollars)	As at June 30, 2016		As at March 31, 2016		As at June 30, 2015	
	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾	Net interest income ⁽²⁾	Economic value of equity ⁽³⁾
Impact of a 100-basis-point increase in interest rates	\$ (14)	\$ (78)	\$ 21	\$ (89)	\$ (9)	\$ (94)
Impact of a 100-basis-point decrease in interest rates ⁽⁴⁾	(61)	274	(92)	265	(27)	153

⁽¹⁾ Interest rate sensitivity related to insurance activities is not reflected in the amounts above. For these activities, a 100-basis-point increase in interest rates would result in a \$219 million decrease in the economic value of equity before taxes as at June 30, 2016, and in a \$206 million and \$284 million decrease as at March 31, 2016 and June 30, 2015, respectively. A 100-basis-point decrease in interest rates would result in an increase of \$231 million in the economic value of equity before taxes as at June 30, 2016, and in a \$205 million and \$272 million increase as at March 31, 2016 and June 30, 2015, respectively.

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

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

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

Foreign exchange risk management

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

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

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

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

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

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

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

VaR BY RISK CATEGORY (TRADING PORTFOLIO)

(in millions of dollars)	For the quarter ended June 30, 2016				For the quarter ended			
					March 31, 2016	June 30, 2015		
	As at June 30, 2016	Average	High	Low	As at March 31, 2016	Average	As at June 30, 2015	Average
Equities	\$ 0.1	\$ 0.2	\$ 2.4	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.1
Foreign exchange	0.1	0.3	1.9	0.1	0.7	0.2	0.4	0.5
Interest rate	3.8	3.2	4.8	2.3	3.2	2.9	3.3	4.1
Specific interest-rate risk ⁽¹⁾	4.3	4.5	6.8	2.3	4.9	4.7	10.6	10.7
Diversification effect ⁽²⁾	(4.5)	(4.9)	N/A ⁽³⁾	N/A ⁽³⁾	(5.5)	(5.1)	(11.1)	(11.3)
Aggregate VaR	\$ 3.8	\$ 3.3	\$ 4.7	\$ 2.4	\$ 3.4	\$ 2.9	\$ 3.3	\$ 4.1
Aggregate VaR under stress conditions	\$ 7.6	\$ 9.6	\$ 12.6	\$ 7.4	\$ 9.9	\$ 8.5	\$ 15.4	\$ 12.7

⁽¹⁾ Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving a specific issuer risk such as provinces, municipalities and companies, and a sub-portfolio that contains positions considered to be without issuer risk such as governments in the local currency.

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

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

The average of the trading portfolio's aggregate VaR was \$3.3 million for the quarter ended June 30, 2016, up \$0.4 million from the quarter ended March 31, 2016, mainly as a result of a \$0.3 million increase in the average of the interest rate VaR. The average of the aggregate VaR under stress conditions was \$9.6 million for the quarter ended June 30, 2016, up \$1.1 million compared to the quarter ended March 31, 2016. It should be noted that there has been no change in the model or assumptions over the periods presented.

Aggregate VaR and aggregate VaR under stress conditions are appropriate measures for a trading portfolio but they must be interpreted by taking into account certain limits, in particular the following ones:

- These measures do not allow future losses to be predicted if actual market fluctuations differ markedly from those used to do the calculations.
- These measures are used to determine the potential losses for a one-day holding period, not the losses on positions that cannot be liquidated or hedged during this one-day period.
- These measures do not provide information on potential losses beyond the selected confidence interval of 99%.

Given these limitations, the process of monitoring trading activities using VaR is supplemented by stress testing and by establishing limits in this regard.

Back testing

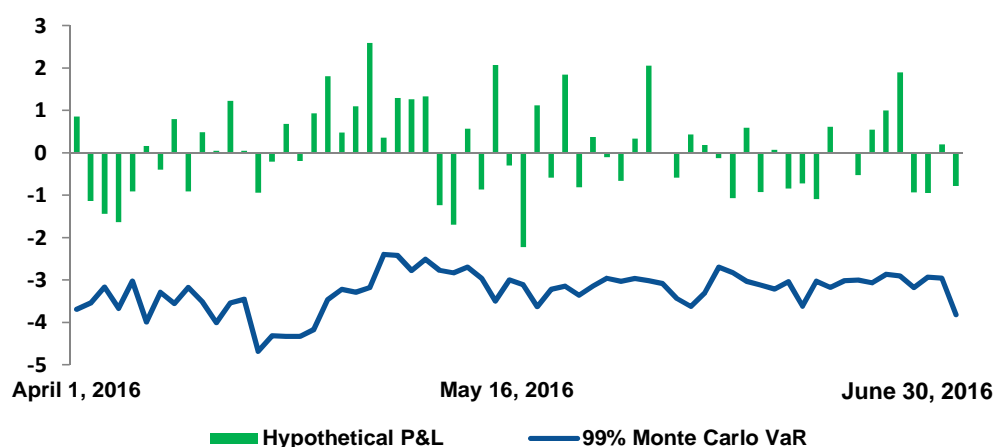
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that hypothetical results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the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

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

The following chart presents changes in VaR for trading activities as well as hypothetical P&L related to these activities. During the second quarter of 2016, hypothetical P&L was not exceeded.

VaR COMPARED TO HYPOTHETICAL P&L FOR TRADING ACTIVITIES

(in millions of dollars)



Stress testing

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

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

LIQUIDITY RISK

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

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

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

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. The regulatory requirements concerning the NSFR should take effect on January 1, 2018, and Desjardins Group intends to comply with the NSFR requirements once they become effective.

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 121.5% for the quarter ended June 30, 2016, compared to 121.6% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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

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

Liquidity risk measurement and monitoring

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

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

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

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

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

Liquidity coverage ratio

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

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

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

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

LIQUIDITY COVERAGE RATIO ⁽¹⁾

	For the quarter ended June 30, 2016		For the quarter ended March 31, 2016
	Total non-weighted value ⁽²⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)
(in millions of dollars and as a percentage)			
High-quality liquid assets			
Total high-quality liquid assets	\$ N/A	\$ 20,629	\$ 19,878
Cash outflows			
Retail deposits and small business deposits, including: ⁽⁵⁾	\$ 62,277	\$ 3,985	\$ 4,170
Stable deposits	32,031	960	955
Less stable deposits	30,246	3,025	3,215
Unsecured wholesale funding, including:	19,042	10,851	9,821
Operational deposits (all counterparties) and deposits in cooperative bank networks	5,603	1,303	890
Non-operational deposits (all counterparties)	6,606	2,715	1,456
Unsecured debt	6,833	6,833	7,475
Secured wholesale funding	N/A	-	-
Additional requirements, including:	11,894	3,831	4,176
Outflows related to exposures on derivatives and other collateral required	2,624	2,506	2,348
Outflows related to funding loss on debt products	-	-	468
Credit and liquidity facilities	9,270	1,325	1,360
Other contractual funding liabilities	1,308	-	-
Other contingent funding liabilities	90,991	1,628	1,451
Total cash outflows	\$ N/A	\$ 20,295	\$ 19,618
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	\$ 3,736	\$ 145	\$ 156
Inflows related to completely effective exposures	3,273	1,720	1,639
Other cash inflows	1,445	1,445	1,482
Total cash inflows	\$ 8,454	\$ 3,310	\$ 3,277
		Total adjusted value⁽⁶⁾	Total adjusted value⁽⁶⁾
Total high-quality liquid assets		\$ 20,629	\$ 19,878
Total net cash outflows		\$ 16,985	\$ 16,341
Liquidity coverage ratio		121.5%	121.6%

⁽¹⁾ Excluding the insurance subsidiaries.

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

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

⁽⁴⁾ The average is determined on the basis of data for three month-ends of the quarter concerned.

⁽⁵⁾ Does not include deposits with cash outflow rates of 0%.

⁽⁶⁾ The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Liquid assets

The table below presents a summary of Desjardins Group's liquid assets, which do not include assets held by the insurance subsidiaries because these assets are committed to cover insurance liabilities and not the liquidity needs of Desjardins Group's other components. Liquid assets constitute Desjardins Group's primary liquidity reserve for all its operations. Certain restrictions may apply to the use of all or part of the assets in certain funds, such as the assets of the *Fonds de sécurité Desjardins*, which cannot be used under normal conditions by *Caisse centrale Desjardins*. Encumbered liquid assets mainly include liquid assets that are pledged as collateral or cannot be used as a result of regulatory requirements or internal policies.

LIQUID ASSETS⁽¹⁾

As at June 30, 2016

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 1,342	\$ -	\$ 1,342	\$ -	\$ 1,342
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	27,606	11,006	38,612	17,146	21,466
Other securities in Canada	1,465	74	1,539	81	1,458
Issued or guaranteed by foreign issuers	66	-	66	-	66
Loans					
Insured residential mortgage-backed securities	1,306	-	1,306	1,004	302
Total	\$ 31,785	\$ 11,080	\$ 42,865	\$ 18,231	\$ 24,634

As at December 31, 2015⁽²⁾

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 1,160	\$ -	\$ 1,160	\$ -	\$ 1,160
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	24,240	9,392	33,632	15,384	18,248
Other securities in Canada	1,061	61	1,122	51	1,071
Issued or guaranteed by foreign issuers	31	-	31	-	31
Loans					
Insured residential mortgage-backed securities	1,460	-	1,460	793	667
Total	\$ 27,952	\$ 9,453	\$ 37,405	\$ 16,228	\$ 21,177

⁽¹⁾ Excluding assets held by insurance subsidiaries.⁽²⁾ The amounts have been revised to make them comparable to the current presentation following a refinement in methodology.**UNENCUMBERED LIQUID ASSETS BY ENTITY⁽¹⁾**

(in millions of dollars)	As at June 30, 2016	As at December 31, 2015 ⁽²⁾
<i>Caisse centrale Desjardins</i>	\$ 14,246	\$ 10,632
Caisse network	7,577	7,937
Other entities	2,811	2,608
Total	\$ 24,634	\$ 21,177

⁽¹⁾ Excluding assets held by insurance subsidiaries. Virtually all unencumbered liquid assets presented in this table are issued in Canadian dollars.⁽²⁾ The amounts have been revised to make them comparable to the current presentation following a refinement in methodology.**Sources of refinancing**

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows Desjardins to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits presented on the Combined Balance Sheets amounted to \$163.7 billion as at June 30, 2016, up \$7.1 billion since December 31, 2015. Additional information on deposits is presented in the "Balance sheet review" section of this MD&A.

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

REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	As at June 30, 2016								As at December 31, 2015
	Less than 1 month	From 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 12 months	Total-Less than 1 year	From 1 to 2 years	Over 2 years	Total	Total
Bearer discount notes	\$ 1,594	\$ 1,266	\$ 133	\$ 5	\$ 2,998	\$ -	\$ -	\$ 2,998	\$ 2,162
Commercial paper	3,206	5,049	283	51	8,589	-	-	8,589	7,069
Medium-term notes	-	-	799	355	1,154	6,008	4,161	11,323	10,188
Mortgage securitization	-	-	684	650	1,334	1,508	4,846	7,688	7,619
Covered bonds	-	-	-	1,937	1,937	-	4,288	6,225	7,955
Subordinated notes	-	-	-	-	-	-	1,384	1,384	1,884
Total	\$ 4,800	\$ 6,315	\$ 1,899	\$ 2,998	\$ 16,012	\$ 7,516	\$ 14,679	\$ 38,207	\$ 36,877
Including:									
Secured	\$ -	\$ -	\$ 684	\$ 2,587	\$ 3,271	\$ 1,508	\$ 10,518	\$ 15,297	\$ 17,458
Unsecured	4,800	6,315	1,215	411	12,741	6,008	4,161	22,910	19,419

Desjardins Group's total wholesale funding presented in the table above was carried out by *Caisse centrale Desjardins* except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was up \$1.3 billion compared to December 31, 2015, mainly because of growth in medium-term notes and commercial paper, partially offset by a drop in covered bonds.

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

WHOLESALE FUNDING BY CURRENCY

(in millions of dollars and as a percentage)	As at June 30, 2016		As at December 31, 2015	
Canadian dollars	\$ 16,546	43.3%	\$ 15,940	43.2%
U.S. dollars	14,137	37.0	13,499	36.6
Other	7,524	19.7	7,438	20.2
	\$ 38,207	100.0%	\$ 36,877	100.0%

Refinancing programs and strategies

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

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

The main programs currently used by *Caisse centrale Desjardins* are as follows:

MAIN REFINANCING PROGRAMS

As at June 30, 2016

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

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

Caisse centrale Desjardins also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of \$877 million in the first six months of 2016. During the same period, *Caisse centrale Desjardins* also completed one issue under its multi-currency medium-term note program for a total amount of €1.0 billion on the European market.

Outstanding notes issued under medium-term refinancing programs of *Caisse centrale Desjardins* amounted to \$25.2 billion as at June 30, 2016, compared to \$25.8 billion as at December 31, 2015. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Combined Balance Sheets. *Capital Desjardins inc.*'s senior notes outstanding totalled \$1.4 billion as at June 30, 2016, compared to \$1.9 billion as at December 31, 2015. It should be pointed out that on June 1, 2016, *Capital Desjardins inc.* called all Series F senior notes for early redemption, in the amount of \$500 million. Furthermore, to round out its refinancing and increase its capital base, Desjardins Group, through the Federation, issued capital shares totalling \$426 million, net of issuance expenses, in the first six months of 2016.

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

Credit ratings of securities issued

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

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

During the first half of 2016, Desjardins Group's credit ratings remained unchanged. Furthermore, the rating agencies Fitch, Moody's and Standard & Poor's (S&P) confirmed the credit ratings and their outlooks.

S&P's and Fitch's ratings outlooks for Desjardins Group are also stable, but DBRS's and Moody's outlooks for Desjardins Group and the six major Canadian banks are still negative. However, Moody's ratings outlook for *Capital Desjardins inc.* remains stable. DBRS and Moody's justified their decision to assign a negative ratings outlook for Desjardins Group as well as for the six major Canadian banks due to uncertainty about continued government support to systemically important financial institutions on account of the "bail-in" regime proposed by the Canadian government.

Caisse centrale Desjardins and *Capital Desjardins inc.* thus continue to have first-class credit ratings that are among the best of the major Canadian and international banking institutions.

CREDIT RATINGS OF SECURITIES ISSUED

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

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

OPERATIONAL RISK

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

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

Operational risk management framework

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

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

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

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

ASSET-BACKED SECURITIES

(in millions of dollars)	As at June 30, 2016		As at December 31, 2015	
	Notional amounts	Fair value	Notional amounts	Fair value
Commercial mortgage-backed securities ⁽¹⁾	\$ 32	\$ 33	\$ 49	\$ 50
Financial asset-backed and mortgage-backed securities ⁽²⁾	257	268	307	316

⁽¹⁾ These securities are presented in the Combined Balance Sheets under "Securities at fair value through profit or loss".

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

DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)	As at June 30, 2016			As at December 31, 2015		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps ⁽¹⁾	\$ 624	\$ 7	\$ -	\$ 706	\$ 4	\$ -
Total return swaps ⁽²⁾	67	1	-	69	1	-

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

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

LEVERAGED FINANCE LOANS AND SUBPRIME LOANS

(in millions of dollars)	As at June 30, 2016	As at December 31, 2015
Leveraged finance loans ⁽¹⁾	\$ 190	\$ 203
Alt-A mortgage loans ⁽²⁾	26	35
Subprime residential mortgage loans ⁽³⁾	2	2

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

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

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

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended June 30, 2016, Desjardins Group did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on pages 90 and 91 of the 2015 Annual Report.

RELATED PARTY DISCLOSURES

In the normal course of business, Desjardins Group offers financial services to related parties, including its associates and other related companies, and enters into agreements for operating services with them. It also pays its key management personnel compensation under normal market conditions.

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

Desjardins Group has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2015.

Additional information on Desjardins Group's related party transactions is provided in Note 33, "Related party disclosures", to Desjardins Group's Annual Combined Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 109 to 125 of the 2015 Annual Report.

Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 92 to 96 of the 2015 Annual Report.

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

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2015 are discussed in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements, on page 125 of the 2015 Annual Report. Since then, the IASB has issued the following standard and amendments:

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", to replace the current standard IAS 17, "Leases". IFRS 16 sets out lease recognition, measurement, presentation and disclosure principles. It introduces a single accounting model for lessees, requiring on-balance sheet recognition of lease assets and liabilities for most leases and eliminating the current distinction between operating and finance leases. For lessors, however, the distinction between operating and finance leases is retained. 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 15, "Revenue from Contracts with Customers"

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

COMBINED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at June 30, 2016	As at December 31, 2015
ASSETS			
Cash and deposits with financial institutions		\$ 2,183	\$ 1,716
Securities			
Securities at fair value through profit and loss		32,577	28,715
Available-for-sale securities	5	23,636	23,272
		56,213	51,987
Securities borrowed or purchased under reverse repurchase agreements		10,362	7,881
Loans			
Residential mortgages	6	104,977	102,323
Consumer, credit card and other personal loans		21,486	21,204
Business and government		36,682	36,433
		163,145	159,960
Allowance for credit losses	6	(459)	(455)
		162,686	159,505
Segregated fund net assets		10,255	9,781
Other assets			
Clients' liability under acceptances		47	376
Premiums receivable		1,936	1,662
Derivative financial instruments	9	3,919	4,818
Amounts receivable from clients, brokers and financial institutions		3,745	2,033
Reinsurance assets		2,311	1,964
Investment property		736	683
Property, plant and equipment		1,451	1,451
Goodwill		470	472
Intangible assets		705	661
Deferred tax assets		962	784
Other		2,730	2,354
		19,012	17,258
TOTAL ASSETS		\$ 260,711	\$ 248,128
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
Individuals	8	\$ 93,588	\$ 91,243
Business and government		68,055	63,833
Deposit-taking institutions		2,019	1,498
		163,662	156,574
Other liabilities			
Acceptances		47	376
Commitments related to securities sold short		6,945	5,464
Commitments related to securities lent or sold under repurchase agreements		10,601	10,383
Derivative financial instruments	9	1,889	1,689
Amounts payable to clients, brokers and financial institutions		6,386	4,713
Insurance contract liabilities		28,371	26,734
Segregated fund net liabilities		10,247	9,776
Net defined benefit plan liabilities		3,044	2,428
Deferred tax liabilities		170	163
Other		5,948	6,219
		73,648	67,945
Subordinated notes		1,384	1,884
TOTAL LIABILITIES		238,694	226,403
EQUITY			
Capital stock	10	5,258	5,158
Share capital		89	86
Undistributed surplus earnings		748	1,793
Accumulated other comprehensive income	11	730	589
Reserves		14,339	12,864
Equity - Group's share		21,164	20,490
Non-controlling interests		853	1,235
TOTAL EQUITY		22,017	21,725
TOTAL LIABILITIES AND EQUITY		\$ 260,711	\$ 248,128

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

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

Guy Cormier
Chair of the Board

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

COMBINED STATEMENTS OF INCOME

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2016	2015	2016	2015
INTEREST INCOME					
Loans		\$ 1,399	\$ 1,438	\$ 2,803	\$ 2,823
Securities		83	78	160	155
		1,482	1,516	2,963	2,978
INTEREST EXPENSE					
Deposits		406	428	812	863
Subordinated notes and other		23	31	49	63
		429	459	861	926
NET INTEREST INCOME		1,053	1,057	2,102	2,052
NET PREMIUMS		1,740	1,698	3,461	3,574
OTHER INCOME					
Deposit and payment service charges		119	122	237	240
Lending fees and credit card service revenues		155	156	323	310
Brokerage and investment fund services		286	267	546	519
Management and custodial service fees		92	95	180	184
Net income (loss) on securities at fair value through profit or loss	13	878	(612)	1,390	562
Net income on available-for-sale securities		99	107	178	212
Net other investment income		50	92	100	136
Foreign exchange income		22	21	38	47
Other		46	12	111	102
		1,747	260	3,103	2,312
TOTAL INCOME		4,540	3,015	8,666	7,938
PROVISION FOR CREDIT LOSSES	6	75	103	166	192
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE					
CONTRACT LIABILITIES		2,065	332	3,823	2,835
NON-INTEREST EXPENSE					
Salaries and fringe benefits		907	889	1,817	1,774
Premises, equipment and furniture, including depreciation		165	152	324	301
Service agreements and outsourcing		78	88	161	171
Communications		82	76	153	148
Other		633	576	1,197	1,135
		1,865	1,781	3,652	3,529
OPERATING SURPLUS EARNINGS		535	799	1,025	1,382
Income taxes on surplus earnings		108	170	216	289
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS⁽¹⁾		427	629	809	1,093
Member dividends		22	34	52	74
Tax recovery on member dividends		(6)	(10)	(14)	(20)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		\$ 411	\$ 605	\$ 771	\$ 1,039
of which:					
Group's share		\$ 390	\$ 531	\$ 729	\$ 940
Non-controlling interests' share		21	74	42	99

⁽¹⁾ The Group's share of "Surplus earnings before member dividends" is presented in Note 14, "Segmented information".

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

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Net surplus earnings for the period after member dividends	\$ 411	\$ 605	\$ 771	\$ 1,039
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	(176)	412	(453)	335
Share of associates and joint ventures accounted for using the equity method	-	1	(2)	1
	(176)	413	(455)	336
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	136	(150)	173	144
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	(38)	(47)	(62)	(94)
	98	(197)	111	50
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(1)	(40)	28	131
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(11)	(20)	(26)	(38)
	(12)	(60)	2	93
Net unrealized exchange gains (losses) on the translation of a net investment in a foreign operation, net of hedging transactions	(1)	-	(1)	1
	85	(257)	112	144
Total other comprehensive income, net of income taxes	(91)	156	(343)	480
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 320	\$ 761	\$ 428	\$ 1,519
of which:				
Group's share	\$ 299	\$ 701	\$ 391	\$ 1,408
Non-controlling interests' share	21	60	37	111

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

(in millions of Canadian dollars)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Item that will not be reclassified subsequently to the Combined Statements of Income				
Remeasurement of net defined benefit plan liabilities	\$ (65)	\$ 150	\$ (166)	\$ 122
	(65)	150	(166)	122
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	49	(50)	74	34
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	(6)	(10)	(15)	(25)
	43	(60)	59	9
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(1)	(15)	10	50
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(4)	(7)	(10)	(15)
	(5)	(22)	-	35
	38	(82)	59	44
Total income tax expense (recovery)	\$ (27)	\$ 68	\$ (107)	\$ 166

COMBINED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the six-month periods ended June 30

	Capital		Undistributed surplus earnings	Accumulated other comprehensive income (Note 11)	Reserves				Equity - Group's share	Non-controlling interests	Total equity
	Capital stock (Note 10)	Share capital			Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
(in millions of Canadian dollars)											
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 period after member dividends	-	-	729	-	-	-	-	-	729	42	771
Other comprehensive income for the period	-	-	(445)	107	-	-	-	-	(338)	(5)	(343)
Comprehensive income for the period	-	-	284	107	-	-	-	-	391	37	428
Issuance of F capital shares	426	-	-	-	-	-	-	-	426	-	426
Other net change in capital stock	(326)	-	-	-	-	-	-	-	(326)	-	(326)
Issuance of share capital	-	3	-	-	-	-	-	-	3	1	4
Redemption of share capital	-	-	-	-	-	-	-	-	-	(3)	(3)
Remuneration on capital stock	-	-	(208)	-	-	-	-	-	(208)	-	(208)
Dividends	-	-	(4)	-	-	-	-	-	(4)	(15)	(19)
Transfer from participating contract holders ⁽¹⁾	-	-	362	34	-	-	-	-	396	(396)	-
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,479)	-	-	(20)	1,499	1,479	-	-	-
Other	-	-	-	-	-	-	(4)	(4)	(4)	(6)	(10)
BALANCE AS AT JUNE 30, 2016	\$ 5,258	\$ 89	\$ 748	\$ 730	\$ 983	\$ 459	\$ 12,897	\$ 14,339	\$ 21,164	\$ 853	\$ 22,017
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 period after member dividends	-	-	940	-	-	-	-	-	940	99	1,039
Other comprehensive income for the period	-	-	327	141	-	-	-	-	468	12	480
Comprehensive income for the period	-	-	1,267	141	-	-	-	-	1,408	111	1,519
Issuance of F capital shares	762	-	-	-	-	-	-	-	762	-	762
Other net change in capital stock	(423)	-	-	-	-	-	-	-	(423)	-	(423)
Issuance of share capital	-	2	-	-	-	-	-	-	2	652	654
Redemption of share capital	-	-	-	-	-	-	-	-	-	(21)	(21)
Remuneration on capital stock	-	-	(198)	-	-	-	-	-	(198)	-	(198)
Dividends	-	-	(3)	-	-	-	-	-	(3)	(22)	(25)
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,468)	-	4	-	1,464	1,468	-	-	-
Transactions related to put options	-	-	-	-	-	-	7	7	7	-	7
Other	-	-	-	-	-	-	-	-	-	(2)	(2)
BALANCE AS AT JUNE 30, 2015	\$ 5,116	\$ 87	\$ 1,066	\$ 756	\$ 985	\$ 479	\$ 11,487	\$ 12,951	\$ 19,976	\$ 1,190	\$ 21,166

⁽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 Condensed Interim Combined Financial Statements.

COMBINED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions of Canadian dollars)	For the six-month periods ended June 30	
	2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 1,025	\$ 1,382
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	82	81
Net change in insurance contract liabilities	1,637	284
Provision for credit losses	166	192
Impairment on available-for-sale securities recognized in net income	14	31
Net realized gains on available-for-sale securities	(91)	(159)
Other	75	84
Change in operating assets and liabilities:		
Securities at fair value through profit and loss	(3,862)	(1,853)
Securities borrowed or purchased under reverse repurchase agreements	(2,481)	(869)
Loans	(3,347)	(4,742)
Derivative financial instruments, net amount	1,110	(737)
Net amounts receivable from and payable to clients, brokers and financial institutions	(39)	(9)
Deposits	7,088	6,497
Commitments related to securities sold short	1,481	3,308
Commitments related to securities lent or sold under repurchase agreements	218	(1,102)
Other	(1,200)	229
Income taxes paid on surplus earnings	(336)	(213)
Payment of member dividends	(157)	(177)
	1,383	2,227
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	-	13
Redemption of subordinated notes	(500)	-
Sale of debt securities and subordinated notes to third parties on the market	-	9
Issuance of F capital shares	326	762
Other net change in capital stock	(326)	(423)
Remuneration on capital stock	(108)	(198)
Issuance of share capital	4	654
Redemption of share capital	(3)	(21)
Dividends paid	(19)	(25)
Exercise of put options written on non-controlling interests	(2)	(33)
	(628)	738
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(25,014)	(27,445)
Proceeds from disposals of available-for-sale securities	9,661	15,142
Proceeds from maturities of available-for-sale securities	15,200	9,646
Business acquisitions, net of cash and cash equivalents acquired	-	(76)
Acquisitions of property, plant and equipment and investment property	(135)	(165)
	(288)	(2,898)
Net increase in cash and cash equivalents	467	67
Cash and cash equivalents at beginning of period	1,716	1,781
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,183	\$ 1,848
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,067	\$ 976
Interest and dividends received	3,668	3,002

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – INFORMATION ON DESJARDINS GROUP

NATURE OF OPERATIONS

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

BASIS OF PRESENTATION OF THE COMBINED FINANCIAL STATEMENTS

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

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

Pursuant to the *Act Respecting Financial Services Cooperatives*, these Interim Combined Financial Statements have been prepared by Desjardins Group's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS.

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

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on August 12, 2016.

PRESENTATION AND FUNCTIONAL CURRENCY

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

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

Accounting standards issued by the IASB, but not yet effective as at December 31, 2015, are described in Note 2 "Basis of presentation and significant accounting policies" to the Annual Combined Financial Statements. The IASB since issued the following standard and amendments:

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, *Leases*, which will replace the current standard, IAS 17, *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar. 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 15, "Revenues from contracts with customers"

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

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss			Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments ⁽²⁾	Total
	Held for trading	Designated as at fair value through profit or loss	Available for sale			
As at June 30, 2016						
Financial assets						
Cash and deposits with financial institutions	\$ 17	\$ 63	\$ 279	\$ 1,824	\$ -	\$ 2,183
Securities						
Securities at fair value through profit or loss	13,517	19,060	-	-	-	32,577
Available-for-sale securities	-	-	23,636	-	-	23,636
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	10,362	-	10,362
Loans ⁽¹⁾	-	-	-	162,686	-	162,686
Other financial assets						
Clients' liability under acceptances	-	-	-	47	-	47
Premiums receivable	-	-	-	1,936	-	1,936
Derivative financial instruments	2,301	-	-	-	1,618	3,919
Amounts receivable from clients, brokers and financial institutions	-	-	-	3,745	-	3,745
Other	-	-	-	1,248	-	1,248
Total financial assets	\$ 15,835	\$ 19,123	\$ 23,915	\$ 181,848	\$ 1,618	\$ 242,339
Financial liabilities						
Deposits	\$ -	\$ -	\$ -	\$ 163,662	\$ -	\$ 163,662
Other financial liabilities						
Acceptances	-	-	-	47	-	47
Commitments related to securities sold short	6,945	-	-	-	-	6,945
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,601	-	10,601
Derivative financial instruments	1,588	-	-	-	301	1,889
Amounts payable to clients, brokers and financial institutions	-	-	-	6,386	-	6,386
Other	207	-	-	3,625	-	3,832
Subordinated notes	-	-	-	1,384	-	1,384
Total financial liabilities	\$ 8,740	\$ -	\$ -	\$ 185,705	\$ 301	\$ 194,746

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

⁽²⁾ For details on derivatives designated as hedging instruments, see Note 9, "Derivative financial instruments and hedging activities".

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

As at December 31, 2015	At fair value through profit or loss		Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments ⁽²⁾	Total
	Held for trading	Designated as at fair value through profit or loss				
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 6, "Loans and allowance for credit losses".

⁽²⁾ For details on derivatives designated as hedging instruments, see Note 9, "Derivative financial instruments and hedging activities".

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments whose fair value equals carrying amount

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at June 30, 2016		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	\$ 162,686	\$ 163,120	\$ 159,505	\$ 159,776
Financial liabilities				
Deposits	163,662	163,844	156,574	156,878
Subordinated notes	1,384	1,548	1,884	2,061

FAIR VALUE HIERARCHY

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

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

Transfers between levels

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

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

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

As at June 30, 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	\$ 5	\$ 75	\$ -	\$ 80
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,752	515	-	8,267
Provincial governmental entities and municipal corporations in Canada	16,701	1,145	-	17,846
School or public corporations in Canada	31	114	-	145
Foreign public administrations	334	-	-	334
Other securities				
Financial institutions	30	924	62	1,016
Other issuers	1	1,809	1,845	3,655
Equity securities	995	220	99	1,314
	25,849	4,802	2,006	32,657
Derivative financial instruments				
Interest rate contracts	-	1,712	-	1,712
Foreign exchange contracts	-	1,107	-	1,107
Other contracts	-	1,100	-	1,100
	-	3,919	-	3,919
Total financial assets at fair value through profit or loss	25,849	8,721	2,006	36,576
Available-for-sale financial assets				
Cash and deposits with financial institutions	15	264	-	279
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	5,867	2,036	-	7,903
Provincial governmental entities and municipal corporations in Canada	9,665	1,210	-	10,875
School or public corporations in Canada	8	-	-	8
Foreign public administrations	13	25	-	38
Other securities				
Financial institutions	-	1,309	-	1,309
Other issuers	-	465	105	570
Equity securities	2,258	552	121	2,931
Total available-for-sale financial assets⁽¹⁾	17,826	5,861	226	23,913
Financial instruments of segregated funds	4,988	5,272	13	10,273
Total financial assets	\$ 48,663	\$ 19,854	\$ 2,245	\$ 70,762
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	\$ 6,747	\$ 198	\$ -	\$ 6,945
Other	-	-	207	207
	6,747	198	207	7,152
Derivative financial instruments				
Interest rate contracts	-	416	-	416
Foreign exchange contracts	-	422	-	422
Other contracts	-	1,051	-	1,051
	-	1,889	-	1,889
Total financial liabilities	\$ 6,747	\$ 2,087	\$ 207	\$ 9,041

⁽¹⁾ As at June 30, 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 the six-month period ended June 30, 2016 and the year ended December 31, 2015, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

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

The most significant financial instruments categorized within Level 3 that are held by Desjardins Group are asset-backed term notes (ABTN), 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.

Desjardins Group uses an internal model to measure ABTNs. Data obtained from third parties are used to validate this measurement afterwards, and any significant difference is analyzed. In addition, the results from this model are frequently compared with certain credit indexes and other relevant indicators.

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 and it reviews and approved the data obtained.

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 afterwards 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)**FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 (continued)****Changes in fair value of financial instruments categorized within Level 3**

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

For the six-month period ended June 30, 2016	Balance at beginning of period	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 period
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (10)	\$ 62
Other issuers								
Hedge funds	8	-	-	-	-	-	-	8
Asset-backed term notes	801	-	7	-	-	-	(2)	806
Mortgage bonds	1,043	-	8	-	-	5	(25)	1,031
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	-	-	-	-	47	(16)	99
Total financial assets at fair value through profit or loss	2,019	-	16	-	-	52	(81)	2,006
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	1	-	-	(2)	105
Equity securities	131	1	(2)	25	(38)	13	(9)	121
Total available-for-sale financial assets	237	1	(2)	26	(38)	13	(11)	226
Financial instruments of segregated funds	8	-	-	-	-	5	-	13
Total financial assets	\$ 2,264	\$ 1	\$ 14	\$ 26	\$ (38)	\$ 70	\$ (92)	\$ 2,245
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	\$ 79	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 81
Financial liability related to the contingent consideration	258	-	23	-	-	-	(155)	126
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
Total financial liabilities	\$ 375	\$ -	\$ 25	\$ -	\$ (38)	\$ -	\$ (155)	\$ 207

⁽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 (loss) 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 (loss) 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)**FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 (continued)****Changes in fair value of financial instruments categorized within Level 3 (continued)**

For the six-month period ended June 30, 2015	Balance at beginning of period	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 period
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	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 73
Other issuers								
Hedge funds	10	-	(3)	-	-	-	-	7
Asset-backed term notes	1,641	-	34	-	-	-	(877)	798
Mortgage bonds	850	-	5	-	-	29	(15)	869
Financial asset-backed securities	26	-	-	-	-	-	-	26
Equity securities	21	-	-	-	-	42	-	63
Total financial assets at fair value through profit or loss	2,620	-	37	-	-	71	(892)	1,836
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	107	-	-	1	-	-	(1)	107
Equity securities	43	(2)	-	13	-	68	(7)	115
Total available-for-sale financial assets	150	(2)	-	14	-	68	(8)	222
Total financial assets	\$ 2,770	\$ (2)	\$ 37	\$ 14	\$ -	\$ 139	\$ (900)	\$ 2,058
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	\$ 91	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ (7)	\$ 87
Financial liability related to the contingent consideration	-	-	87	-	-	113	-	200
Derivative financial instruments								
Other contracts - Other	17	(2)	10	-	-	2	(6)	21
Total financial liabilities	\$ 108	\$ (2)	\$ 100	\$ -	\$ -	\$ 115	\$ (13)	\$ 308

⁽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 (loss) 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 (loss) 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 June 30, 2016	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Asset-backed term notes	\$ 806	Internal model ⁽¹⁾	Illiquidity premium ^(B)	1.07%
Mortgage bonds	1,198	Discounted cash flows	Credit spread ^(B,C)	0 bp to 300 bp
Equity securities	220	Brokers' valuations	Comparable inputs ^(B,C)	0 bp to 520 bp ⁽²⁾
Other financial assets ⁽³⁾	21		Brokers' inputs	-
Total financial assets	\$ 2,245			
Financial liabilities				
Other liabilities - Other				
Financial liability related to put options	\$ 81	Discounted cash flows	Enterprise value ^(A,C)	-
			Discount rate ^(B,C)	7.5%
Financial liability related to the contingent consideration	126	Actuarial techniques ⁽⁵⁾	Put option exercise date ^(B,C)	1 year to 3.5 years
			Provision for claims and adjustment expenses ^(B)	-
Total financial liabilities	\$ 207			

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 ⁽¹⁾	Illiquidity premium ^(B)	2%
Mortgage bonds	1,221	Discounted cash flows	Credit spread ^(B,C)	0 bp to 300 bp
			Comparable inputs ^(B,C)	0 bp to 520 bp
	38	Option valuation model	Proportion of credit spread ^(B,C)	75%
Equity securities	161	Brokers' valuations	Increase in exercise price ^(B,C)	5%
Other financial assets ⁽³⁾	43		Brokers' inputs	-
Total financial assets	\$ 2,264			
Financial liabilities				
Other liabilities - Other				
Financial liability related to put options	\$ 79	Discounted cash flows	Enterprise value ^(A,C)	-
			Discount rate ^(B,C)	7.5%
Financial liability related to the contingent consideration	258	Actuarial techniques ⁽⁵⁾	Put option exercise date ^(B,C)	6 months to 4 years
Other financial liabilities ⁽⁷⁾	38		Provision for claims and adjustment expenses ^(B)	-
Total financial liabilities	\$ 375			

⁽¹⁾ For a description of the internal model, see the "Securities – Asset-backed term notes" section of Note 5, "Securities".

⁽²⁾ Due to the nature of this type of investment, no input value range is presented.

⁽³⁾ Include other financial assets such as financial asset-backed securities.

⁽⁴⁾ Due to the wide-ranging operations of the underlying business lines associated with the enterprise value, no input value range is presented.

⁽⁵⁾ The actuarial techniques used to measure prospectively the provision for claims and adjustment expenses are in accordance with Canadian accepted actuarial practices.

⁽⁶⁾ Due to the nature of this financial liability, no input value range is presented.

⁽⁷⁾ 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 – SECURITIES

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

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

As at June 30, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by:				
Canadian governmental entities	\$ 7,788	\$ 117	\$ 2	\$ 7,903
Provincial governmental entities and municipal corporations in Canada	10,596	280	1	10,875
School or public corporations in Canada	8	-	-	8
Foreign public administrations	38	1	1	38
Other securities				
Financial institutions	1,303	8	2	1,309
Other issuers	545	26	-	571
Equity securities ⁽¹⁾	2,727	325	120	2,932
	\$ 23,005	\$ 757	\$ 126	\$ 23,636
As at December 31, 2015				
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

⁽¹⁾ Since January 1, 2016, the measurement of impairment losses on preferred shares having debt-like features and behaviour has been based on whether there is any objective evidence of impairment as well as on the judgment made concerning the recovery of the invested amounts.

Impairment losses recognized

During the six-month period ended June 30, 2016, Desjardins Group concluded that there was objective evidence of impairment. Impairment losses of \$12 million (\$14 million for the three-month period ended June 30, 2015) and \$14 million (\$31 million for the six-month period ended June 30, 2015) on available-for-sale securities were recognized under "Net income on available-for-sale securities" in the Combined Statements of Income.

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

Desjardins Group holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of \$806 million and \$840 million, respectively, as at June 30, 2016 (\$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.

The credit default swaps serving as an economic hedge for ABTNs had a negative fair value of \$1 million as at June 30, 2016 (negative fair value of \$3 million as at December 31, 2015). For information on the ABTN measurement methodology, see the "Securities – Asset-backed term notes" section of Note 6, "Securities", and Note 4, "Fair value of financial instruments", to the 2015 Annual Combined Financial Statements.

Desjardins Group participates, 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. As at June 30, 2016, no amount had been drawn on the MFF. In addition, Desjardins Group purchased a \$400 million protection for its commitments under the MFF. For more information on the terms of the MFF and acquired protection, see the "Securities – Asset-backed term notes" section of Note 6, "Securities", to the 2015 Annual Combined Financial Statements.

Impact on profit or loss

A gain of \$4 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the three-month period ended June 30, 2016 (gain of \$3 million for the three-month period ended June 30, 2015) and a gain of \$7 million was recognized for the six-month period ended June 30, 2016 (gain of \$34 million for the six-month period ended June 30, 2015). In addition, no gain related to the derivative financial instruments hedging ABTNs was recognized for the three-month period ended June 30, 2016 (gain of \$1 million for the three-month period ended June 30, 2015) and a gain of \$1 million was recognized for the six-month period ended June 30, 2016 (immaterial loss for the six-month period ended June 30, 2015).

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCES FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at June 30, 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	\$ 102,732	\$ 2,046	\$ 199	\$ 20	\$ 44	\$ 104,913
Consumer, credit card and other personal loans	20,713	680	93	16	131	21,339
Business and government	35,930	477	275	89	159	36,434
	\$ 159,375	\$ 3,203	\$ 567	\$ 125	\$ 334	\$ 162,686

⁽¹⁾ Includes the collective allowance on impaired loans of \$20 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 June 30, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 1,689	\$ 156	\$ 69	\$ 132	\$ 2,046
Consumer, credit card and other personal loans	494	109	51	26	680
Business and government	321	30	33	93	477
	\$ 2,504	\$ 295	\$ 153	\$ 251	\$ 3,203

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 allowances for credit losses.

For the six-month periods ended June 30	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 period	\$ 65	\$ 65	\$ 189	\$ 176	\$ 307	\$ 306	\$ 561	\$ 547
Provision for credit losses	14	9	153	161	(1)	22	166	192
Write-offs and recoveries	(14)	(9)	(156)	(147)	(10)	(12)	(180)	(168)
Balance at end of period	\$ 65	\$ 65	\$ 186	\$ 190	\$ 296	\$ 316	\$ 547	\$ 571
Composed of:								
Allowance for credit losses	\$ 64	\$ 64	\$ 147	\$ 151	\$ 248	\$ 261	\$ 459	\$ 476
Allowance for off-balance sheet items ⁽¹⁾	1	1	39	39	48	55	88	95

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

NOTE 7 – COVERED BONDS

Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by 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 \$8,835 million as at June 30, 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 \$6,225 million as at June 30, 2016 (\$7,954 million as at December 31, 2015), are presented under “Deposits – Business and government”.

NOTE 8 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at June 30, 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	\$ 39,469	\$ 3,868	\$ 50,251	\$ 93,588	\$ 38,079	\$ 3,740	\$ 49,424	\$ 91,243
Business and government	23,215	309	44,531	68,055	19,869	368	43,596	63,833
Deposit-taking institutions	1,372	-	647	2,019	1,200	-	298	1,498
	\$ 64,056	\$ 4,177	\$ 95,429	\$ 163,662	\$ 59,148	\$ 4,108	\$ 93,318	\$ 156,574

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

	As at June 30, 2016			As at December 31, 2015		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges	\$ 33,075	\$ 1,285	\$ 262	\$ 35,347	\$ 2,296	\$ 73
Cash flow hedges	23,083	333	39	21,686	389	48
Total - Designated as hedging instruments	56,158	1,618	301	57,033	2,685	121
Trading purposes	166,022	2,301	1,588	169,774	2,133	1,568
Total derivative financial instruments before impact of master netting agreements	222,180	3,919	1,889	226,807	4,818	1,689
Less :						
Impact of master netting agreements ⁽¹⁾	-	629	629	-	538	538
Total derivative financial instruments after impact of master netting agreements	\$ 222,180	\$ 3,290	\$ 1,260	\$ 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.

HEDGING ACTIVITIES

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Fair value hedge ineffectiveness	\$ -	\$ 4	\$ 11	\$ 32
Cash flow hedge ineffectiveness	(7)	-	(7)	7

NOTE 10 – CAPITAL STOCK

ISSUANCE OF SHARES

During the six-month period ended June 30, 2016, the Federation issued 32,565,808 F capital shares for a cash consideration of \$326 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.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at June 30, 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	\$ 463	\$ 8	\$ 324	\$ 36
Net gains on derivative financial instruments designated as cash flow hedges	266	1	263	2
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	1	-	2	-
Accumulated other comprehensive income	\$ 730	\$ 9	\$ 589	\$ 38

NOTE 12 – CAPITAL MANAGEMENT

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

Desjardins Group's capital ratios are calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF and are expressed as a percentage of regulatory capital over risk-weighted assets.

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.

Since January 1, 2015, Desjardins Group has been 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.

As mentioned in Note 10, "Capital stock", the Federation issued F capital shares in 2016 for gross proceeds of \$426 million, of which \$100 million was as interest payments to holders who elected to receive their remuneration in shares.

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

As at June 30, 2016, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

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

FINANCIAL INSTRUMENTS HELD FOR TRADING

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Income				
Net interest income	\$ 13	\$ 7	\$ 23	\$ 12
Net income (loss) on securities at fair value through profit or loss	127	(69)	334	63
	\$ 140	\$ (62)	\$ 357	\$ 75

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Income				
Net interest income	\$ 1	\$ 3	\$ 1	\$ 3
Net income (loss) on securities at fair value through profit or loss	751	(543)	1,056	499
	\$ 752	\$ (540)	\$ 1,057	\$ 502

NOTE 14 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	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
For the three-month periods ended June 30										
Net interest income	\$ 982	\$ 1,003	\$ -	\$ -	\$ 1	\$ -	\$ 70	\$ 54	\$ 1,053	\$ 1,057
Net premiums	-	-	1,000	978	797	785	(57)	(65)	1,740	1,698
Other income	511	511	1,196	(116)	163	2	(123)	(137)	1,747	260
Total income	1,493	1,514	2,196	862	961	787	(110)	(148)	4,540	3,015
Provision for credit losses	79	103	-	-	-	-	(4)	-	75	103
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,492	100	569	236	4	(4)	2,065	332
Non-interest expense	1,105	1,086	548	521	326	293	(114)	(119)	1,865	1,781
Operating surplus earnings	309	325	156	241	66	258	4	(25)	535	799
Income taxes on surplus earnings	83	86	32	46	17	64	(24)	(26)	108	170
Surplus earnings before member dividends⁽¹⁾	226	239	124	195	49	194	28	1	427	629
Member dividends, net of income tax recovery	16	24	-	-	-	-	-	-	16	24
Net surplus earnings for the period after member dividends	\$ 210	\$ 215	\$ 124	\$ 195	\$ 49	\$ 194	\$ 28	\$ 1	\$ 411	\$ 605
of which:										
Group's share	\$ 210	\$ 215	\$ 115	\$ 147	\$ 39	\$ 169	\$ 26	\$ -	\$ 390	\$ 531
Non-controlling interests' share	-	-	9	48	10	25	2	1	21	74

⁽¹⁾ For the three-month periods ended June 30, 2016 and 2015, the Group's share of "Surplus earnings before member dividends" was respectively \$226 million and \$239 million for the Personal Services and Business and Institutional Services segment, \$115 million and \$147 million for the Wealth Management and Life and Health Insurance segment, \$39 million and \$169 million for the Property and Casualty Insurance segment and \$26 million and nil for the Other category.

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

	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
For the six-month periods ended June 30										
Net interest income	\$ 1,959	\$ 1,944	\$ -	\$ -	\$ 1	\$ -	\$ 142	\$ 108	\$ 2,102	\$ 2,052
Net premiums	-	-	2,003	1,982	1,580	1,723	(122)	(131)	3,461	3,574
Other income	1,020	993	2,049	1,192	285	264	(251)	(137)	3,103	2,312
Total income	2,979	2,937	4,052	3,174	1,866	1,987	(231)	(160)	8,666	7,938
Provision for credit losses	173	192	-	-	-	-	(7)	-	166	192
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	2,671	1,750	1,153	1,092	(1)	(7)	3,823	2,835
Non-interest expense	2,207	2,157	1,099	1,055	595	553	(249)	(236)	3,652	3,529
Operating surplus earnings	599	588	282	369	118	342	26	83	1,025	1,382
Income taxes on surplus earnings	162	153	61	76	30	72	(37)	(12)	216	289
Surplus earnings before member dividends ⁽¹⁾	437	435	221	293	88	270	63	95	809	1,093
Member dividends, net of income tax recovery	38	54	-	-	-	-	-	-	38	54
Net surplus earnings for the period after member dividends	\$ 399	\$ 381	\$ 221	\$ 293	\$ 88	\$ 270	\$ 63	\$ 95	\$ 771	\$ 1,039
of which:										
Group's share	\$ 398	\$ 380	\$ 201	\$ 235	\$ 69	\$ 232	\$ 61	\$ 93	\$ 729	\$ 940
Non-controlling interests' share	1	1	20	58	19	38	2	2	42	99

⁽¹⁾ For the six-month periods ended June 30, 2016 and 2015, the Group's share of "Surplus earnings before member dividends" was respectively \$436 million and \$434 million for the Personal Services and Business and Institutional Services segment, \$201 million and \$235 million for the Wealth Management and Life and Health Insurance segment, \$69 million and \$232 million for the Property and Casualty Insurance segment and \$61 million and \$93 million 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 June 30, 2016	\$ 194,975	\$ 37,653	\$ 14,557	\$ 13,526	\$ 260,711
As at December 31, 2015	\$ 187,759	\$ 35,393	\$ 14,420	\$ 10,556	\$ 248,128