

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 (Caisse centrale)*, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*.

Desjardins Group records surplus earnings of \$454 million, a 12.4% increase

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015 ⁽¹⁾	September 30, 2016	September 30, 2015 ⁽¹⁾
Net interest income	\$ 1,064	\$ 1,053	\$ 1,094	\$ 3,166	\$ 3,146
Net premiums	1,873	1,740	1,692	5,334	5,266
Other operating income ⁽²⁾	636	720	646	2,071	2,048
Operating income ⁽²⁾	3,573	3,513	3,432	10,571	10,460
Investment income ⁽²⁾	533	1,027	102	2,201	1,012
Total income	4,106	4,540	3,534	12,772	11,472
Provision for credit losses	98	75	102	264	294
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	2,065	1,246	5,550	4,081
Non-interest expense	1,718	1,865	1,668	5,370	5,197
Income taxes on surplus earnings	109	108	114	325	403
Surplus earnings before member dividends	\$ 454	\$ 427	\$ 404	\$ 1,263	\$ 1,497
Return on equity ⁽²⁾	8.3%	7.8%	7.6%	7.7%	9.5%
Productivity index ⁽²⁾	72.2	75.4	72.9	74.4	70.3
Provisioning rate ⁽²⁾	0.24	0.19	0.26	0.22	0.25

⁽¹⁾ Data for 2015 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 September 30, 2016	As at December 31, 2015
Balance sheet		
Assets	\$ 260,157	\$ 248,128
Net loans and acceptances	164,287	159,881
Deposits	161,337	156,574
Equity	22,316	21,725
Indicators		
Assets under management and under administration	\$ 431,276	\$ 403,350
Tier 1A capital ratio	16.3%	16.0%
Tier 1 capital ratio	16.3	16.0
Total capital ratio	16.9	17.2
Leverage ratio	7.6	7.8
Gross impaired loans/gross loans and acceptances ⁽¹⁾	0.36	0.34

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

MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 10, 2016 — For the third quarter ended September 30, 2016, Desjardins Group, the leading financial cooperative group in Canada, recorded surplus earnings before member dividends of \$454 million, a \$50 million, or 12.4%, increase compared to the corresponding quarter of 2015, mainly due to the results of the insurance segments, which experienced growth in their operations despite a difficult claims experience in automobile insurance. It should also be recalled that third quarter 2015 surplus earnings were affected by highly volatile capital markets, resulting in the recognition of impairment losses that reduced investment income. Furthermore, a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities in the third quarter of 2016 mitigated the increase in surplus earnings.

This result reflects the contribution of \$270 million, or 59.5% 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 \$126 million and \$26 million, respectively, representing 27.8% and 5.7% of surplus earnings. The operations grouped under the Other category made a contribution of \$32 million, or 7.0% of surplus earnings.

"Desjardins Group's strong results are largely attributable to the performance of our insurance subsidiaries and the stability of our financial intermediation activities," said Guy Cormier, Chair of the Board, President and Chief Executive Officer. "Our financial strength will allow us to further our mission and continue providing socioeconomic leadership in the communities and regions we serve. This includes a recently announced \$100 million development fund intended to expand Desjardins's ability to support under the caisse network's initiative, notably in the regions, promising projects for the future of Desjardins and our communities."

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at September 30, 2016, Desjardins Group's Tier 1A and total capital ratios were 16.3% and 16.9%, respectively, compared to 16.0% and 17.2%, respectively, as at December 31, 2015.

Guy Cormier

President and Chief Executive Officer
Desjardins Group

Réal Bellemare

Senior Vice-President Finance, Treasury and Administration
and Chief Financial Officer, Desjardins Group

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated November 10, 2016 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended September 30, 2016, in comparison to previous periods. Desjardins Group reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* 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 September 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* (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 \$260.2 billion. The organization brings together 313 caisses in Quebec and Ontario, the Federation and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale*, 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 close to 4,600 elected officers.

Caisse centrale, 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

Merger of the Federation and *Caisse centrale*

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

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

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

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

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

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

Changes in senior management at Desjardins Group

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. In addition, Réal Bellemare was appointed Senior Vice-President Finance, Treasury and Administration, Desjardins Group, and succeeded Daniel Dupuis as Chief Financial Officer on August 13, 2016. Rounding out the new Management Committee are Eric 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. On October 21, 2016, Gregory Chrispin was appointed Senior Vice-President Wealth Management and Life and Health Insurance. On October 27, 2016, L.-Daniel Gauvin, General Manager of *Caisse centrale* and *Capital Desjardins inc.*, announced his intention to take up new challenges and retire from Desjardins Group after a career spanning more than 20 years at the financial cooperative group. Mr. Gauvin is expected to leave his position on the date of the projected merger between the Federation and *Caisse centrale*.

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 by the end 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 AMF, 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 (P&C) 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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Combined Financial Statements	\$ 26	\$ 49	\$ (23)	\$ 114	\$ 247
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	7	10	7	24	25
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&A	\$ 33	\$ 59	\$ (16)	\$ 138	\$ 217

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.

IncomeOperating 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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Presentation of income in the Combined Financial Statements					
Net interest income	\$ 1,064	\$ 1,053	\$ 1,094	\$ 3,166	\$ 3,146
Net premiums	1,873	1,740	1,692	5,334	5,266
Other income					
Deposit and payment service charges	128	119	125	365	365
Lending fees and credit card service revenues	158	155	149	481	459
Brokerage and investment fund services	278	286	255	824	774
Management and custodial service fees	94	92	90	274	274
Net income on securities at fair value through profit or loss	385	878	17	1,775	579
Net income on available-for-sale securities	99	99	34	277	246
Net other investment income	49	50	51	149	187
Foreign exchange income	20	22	20	58	67
Other	(42)	46	7	69	109
Total income	\$ 4,106	\$ 4,540	\$ 3,534	\$ 12,772	\$ 11,472
Presentation of income in Management's Discussion and Analysis					
Net interest income	\$ 1,064	\$ 1,053	\$ 1,094	\$ 3,166	\$ 3,146
Net premiums	1,873	1,740	1,692	5,334	5,266
Other operating income					
Deposit and payment service charges	128	119	125	365	365
Lending fees and credit card service revenues	158	155	149	481	459
Brokerage and investment fund services	278	286	255	824	774
Management and custodial service fees	94	92	90	274	274
Foreign exchange income	20	22	20	58	67
Other	(42)	46	7	69	109
Operating income	3,573	3,513	3,432	10,571	10,460
Investment income					
Net income on securities at fair value through profit or loss	385	878	17	1,775	579
Net income on available-for-sale securities	99	99	34	277	246
Net other investment income	49	50	51	149	187
	533	1,027	102	2,201	1,012
Total income	\$ 4,106	\$ 4,540	\$ 3,534	\$ 12,772	\$ 11,472

Specific coverage ratio

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

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 (EDTF) of the Financial Stability Board contained in the document "Enhancing the Risk Disclosures of Banks", Desjardins Group is continuing to develop its external disclosures and is working on integrating these recommendations into its risk management disclosure framework. Furthermore, Desjardins Group developed a living will, detailing the actions it will take to restore its financial position in the event of a crisis. Note that the Office of the Superintendent of Financial Institutions (OSFI) has also determined that Canada's six major financial institutions meet the criteria for designation as D-SIFI.

On December 5, 2013, the then Quebec Minister of Finance and the Economy tabled his "Report on the application of the *Act respecting financial services cooperatives*" in the National Assembly. The report contains proposals that will serve as criteria for amendments to the current legislative framework aimed at adapting it to the changing realities of financial services cooperatives as well as the requirements of the new international standards imposed on financial institutions. The bill to amend the legislative framework is expected to be issued in fall 2016 and come into force in 2017.

The Quebec *Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans* came into force on January 1, 2016. The changes to the funding rules are intended to promote the sustainability of private pension plans by ensuring funding that must include an explicit stabilization provision determined according to the plan's investment policy. Funding on a solvency basis is no longer required. On April 6, 2016, the Quebec government issued a draft regulation under the Act that outlines the rules for determining the stabilization provision. This provision will be based on two variables, i.e. the percentage of assets allocated to variable-income securities, and the ratio between the duration of plan assets and the duration of plan liabilities. A second draft regulation under the Act was issued on July 20, 2016. It outlines various measures for the funding of pension plans and the special conditions regarding variable benefits. Other draft regulations could be issued in 2016 to clarify, among other things, the requirements of the funding policy and the annuity purchase policy. Desjardins Group continues to closely monitor developments in these regulations to ensure compliance when they take effect.

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

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

On June 22, 2016, the Government of Canada passed a law introducing an internal "bail-in" regime applicable to domestic systemically important Canadian banks. This regime is not applicable immediately to Desjardins Group because it is regulated by the AMF. Moreover, the Quebec government has not yet publicly reacted, nor has it announced its intentions with regard to this subject.

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

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

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

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

Finally, Desjardins Group continues to monitor changes in capital and liquidity requirements under global standards developed by the Basel Committee on Banking Supervision. To this end, in January 2015, the Committee issued a new standard related to the third pillar, which aims to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In June 2016, the AMF submitted for consultation an update to its guidelines on adequacy of capital base standards, which includes provisions relating to the third pillar. Desjardins Group is currently working to ensure compliance with these new requirements once they take effect. The “Capital management” section of this MD&A presents additional information on the main changes in capital currently under study.

ECONOMIC ENVIRONMENT AND OUTLOOK

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

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

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

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

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

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

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

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

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015 ⁽¹⁾	September 30, 2016	September 30, 2015 ⁽¹⁾
Results					
Net interest income	\$ 1,064	\$ 1,053	\$ 1,094	\$ 3,166	\$ 3,146
Net premiums	1,873	1,740	1,692	5,334	5,266
Other operating income					
Deposit and payment service charges	128	119	125	365	365
Lending fees and credit card service revenues	158	155	149	481	459
Brokerage and investment fund services	278	286	255	824	774
Management and custodial service fees	94	92	90	274	274
Foreign exchange income	20	22	20	58	67
Other	(42)	46	7	69	109
Operating income⁽²⁾	3,573	3,513	3,432	10,571	10,460
Investment income ⁽²⁾					
Net income on securities at fair value through profit or loss	385	878	17	1,775	579
Net income on available-for-sale securities	99	99	34	277	246
Net other investment income	49	50	51	149	187
	533	1,027	102	2,201	1,012
Total income	4,106	4,540	3,534	12,772	11,472
Provision for credit losses	98	75	102	264	294
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	2,065	1,246	5,550	4,081
Non-interest expense	1,718	1,865	1,668	5,370	5,197
Income taxes on surplus earnings	109	108	114	325	403
Surplus earnings before member dividends	\$ 454	\$ 427	\$ 404	\$ 1,263	\$ 1,497
Contribution to combined surplus earnings by business segment⁽³⁾					
Personal Services and Business and Institutional Services	\$ 270	\$ 226	\$ 268	\$ 707	\$ 703
Wealth Management and Life and Health Insurance	126	124	83	347	376
Property and Casualty Insurance	26	49	(23)	114	247
Other	32	28	76	95	171
	\$ 454	\$ 427	\$ 404	\$ 1,263	\$ 1,497
Amount returned to members and the community					
Member dividends	\$ 35	\$ 22	\$ 35	\$ 87	\$ 109
Sponsorships and donations	19	22	16	57	54
Desjardins Member Advantages program	11	8	9	26	23
	\$ 65	\$ 52	\$ 60	\$ 170	\$ 186
Indicators					
Return on equity ⁽²⁾	8.3%	7.8%	7.6%	7.7%	9.5%
Productivity index ⁽²⁾	72.2	75.4	72.9	74.4	70.3
Provisioning rate ⁽²⁾	0.24	0.19	0.26	0.22	0.25

⁽¹⁾ Data for 2015 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 third quarters of 2016 and 2015

Surplus earnings

For the third quarter ended September 30, 2016, Desjardins Group recorded surplus earnings before member dividends of \$454 million, a \$50 million, or 12.4%, increase compared to the corresponding quarter of 2015, mainly due to results of the insurance segments, which experienced growth in their operations despite a difficult claims experience in automobile insurance. It should also be recalled that third quarter 2015 surplus earnings were affected by highly volatile capital markets, resulting in the recognition of impairment losses that reduced investment income. Furthermore, a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities in the third quarter of 2016 mitigated the increase in surplus earnings.

This result reflects the contribution of \$270 million, or 59.5% 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 \$126 million and \$26 million, respectively, representing 27.8% and 5.7% of surplus earnings. The operations grouped under the Other category made a contribution of \$32 million, or 7.0% of surplus earnings.

Return on equity was 8.3%, compared to 7.6% in the corresponding quarter of 2015. This increase was mainly due to higher 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 third quarter of 2016. The amount set aside for member dividends therefore totalled \$35 million for the quarter, identical to the amount in the same period of the previous year. If we add this amount to the \$19 million given to various organizations in the form of donations and sponsorships, and the \$11 million paid out through the Desjardins Member Advantages program, the amount returned to the community totalled \$65 million for the third quarter, compared to \$60 million for the same quarter in 2015.

Operating income

Operating income stood at \$3,573 million, up \$141 million, or 4.1%, compared to the third quarter of 2015.

Net interest income was \$1,064 million, compared to \$1,094 million for the same period in the previous year, a decrease of \$30 million, or 2.7%, 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 \$6.8 billion, or 4.3%, during the year. Higher income from treasury activities, generated by asset/liability matching management activities, partially offset this reduction.

Net premiums were up \$181 million, or 10.7%, compared to the third quarter of 2015, to total \$1,873 million as at September 30, 2016.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of \$1,123 million for the third quarter of 2016, up \$67 million, or 6.3%, compared to the same period in 2015. Insurance premiums increased by \$34 million, with group insurance accounting for \$21 million of this growth and individual insurance for \$13 million. Annuity premiums increased by \$33 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$811 million for the third quarter of 2016, compared to \$702 million for the same period in 2015, an increase of \$109 million, or 15.5%, 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 income in the third quarter of 2015) were taken over as at January 1, 2015.

Other operating income totalled \$636 million, down \$10 million, or 1.5%, compared to the corresponding quarter in 2015, chiefly as a result of a larger increase than in third quarter 2015 in the contingent consideration payable arising from favourable developments in claims taken over as part of the acquisition of State Farm's Canadian operations in the first quarter of 2015. This decrease was mitigated by growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities.

Investment income

Investment income was up \$431 million compared to the third 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, caused for the most part by fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. In addition, the increase was due to impairment losses on shares recognized in the third quarter of 2015 as a result of highly volatile capital markets. Favourable changes in the fair value of derivative instruments in the Property and Casualty Insurance segment in third quarter 2016 also helped to boost investment income. Finally, a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities mitigated the increase in investment income in third quarter 2016.

Total income

Total income amounted to \$4,106 million, up \$572 million, or 16.2%, 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 \$98 million for the third quarter of 2016, which is comparable to the \$102 million provision in the corresponding quarter in 2015. The provisioning rate was 0.24%, compared to 0.26% for 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 0.36% as at September 30, 2016, identical to 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 \$1,727 million, up \$481 million compared to the corresponding quarter of 2015.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$1,216 million related to claims, benefits, annuities and changes in insurance contract liabilities, an increase of \$402 million compared to the third quarter of 2015. This change mainly resulted from a \$413 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase in the fair value of matched investments. In addition, group insurance premiums, the good performance of investments and claims experience were some of the factors that contributed to the change in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$510 million for the third quarter, for an increase of \$74 million, or 17.0%, compared to the third quarter of 2015. The increase was mainly due to a higher claims experience in automobile insurance, the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, as well as the damage caused by climate events that occurred during the quarter. It was mitigated by favourable developments in prior years' automobile insurance claims taken over as part of the acquisition of State Farm's Canadian operations as at January 1, 2015. The loss ratio of the P&C insurers was 62.2% for the third quarter of 2016, compared to 63.0% in the corresponding quarter of 2015. This decrease was also due to the favourable developments in claims mentioned above.

Non-interest expense and other item

Non-interest expense totalled \$1,718 million, up \$50 million, or 3.0%, compared to the third quarter of 2015. Strict management of expenses, which continued in a context of business growth, taking into account severance costs, made it possible to limit the increase. Business growth was generated particularly by credit card and point-of-sale financing activities, as well as by insurance operations. Non-interest expense was also affected by an increase in IT expenses.

The productivity index stood at 72.2% for the third quarter of 2016, compared to 72.9% for the same quarter a year earlier, which is a slight improvement.

Income taxes

Income taxes on surplus earnings before member dividends totalled \$109 million for the third quarter of 2016, a \$5 million decrease compared to the corresponding quarter in 2015. The effective tax rate was 19.4%, compared to 22.0% for the same quarter in 2015.

Comparison of the first nine months of 2016 and 2015

Surplus earnings

For the first nine months ended September 30, 2016, Desjardins Group recorded surplus earnings before member dividends of \$1,263 million, a reduction of \$234 million, or 15.6%, compared to the corresponding period of 2015. It should be recalled that surplus earnings for the first nine months of 2015 were affected by special items such as the gain at the acquisition date of State Farm's Canadian operations and changes in actuarial assumptions related to life and health insurance operations, which had enhanced surplus earnings. Also, there was a higher claims experience in P&C insurance in 2016 and a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities.

This result reflects the contribution of \$707 million, or 56.0% 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 \$347 million and \$114 million, respectively, representing 27.5% and 9.0% of surplus earnings. The operations grouped under the Other category made a contribution of \$95 million, or 7.5% of surplus earnings.

Return on equity was 7.7%, compared to 9.5% in the corresponding period of 2015. This decrease was mainly due to lower 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 nine months of 2016. The amount set aside for member dividends therefore totalled \$87 million for the period, compared to \$109 million for the same period of the previous year. If we add this amount to the \$57 million given to various organizations in the form of donations and sponsorships, and the \$26 million paid out through the Desjardins Member Advantages program, the amount returned to the community totalled \$170 million for the first nine months of 2016, compared to \$186 million for the same period in 2015.

Operating income

Operating income stood at \$10,571 million, up \$111 million, or 1.1%, compared to the first nine months of 2015.

Net interest income was \$3,166 million, compared to \$3,146 million for the same period in the previous year, an increase of \$20 million, or 0.6%, as a result of growth in income from treasury activities, generated by asset/liability matching management activities. Growth in the entire loan portfolio outstanding, amounting to \$6.8 billion, or 4.3%, during the year was mitigated by fierce competition in the market, which continued to put pressure on interest margins.

Net premiums rose by \$68 million, or 1.3%, to total \$5,334 million as at September 30, 2016. The increase stemmed mainly from Wealth Management and Life and Health Insurance operations, mitigated by the reduction in net premiums in the Property and Casualty Insurance segment, 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 \$3,126 million for the first nine months of 2016, compared to \$3,038 million for the same period in 2015, an increase of \$88 million, or 2.9%. Insurance premiums increased by \$58 million, with individual insurance accounting for \$35 million of this growth and group insurance for \$23 million. Annuity premiums increased by \$30 million.

The Property and Casualty Insurance segment's operations generated net premium income of \$2,391 million for the first nine months of 2016, compared to \$2,425 million for the same period in 2015, down \$34 million, or 1.4%, 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 nine months 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 \$2,071 million, up \$23 million, or 1.1%, compared to the first nine months in 2015. Growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities were the main factors in this increase, which was mitigated, however, by the gain realized as part of the acquisition of State Farm's Canadian operations in the first quarter of 2015.

Investment income

Investment income was up \$1,189 million compared to the first nine months 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. The increase was also due to impairment losses on shares recognized in the third quarter of 2015 as a result of highly volatile capital markets. A favourable change in the fair value of derivative instruments in the Property and Casualty Insurance segment in third quarter 2016 also helped to boost investment income. However, a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities in third quarter 2016 and lower gains on the disposal of real estate investments during the first nine months of 2016 compared to the corresponding period of 2015 mitigated the increase in investment income.

Total income

Total income amounted to \$12,772 million, up \$1,300 million, or 11.3%, 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 \$264 million for the first nine months of 2016, down by \$30 million, or 10.2%, 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 0.22%, compared to 0.25%, for the first nine months 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 0.36% as at September 30, 2016, identical to 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 \$5,550 million, up \$1,469 million, or 36.0%, compared to the corresponding period of 2015.

The Wealth Management and Life and Health Insurance segment recorded expenses of \$3,887 million related to claims, benefits, annuities and changes in insurance contract liabilities, an increase of \$1,323 million compared to the first nine months of 2015. This change mainly resulted from a \$1,357 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase of \$1,186 million in the fair value of matched investments. In addition, an unfavourable change in assumptions made in 2016 increased actuarial liabilities by \$17 million, while a favourable change in assumptions made in 2015 following changes to the investment portfolio contributed \$44 million to the reduction in actuarial liabilities. The \$38 million increase in group insurance premiums and claims experience also contributed to the increase in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was \$1,663 million for the first nine months of 2016, for an increase of \$135 million, or 8.8%, compared to the corresponding period of 2015. The loss ratio of the P&C insurers was 67.8% for the first nine months of 2016, compared to 62.9% in the corresponding period of 2015. This increase was chiefly due to a higher claims experience in automobile insurance and to climate events that occurred during the period, as well as the Fort McMurray wildfires.

Non-interest expense and other item

Non-interest expense totalled \$5,370 million, up \$173 million, or 3.3%, compared to the first nine months of 2015. Strict management of expenses, which continued in a context of business growth, taking into account severance costs, made it possible to limit the increase. Business growth was generated particularly by credit card and point-of-sale financing activities, as well as by insurance operations. Non-interest expense was also affected by an increase in IT expenses.

The productivity index stood at 74.4% for the first nine months of 2016, compared to 70.3% for the same period a year earlier. It should be recalled that surplus earnings for the first nine months of 2015 were affected by special items such as the gain at the acquisition date of State Farm's Canadian operations and changes in actuarial assumptions related to life and health insurance operations, which had enhanced surplus earnings. Also, there was a higher claims experience in P&C insurance in 2016 and a decrease in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities, which raised the productivity index.

Income taxes

Income taxes on surplus earnings before member dividends totalled \$325 million for the first nine months of 2016, a \$78 million decrease compared to the corresponding period in 2015. The effective tax rate was 20.5%, compared to 21.2% 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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015 ⁽¹⁾	September 30, 2016	September 30, 2015 ⁽¹⁾
Net interest income	\$ 991	\$ 982	\$ 1,038	\$ 2,950	\$ 2,982
Other operating income	497	493	476	1,484	1,446
Operating income	1,488	1,475	1,514	4,434	4,428
Investment income	19	18	5	52	28
Total income	1,507	1,493	1,519	4,486	4,456
Provision for credit losses	102	79	113	275	305
Non-interest expense	1,032	1,105	1,042	3,239	3,199
Income taxes on surplus earnings	103	83	96	265	249
Surplus earnings before member dividends	270	226	268	707	703
Member dividends, net of income tax recovery	25	16	26	63	80
Net surplus earnings for the period after member dividends	\$ 245	\$ 210	\$ 242	\$ 644	\$ 623
Of which:					
Group's share	\$ 244	\$ 210	\$ 242	\$ 642	\$ 622
Non-controlling interests' share	1	-	-	2	1
Indicators					
Average gross loans and acceptances ⁽²⁾	\$ 160,121	\$ 157,973	\$ 153,293	\$ 158,379	\$ 151,081
Average deposits ⁽²⁾	133,070	131,406	125,220	130,331	124,097
Provisioning rate ⁽²⁾	0.25%	0.20%	0.29%	0.23%	0.27%
Gross impaired loans/gross loans and acceptances ⁽²⁾	0.37	0.36	0.36	0.37	0.36

⁽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 third quarters of 2016 and 2015

For the third quarter of 2016, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled \$270 million, which is stable compared to the corresponding quarter of 2015.

Operating income totalled \$1,488 million, down \$26 million, or 1.7%. It was affected by a \$47 million, or 4.5%, 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 \$6.8 billion, or 4.5%, during the year.

Other operating income was up \$21 million, or 4.4%, compared to the same period in 2015, to total \$497 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.

Investment income was \$19 million, an increase of \$14 million compared to September 30, 2015, due to losses on the disposal of financial instruments in the third quarter of 2015.

Total income for the segment was \$1,507 million, a decrease of \$12 million, or 0.8%, compared to the third quarter of 2015.

The provision for credit losses was \$102 million for the third quarter of 2016, down \$11 million, or 9.7%, compared to the same period in 2015, mainly due to favourable developments in the risk profile of the business loan portfolio.

Non-interest expense was \$1,032 million, for a decrease of \$10 million, or 1.0%, compared to the same period in 2015. It was affected by the productivity efforts deployed in the caisse network, partly offset by business growth, particularly growth in credit card and point-of-sale financing activities.

Comparison of the first nine months of 2016 and 2015

For the first nine months of 2016, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled \$707 million, which is stable compared to the corresponding period of 2015.

Operating income was \$4,434 million, up \$6 million, or 0.1%. It was affected by a \$32 million, or 1.1%, drop in net interest income as a result of fierce competition in the market that continued to put pressure on interest margins despite growth in the average overall portfolio outstanding of loans and acceptances, amounting to \$7.3 billion, or 4.8%, during the year.

Other operating income was up \$38 million, or 2.6%, compared to the same period in 2015, to total \$1,484 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 \$52 million, an increase of \$24 million compared to September 30, 2015, due to higher trading income on capital markets.

Total income for the segment rose to \$4,486 million, up \$30 million, or 0.7%, compared to the first nine months of 2015.

The provision for credit losses was \$275 million for the first nine months of 2016, down \$30 million, or 9.8%, 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 \$3,239 million, for an increase of \$40 million, or 1.3%, 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. These increases were, however, offset by the productivity efforts deployed in the caisse network.

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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015 ⁽¹⁾	September 30, 2016	September 30, 2015 ⁽¹⁾
Net premiums	\$ 1,123	\$ 1,000	\$ 1,056	\$ 3,126	\$ 3,038
Other operating income	344	342	308	1,027	942
Operating income	1,467	1,342	1,364	4,153	3,980
Investment income	434	854	81	1,800	639
Total income	1,901	2,196	1,445	5,953	4,619
Claims, benefits, annuities and changes in insurance contract liabilities	1,216	1,492	814	3,887	2,564
Non-interest expense	531	548	510	1,630	1,565
Income taxes on surplus earnings	28	32	38	89	114
Net surplus earnings for the period	\$ 126	\$ 124	\$ 83	\$ 347	\$ 376
Of which:					
Group's share	\$ 125	\$ 115	\$ 72	\$ 326	\$ 307
Non-controlling interests' share	1	9	11	21	69
Indicators					
Net sales of savings products	\$ 2,958	\$ 1,679	\$ 1,470	\$ 6,908	\$ 5,967
Insurance sales	100	119	99	360	345
Group insurance premiums	780	762	759	2,296	2,273
Individual insurance premiums	199	194	186	586	551
Annuity premiums	144	44	111	244	214
Segregated fund receipts ⁽²⁾	1,296	297	52	2,153	1,367

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

⁽²⁾ 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 third quarters of 2016 and 2015

For the third quarter of 2016, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$126 million, up \$43 million, or 51.8%, compared to the corresponding period in 2015, mainly as a result of the good performance of investments and effective management of expenses in a context of operations growth.

Operating income stood at \$1,467 million, up \$103 million, or 7.6%, compared to the same period in 2015. Insurance premiums were up \$34 million due to growth of \$21 million in group insurance premiums and of \$13 million in individual insurance premiums while annuity premiums increased by \$33 million.

Other operating income grew by \$36 million, or 11.7%, to total \$344 million for the third quarter of 2016, chiefly because of growth in income related to assets under management.

Investment income was up \$353 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 largely 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 and derivatives.

The segment's total income was \$1,901 million, for an increase of \$456 million, or 31.6%, 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 \$1,216 million, up \$402 million compared to 2015. This change primarily resulted from a \$413 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of an increase in the fair value of matched investments. Furthermore, group annuity premiums, the good performance of investments and claims experience contributed, among other things, to the change in actuarial liabilities.

Non-interest expense was \$531 million for the third quarter of 2016, up \$21 million, or 4.1%, compared to the same period in 2015. This increase was mainly the result of higher expenses related to assets under management and was limited by effective management of expenses in a context of operations growth.

Comparison of the first nine months of 2016 and 2015

For the first three quarters of 2016, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$347 million, down \$29 million, or 7.7%, compared to the corresponding period in 2015. This decrease was mainly the result of adjustments to actuarial assumptions related to the Canadian life and health operations acquired from State Farm that had contributed favourably to net surplus earnings in 2015, partly offset by the good performance of investments in 2016 and effective management of expenses in a context of operations growth.

Operating income stood at \$4,153 million, up \$173 million, or 4.3%, compared to the same period in 2015. Insurance premiums were up \$58 million due to growth of \$35 million in individual insurance premiums and of \$23 million in group insurance premiums. Annuity premiums also rose by \$30 million.

Other operating income grew by \$85 million, or 9.0%, to total \$1,027 million for the first three quarters of 2016, chiefly because of growth in income related to assets under management.

Investment income was up \$1,161 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 largely 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 and derivatives. Moreover, lower gains on the disposal of real estate investments during the first nine months of the year compared to the same period in 2015 partially offset the increase in investment income.

The segment's total income was \$5,953 million, for an increase of \$1,334 million, or 28.9%, compared to the first nine 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 \$3,887 million, up \$1,323 million compared to 2015. This change primarily resulted from a \$1,357 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which included the effect of a \$1,186 million increase in the fair value of matched investments. Furthermore, an unfavourable change in assumptions in 2016 helped to push up actuarial liabilities by \$17 million, while a favourable change in assumptions in 2015, following adjustments made to the investment portfolio, helped to reduce actuarial liabilities by \$44 million. The \$38 million increase in group annuity premiums and the claims experience also helped to increase actuarial liabilities.

Non-interest expense was \$1,630 million for the first three quarters of 2016, up \$65 million, or 4.2%, compared to the same period in 2015. This increase was mainly the result of higher expenses related to assets under management and was limited by effective management of expenses in a context of operations growth.

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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net interest income	\$ -	\$ 1	\$ 1	\$ 1	\$ 1
Net premiums	811	797	702	2,391	2,425
Other operating income	(55)	42	16	30	80
Operating income	756	840	719	2,422	2,506
Investment income	67	121	(47)	267	153
Total income	823	961	672	2,689	2,659
Claims, benefits, annuities and changes in insurance contract liabilities	510	569	436	1,663	1,528
Non-interest expense	278	326	265	873	818
Income taxes on surplus earnings	9	17	(6)	39	66
Net surplus earnings for the period	\$ 26	\$ 49	\$ (23)	\$ 114	\$ 247
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⁾	7	10	7	24	25
Adjusted net surplus earnings for the period⁽¹⁾	\$ 33	\$ 59	\$ (16)	\$ 138	\$ 217
According to net surplus earnings for the period:					
Group's share	\$ 19	\$ 39	\$ (27)	\$ 88	\$ 205
Non-controlling interests' share	7	10	4	26	42
Indicators					
Gross written premiums ⁽²⁾	\$ 1,212	\$ 1,357	\$ 1,121	\$ 3,670	\$ 3,268
Loss ratio ⁽¹⁾	62.2%	67.4%	63.0%	67.8%	62.9%
Expense ratio ⁽¹⁾	26.2	31.6	29.7	28.4	26.6
Adjusted expense ratio ⁽¹⁾	25.0	29.8	28.2	27.0	25.2
Combined ratio ⁽¹⁾	88.4	99.0	92.7	96.2	89.5
Adjusted combined ratio ⁽¹⁾	87.2	97.2	91.2	94.8	88.1

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

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

Comparison of the third quarters of 2016 and 2015

For the third quarter of 2016, the Property and Casualty Insurance segment's net surplus earnings totalled \$26 million, up \$49 million compared to the third quarter of 2015. Even though claims experience in automobile insurance for the current year was higher than in the corresponding quarter in 2015, surplus earnings for the third quarter of 2015 were affected by highly volatile capital markets that resulted in the recognition of impairment losses, considerably reducing investment income.

Operating income totalled \$756 million, up \$37 million, or 5.1%, including an increase of \$109 million, or 15.5%, in net premiums compared to the third 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. This increase 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 income in the third quarter of 2015) were taken over as at January 1, 2015.

Other operating income was down \$71 million, chiefly as a result of the larger increase in the contingent consideration payable, compared to the third 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 \$114 million, compared to the same period in 2015, mainly due to impairment losses on shares recognized in the third quarter of 2015 as a result of highly volatile capital markets. The increase in the fair value of derivatives in the third quarter of 2016 also pushed up investment income. Higher investment income was also due to the increase in the fair value of bonds because of lower interest rates on markets while a decrease had been recorded for the third 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 \$823 million for the third quarter of 2016, up \$151 million, or 22.5%, compared to the third quarter of 2015.

The Property and Casualty Insurance segment's cost of claims was \$510 million for the third quarter, for an increase of \$74 million, or 17.0%, compared to the third quarter of 2015. The increase was mainly due to a higher claims experience in automobile insurance, the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, as well as the damage caused by climate events that occurred during the quarter. It was offset by the favourable developments in automobile insurance claims from previous years taken over as at January 1, 2015 as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 62.2% for the third quarter of 2016, compared to 63.0% in the corresponding quarter of 2015. This decrease was also due to the favourable developments in claims mentioned above.

Non-interest expense was \$278 million for the third quarter of 2016, up \$13 million, or 4.9%, compared to the same quarter a year earlier. This increase is primarily due to organic business growth.

Comparison of the first nine months of 2016 and 2015

For the first three quarters of 2016, the Property and Casualty Insurance segment's net surplus earnings totalled \$114 million, down \$133 million, or 53.8%, compared to the first nine months of 2015. The adjusted net surplus earnings stood at \$138 million, down \$79 million, or 36.4%. This decrease in surplus earnings was mainly due to the higher claims experience in 2016, and to the gain on the acquisition of State Farm's Canadian operations in the first quarter of 2015.

Operating income totalled \$2,422 million, down \$84 million, or 3.4%, 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 nine months 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 down \$50 million, or 62.5%, chiefly as a result of the gain recognized as at the acquisition date of State Farm's Canadian operations in 2015.

Investment income was up \$114 million, or 74.5%, compared to the same period in 2015, mainly due to the increase in the fair value of derivatives in the first three quarters of 2016, and to the impairment losses on shares recognized in the corresponding period of 2015 as a result of highly volatile capital markets.

The segment's total income rose to \$2,689 million for the first nine months of 2016, up \$30 million, or 1.1%, compared to the first three quarters of 2015.

The Property and Casualty Insurance segment's cost of claims was \$1,663 million for the first nine months of 2016, up \$135 million, or 8.8%, compared to the first three quarters of 2015. The loss ratio of the P&C insurers was 67.8% for the first nine months of 2016, compared to 62.9% for the corresponding period in 2015. This increase was chiefly due to a higher claims experience in automobile insurance and to climate events that occurred during the period as well as the Fort McMurray wildfires.

Non-interest expense was \$873 million for the first nine months of 2016, up \$55 million, or 6.7%, 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 \$840 million, up \$56 million, or 7.1%. This last increase was primarily due to organic business growth and higher expenses for exclusive agents.

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 nine-month periods ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Treasury activities	\$ 48	\$ 49	\$ 29	\$ 139	\$ 132
<i>Fonds de sécurité Desjardins</i> operations	14	25	20	61	55
Activities related to asset-backed term notes	4	3	4	10	29
Activities related to derivatives associated with hedging activities	(21)	(4)	19	(27)	39
Other ⁽¹⁾	(13)	(45)	4	(88)	(84)
Net surplus earnings for the period	\$ 32	\$ 28	\$ 76	\$ 95	\$ 171
Of which:					
Group's share	\$ 31	\$ 26	\$ 74	\$ 92	\$ 167
Non-controlling interests' share	1	2	2	3	4

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

Contribution to surplus earningsComparison of the third quarters of 2016 and 2015

Net surplus earnings for the period arising from operations grouped under the Other category totalled \$32 million for the third quarter of 2016, compared to \$76 million for the corresponding period in 2015.

Treasury activities contributed \$48 million to surplus earnings, up \$19 million, due mainly to 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 \$14 million, versus \$20 million in the corresponding period of 2015, as a result of the lower gains on the disposal of available-for-sale securities in 2016, compared to 2015.

Surplus earnings arising from ABTN activities totalled \$4 million, unchanged from the corresponding period in 2015.

Activities related to derivatives associated with hedging activities recorded a deficit of \$21 million, compared to surplus earnings of \$19 million for the corresponding period in 2015, for a decrease of \$40 million, mainly as a result of a decline in the fair value of swaps related to the higher interest rates in the third quarter of 2016, compared to the corresponding period in 2015. The smaller portion not qualifying for hedge accounting and the reduction in amortization related to terminations of hedges also contributed to this decrease.

Other activities were mainly affected in the third quarter of 2016 by severance costs and higher expenses related to the continued implementation of Desjardins-wide strategic projects. In particular, 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 nine months of 2016 and 2015

Net surplus earnings for the period arising from operations grouped under the Other category totalled \$95 million for the first nine months of 2016, compared to \$171 million for the corresponding period in 2015.

Treasury activities contributed \$139 million to surplus earnings for the period, for an increase of \$7 million compared to the same period in 2015, mainly as a result of higher income generated by asset/liability matching management activities as well as trading activities. This was partially offset 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, and to the higher fees on project-related outsourcing agreements.

The operations of *Fonds de sécurité Desjardins* contributed surplus earnings of \$61 million, compared to \$55 million for 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 \$10 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 \$27 million, compared to surplus earnings of \$39 million for the corresponding period in 2015, for a decrease of \$66 million, mainly as a result of the decrease in the fair value of swaps related to the higher interest rates in 2016, compared to the corresponding period in 2015. The smaller portion not qualifying for hedge accounting and the reduction in amortization related to terminations of hedges also contributed to this decrease.

Other activities were primarily affected in the first nine months of 2016 by severance costs and higher expenses related to the continued implementation of Desjardins-wide strategic projects. In particular, 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
	Q3	Q2	Q1 ⁽¹⁾	Q4 ⁽¹⁾	Q3 ⁽¹⁾	Q2 ⁽¹⁾	Q1 ⁽¹⁾	Q4
Net interest income	\$ 1,064	\$ 1,053	\$ 1,049	\$ 1,107	\$ 1,094	\$ 1,057	\$ 995	\$ 1,021
Net premiums	1,873	1,740	1,721	1,641	1,692	1,698	1,876	1,480
Other operating income								
Deposit and payment service charges	128	119	118	124	125	122	118	127
Lending fees and credit card service revenues	158	155	168	161	149	156	154	157
Brokerage and investment fund services	278	286	260	263	255	267	252	239
Management and custodial service fees	94	92	88	67	90	95	89	95
Foreign exchange income	20	22	16	21	20	21	26	22
Other	(42)	46	65	56	7	12	90	84
Operating income	3,573	3,513	3,485	3,440	3,432	3,428	3,600	3,225
Investment income (loss)								
Net income (loss) on securities at fair value through profit or loss	385	878	512	230	17	(612)	1,174	686
Net income on available-for-sale securities	99	99	79	72	34	107	105	83
Net other investment income	49	50	50	48	51	92	44	36
	533	1,027	641	350	102	(413)	1,323	805
Total income	4,106	4,540	4,126	3,790	3,534	3,015	4,923	4,030
Provision for credit losses	98	75	91	83	102	103	89	68
Claims, benefits, annuities and changes in insurance contract liabilities	1,727	2,065	1,758	1,350	1,246	332	2,503	1,760
Non-interest expense	1,718	1,865	1,787	1,782	1,668	1,781	1,748	1,745
Income taxes on surplus earnings	109	108	108	113	114	170	119	103
Surplus earnings before member dividends	454	427	382	462	404	629	464	354
Member dividends, net of income tax recovery	25	16	22	33	26	24	30	5
Surplus earnings for the period after member dividends	\$ 429	\$ 411	\$ 360	\$ 429	\$ 378	\$ 605	\$ 434	\$ 349
Of which:								
Group's share	\$ 419	\$ 390	\$ 339	\$ 373	\$ 361	\$ 531	\$ 409	\$ 326
Non-controlling interests' share	10	21	21	56	17	74	25	23

⁽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 September 30, 2016		As at December 31, 2015	
Assets				
Cash and deposits with financial institutions	\$ 1,929	0.7%	\$ 1,716	0.7%
Securities	55,799	21.4	51,987	21.0
Securities borrowed or purchased under reverse repurchase agreements	7,677	3.0	7,881	3.2
Net loans and acceptances	164,287	63.2	159,881	64.4
Segregated fund net assets	11,620	4.5	9,781	3.9
Derivative financial instruments	3,978	1.5	4,818	1.9
Other assets	14,867	5.7	12,064	4.9
Total assets	\$ 260,157	100.0%	\$ 248,128	100.0%
Liabilities and equity				
Deposits	\$ 161,337	62.0%	\$ 156,574	63.0%
Commitments related to securities sold short	7,674	2.9	5,464	2.2
Commitments related to securities lent or sold under repurchase agreements	10,098	3.9	10,383	4.2
Derivative financial instruments	1,735	0.7	1,689	0.7
Insurance contract liabilities	28,988	11.1	26,734	10.8
Segregated fund net liabilities	11,607	4.5	9,776	3.9
Other liabilities	15,017	5.8	13,899	5.6
Subordinated notes	1,385	0.5	1,884	0.8
Equity	22,316	8.6	21,725	8.8
Total liabilities and equity	\$ 260,157	100.0%	\$ 248,128	100.0%

TOTAL ASSETS

As at September 30, 2016, Desjardins Group's total assets stood at \$260.2 billion, up by \$12.0 billion, or 4.8%, since December 31, 2015. This growth was mainly attributable to a \$4.4 billion increase in the portfolio of loans and acceptances and \$3.6 billion growth in securities.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at September 30, 2016, Desjardins Group's cash and deposits with financial institutions amounted to \$1.9 billion, an increase of \$213 million, or 12.4%, since December 31, 2015. The volume of securities, including securities borrowed or purchased under reverse repurchase agreements, was up \$3.6 billion, or 6.0%, to total \$63.5 billion as at September 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 September 30, 2016		As at December 31, 2015	
Residential mortgages	\$ 105,908	64.3%	\$ 102,323	63.8%
Consumer, credit card and other personal loans	21,723	13.2	21,204	13.2
Business and government	37,118	22.5	36,809	23.0
	164,749	100.0%	160,336	100.0%
Allowance for credit losses	(462)		(455)	
Total loans and acceptances by borrower category	\$ 164,287		\$ 159,881	
Loans guaranteed and/or insured ⁽¹⁾	\$ 44,425		\$ 44,817	

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

As at September 30, 2016, Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was \$164.3 billion, an increase of \$4.4 billion, or 2.8%, since December 31, 2015. This increase was mainly due to residential mortgages, which represented 64.3% of its portfolio for the third quarter.

Outstanding residential mortgages stood at \$105.9 billion as at September 30, 2016, up \$3.6 billion, or 3.5%, since December 31, 2015. Sustained activity on the Quebec and Ontario housing markets, in particular in home resales, created a favourable environment for Desjardins Group's business development.

Consumer, credit card and other personal loans outstanding amounted to \$21.7 billion as at September 30, 2016, up \$519 million, or 2.4%, since December 31, 2015. Outstanding business and government loans, including acceptances, totalled \$37.1 billion as at September 30, 2016, compared to \$36.8 billion at the end of 2015, for an increase of \$309 million, or 0.8%, during this 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 September 30, 2016		As at December 31, 2015	
Individuals	\$ 95,122	59.0%	\$ 91,243	58.2%
Business and government	64,735	40.1	63,833	40.8
Deposit-taking institutions and other	1,480	0.9	1,498	1.0
Total deposits	\$ 161,337	100.0%	\$ 156,574	100.0%

As at September 30, 2016, Desjardins Group's outstanding deposits totalled \$161.3 billion, up by \$4.8 billion, or 3.0%, since December 31, 2015. Deposits from individuals, which comprised 59.0% of this portfolio, were mainly responsible for its growth. They grew by \$3.9 billion, or 4.3%, during the same period, to total \$95.1 billion as at September 30, 2016.

Outstanding deposits from businesses and governments, which accounted for 40.1% of the total deposit portfolio, amounted to \$64.7 billion as at September 30, 2016, for an increase of \$902 million, or 1.4%, during the same period. Savings from deposit-taking institutions and other sources remained stable at \$1.5 billion as at September 30, 2016. Growth in deposits from businesses and governments resulted in particular from the various issuances made on the U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

EQUITY

As at September 30, 2016, equity totalled \$22.3 billion, up \$591 million, or 2.7%, since the prior year-end. Net surplus earnings after member dividends, totalling \$1,200 million for the first three quarters 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*, *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 companies, 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% for its minimum capital ratios. The OSFI has also determined that the six major 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 September 30, 2016
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	16.3%
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	16.3
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	16.9
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	7.6

⁽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 do not apply to Desjardins Group, which has not been designated a global systemically important bank. No Canadian bank has been given this designation to date.

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.

Finally, on July 11, 2016, the BCBS revised the final rules for the securitization framework issued in December 2014 in a document entitled “Revisions to the securitisation framework”, which will be implemented as of January 2018. This update aims to ensure, among other things, treatment that meets the requirements of simplicity, transparency and comparability.

Compliance with requirements

As at September 30, 2016, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 16.3%, 16.3% and 16.9%, respectively. The leverage ratio was 7.6%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory capital requirements were in compliance with said requirements as at September 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 ⁽¹⁾	Tier 1B ⁽¹⁾	
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⁽²⁾ 	<ul style="list-style-type: none"> Non-controlling interests⁽²⁾ 	<ul style="list-style-type: none"> Eligible collective allowance Subordinated notes subject to phase-out Eligible qualifying shares Non-controlling interests⁽²⁾
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⁽³⁾ 		<ul style="list-style-type: none"> Investment in preferred shares of a component deconsolidated for regulatory capital purposes Subordinated financial instrument

⁽¹⁾ The tier 1A and tier 1B ratios are the equivalent of the financial institutions CET 1 and AT1 ratios, for financial services co-operatives regulated by the AMF.

⁽²⁾ 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.

⁽³⁾ 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 September 30, 2016	As at December 31, 2015
Capital		
Tier 1A capital	\$ 17,477	\$ 17,354
Tier 1 capital	17,490	17,371
Total capital	18,134	18,700
Risk-weighted assets		
Credit risk	\$ 78,294	\$ 74,845
Market risk	2,347	2,157
Operational risk	13,275	13,032
Total risk-weighted assets before the adjustment charge and the threshold	93,916	90,034
Charge credit valuation adjustment (AEC) and transition adjustment basis of the threshold ⁽¹⁾⁽²⁾	13,138	18,450
Total risk-weighted assets	\$ 107,054	\$ 108,484
Ratios and leverage ratio exposure		
Tier 1A capital	16.3%	16.0%
Tier 1 capital	16.3	16.0
Total capital	16.9	17.2
Leverage	7.6	7.8
Leverage ratio exposure	\$ 231,603	\$ 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 nine months of 2016, the Federation issued capital shares for gross proceeds of \$426 million. It also issued capital shares for an amount of \$101 million in order to pay interests where the holder elected to receive the remuneration in capital shares.

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

On November 4, 2016, *Caisse centrale*, one of the main subsidiaries of the Federation, bought back shares for cancellation in an amount of \$60 million.

As at September 30, 2016, the Tier 1A capital ratio was up 33 basis points compared to 2015. Growth in surplus earnings and reserves, the issuance of capital shares, as well as a decrease in risk-weighted assets contributed to the increase in the ratio.

CHANGE IN REGULATORY CAPITAL

For the nine-month period ended

(in millions of dollars)	September 30, 2016
Tier 1A capital	
Balance at beginning of period	\$ 17,354
Increase in reserves and undistributed surplus earnings ⁽¹⁾	667
Eligible accumulated other comprehensive income	225
Federation's capital shares ⁽²⁾	527
Permanent shares and surplus shares subject to phase-out	(356)
Non-controlling interests	(10)
Deductions	(930)
Balance at end of period	17,477
Tier 1B capital	
Balance at beginning of period	17
Non-controlling interests	(4)
Balance at end of period	13
Total Tier 1 capital	17,490
Tier 2 capital	
Balance at beginning of period	1,329
Eligible qualifying shares	(1)
Non-controlling interests	(1)
Senior notes subject to phase-out	(679)
Eligible collective allowance	(4)
Deductions	-
Balance at end of period	644
Total capital	\$ 18,134

⁽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, multiplied by an adjustment factor set by the AMF, and the minimum regulatory capital requirement calculated under Basel III.

For credit risk, movements in RWA during the third 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 \$1.3 billion increase. A deterioration in portfolio quality caused an increase of \$368 million. Finally, fluctuations in the exchange rate led to an increase of \$34 million. In counterparty and issuer risk, the quality deterioration in the various portfolios subject to counterparty and issuer risk and the lower transaction volume produced an increase of \$53 million.

In market risk, a \$29 million increase was observed due to a slight change in risk levels. A small change was also noted in operational risk, due to fluctuations in income generated, which caused a \$60 million increase.

The threshold adjustment as previously defined has decreased by \$4.5 billion since June 30, 2016, basically as a result of revisions to the approach allowed by the AMF during the quarter.

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 September 30, 2016, Desjardins Group administered and managed, for the account of its members and clients, assets worth \$431.3 billion, for an increase of \$27.9 billion, or 6.9%, since December 31, 2015. The financial assets entrusted to Desjardins Group as wealth manager totalled \$51.5 billion as at September 30, 2016, up \$5.4 billion, or 11.7%, 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 \$6,355 million as at September 30, 2016, compared to \$6,392 million as at December 31, 2015, and they had no equity. As at September 30, 2016, Desjardins Group had an MFF of \$1,193 million and held notes with a fair value of \$809 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 sometimes require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 8, "Derecognition of financial assets", to the Annual Combined Financial Statements provides more information about the financial assets transferred by Desjardins Group under securitization transactions.

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 third 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, 21, 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, 21, 28, 58	
	Counterparty risk related to derivatives	74, 75, 161-166		
	Credit risk mitigation techniques	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 nine 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, transactions involving derivative financial instruments and securities transactions.

Quality of loan portfolio

As at September 30, 2016, gross impaired loans outstanding stood at \$598 million, up \$57 million compared to December 31, 2015. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.36% for the third 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 \$120 million as at September 30, 2016, made it possible to obtain a total coverage ratio of 20.1% of the gross impaired loans portfolio, compared to a ratio of 22.4% as at December 31, 2015.

The collective allowance stood at \$342 million as at September 30, 2016, up compared to \$334 million recorded at year-end 2015. In addition, an allowance for risk related to off-balance sheet arrangements of \$93 million was recognized under "Other liabilities – Other" on the Combined Balance Sheets as at September 30, 2016, down \$12 million compared to the amount recorded as at December 31, 2015. The collective allowance reflects the best estimate of the risk of credit losses that have not yet been designated individually as impaired loans.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)	As at September 30, 2016				As at December 31, 2015
	Gross loans and acceptances	Gross impaired loans	Individual allowances for credit losses	Net impaired loans	Net impaired loans
Residential mortgages	\$ 105,908	\$ 194	\$ 19	\$ 175	\$ 164
Consumer, credit card and other personal loans	21,723	96	16	80	81
Business and government	37,118	308	85	223	175
Total	\$ 164,749	\$ 598	\$ 120	\$ 478	\$ 420
As a percentage of gross loans and acceptances		0.36%		0.29%	0.26%

SPECIFIC COVERAGE RATIO

(as a percentage)	As at September 30, 2016	As at December 31, 2015
Residential mortgages	9.8%	9.9%
Consumer, credit card and other personal loans	16.7	18.2
Business and government	27.6	32.7
Impaired loan portfolio coverage ratio	20.1	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. Nevertheless, the situation in Europe needs to be monitored. Moreover, some 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 on insurance activities is presented in Note 1 to this table.

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)⁽¹⁾

(in millions of dollars)	As at September 30, 2016		As at June 30, 2016		As at September 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	\$ (35)	\$ (92)	\$ (14)	\$ (78)	\$ (26)	\$ (92)
Impact of a 100-basis-point decrease in interest rates ⁽⁴⁾	(31)	288	(61)	274	(40)	157

⁽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 \$208 million decrease in the economic value of equity before taxes as at September 30, 2016, and in a \$219 million and \$251 million decrease as at June 30, 2016 and September 30, 2015, respectively. A 100-basis-point decrease in interest rates would result in a \$230 million increase in the economic value of equity before taxes as at September 30, 2016, and in a \$231 million and \$266 million increase as at June 30, 2016 and September 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 September 30, 2016				For the quarters ended			
	As at September 30, 2016	Average	High	Low	As at June 30, 2016	Average	As at September 30, 2015	Average
Equities	\$ 0.2	\$ 0.2	\$ 1.6	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.1
Foreign exchange	0.3	0.3	1.8	0.1	0.1	0.3	0.5	0.4
Interest rate	3.1	3.3	4.3	2.6	3.8	3.2	5.1	3.7
Specific interest-rate risk ⁽¹⁾	4.4	4.5	6.0	2.9	4.3	4.5	8.5	10.3
Diversification effect ⁽²⁾	(4.9)	(5.0)	N/A ⁽³⁾	N/A ⁽³⁾	(4.5)	(4.9)	(9.1)	(10.7)
Aggregate VaR	\$ 3.1	\$ 3.3	\$ 4.3	\$ 2.7	\$ 3.8	\$ 3.3	\$ 5.1	\$ 3.8
Aggregate VaR under stress conditions	\$ 6.3	\$ 8.8	\$ 12.2	\$ 6.3	\$ 7.6	\$ 9.6	\$ 15.6	\$ 12.5

⁽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 September 30, 2016, unchanged from the quarter ended June 30, 2016. The average of the aggregate VaR under stress conditions was \$8.8 million for the quarter ended September 30, 2016, down \$0.8 million compared to the quarter ended June 30, 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

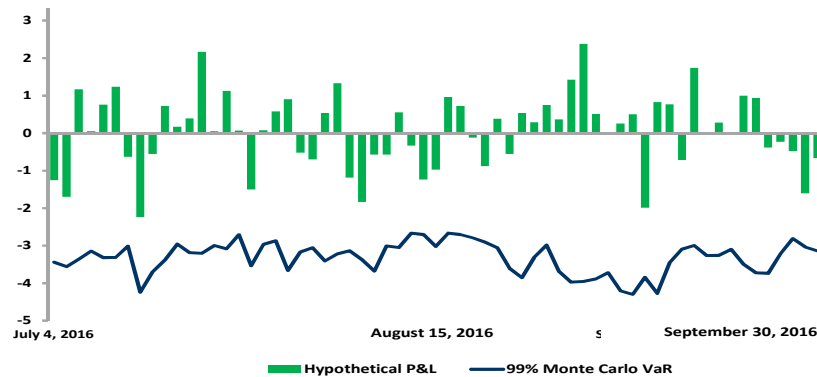
Back testing, which is a daily comparison of the VaR with the profits and losses (P&L) on portfolios, is conducted to validate the VaR model used by ensuring that hypothetical results correspond statistically to those of the VaR model. In addition, an independent modelling validation unit works on the 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 third 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 124.4% for the quarter ended September 30, 2016, compared to 121.5% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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

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

Liquidity risk measurement and monitoring

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

The minimum liquid asset levels to be maintained by Desjardins Group, the *caisse* network, and *Caisse centrale* 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.

LIQUIDITY COVERAGE RATIO ⁽¹⁾

(in millions of dollars and as a percentage)	For the quarter ended September 30, 2016		For the quarter ended June 30, 2016
	Total non-weighted value ⁽²⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)	Total weighted value ⁽³⁾ (average ⁽⁴⁾)
High-quality liquid assets			
Total high-quality liquid assets	N/A	\$ 21,907	\$ 20,629
Cash outflows			
Retail deposits and small business deposits, including: ⁽⁵⁾	\$ 61,880	\$ 3,986	\$ 3,985
Stable deposits	31,464	944	960
Less stable deposits	30,416	3,042	3,025
Unsecured wholesale funding, including:	20,047	11,726	10,851
Operational deposits (all counterparties) and deposits in cooperative bank networks	3,831	883	1,303
Non-operational deposits (all counterparties)	9,198	3,825	2,715
Unsecured debt	7,018	7,018	6,833
Secured wholesale funding	N/A	-	-
Additional requirements, including:	11,594	3,727	3,831
Outflows related to exposures on derivatives and other collateral required	2,575	2,457	2,506
Outflows related to funding loss on debt products	-	-	-
Credit and liquidity facilities	9,019	1,270	1,325
Other contractual funding liabilities	1,689	101	-
Other contingent funding liabilities	93,693	1,544	1,628
Total cash outflows	N/A	\$ 21,084	\$ 20,295
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	\$ 4,016	\$ 133	\$ 145
Inflows related to completely effective exposures	3,175	1,587	1,720
Other cash inflows	1,754	1,754	1,445
Total cash inflows	\$ 8,945	\$ 3,474	\$ 3,310
		Total adjusted value⁽⁶⁾	Total adjusted value⁽⁶⁾
Total high-quality liquid assets		\$ 21,907	\$ 20,629
Total net cash outflows		\$ 17,610	\$ 16,985
Liquidity coverage ratio		124.4%	121.5%

⁽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*. 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 September 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	\$ 1,328	\$ -	\$ 1,328	\$ -	\$ 1,328
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	27,189	8,259	35,448	17,532	17,916
Other securities in Canada	1,193	59	1,252	82	1,170
Issued or guaranteed by foreign issuers	69	-	69	-	69
Loans					
Insured residential mortgage-backed securities	3,077	-	3,077	1,322	1,755
Total	\$ 32,856	\$ 8,318	\$ 41,174	\$ 18,936	\$ 22,238

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 September 30, 2016	As at December 31, 2015 ⁽²⁾
<i>Caisse centrale Desjardins</i>	\$ 10,387	\$ 10,632
Caisse network	9,307	7,937
Other entities	2,544	2,608
Total	\$ 22,238	\$ 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, including wholesale funding, presented on the Combined Balance Sheets amounted to \$161.3 billion as at September 30, 2016, up \$4.7 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 September 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	\$ 1,587	\$ 1,428	\$ 90	\$ -	\$ 3,105	\$ -	\$ -	\$ 3,105	\$ 2,162
Commercial paper	780	2,618	1,133	-	4,531	-	-	4,531	7,069
Medium-term notes	799	-	361	3,082	4,242	3,376	4,167	11,785	10,188
Mortgage securitization	-	684	-	650	1,334	1,839	5,036	8,209	7,619
Covered bonds	-	-	1,967	-	1,967	-	4,411	6,378	7,955
Subordinated notes	-	-	-	-	-	-	1,385	1,385	1,884
Total	\$ 3,166	\$ 4,730	\$ 3,551	\$ 3,732	\$ 15,179	\$ 5,215	\$ 14,999	\$ 35,393	\$ 36,877
Including:									
Secured	\$ -	\$ 684	\$ 1,967	\$ 650	\$ 3,301	\$ 1,839	\$ 10,832	\$ 15,972	\$ 17,458
Unsecured	3,166	4,046	1,584	3,082	11,878	3,376	4,167	19,421	19,419

Desjardins Group's total wholesale funding presented in the table above was carried out by *Caisse centrale* except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was down \$1.5 billion compared to December 31, 2015, mainly because of a decrease in commercial paper and covered bonds, partially offset by growth in medium-term notes and bearer discount notes.

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 September 30, 2016		As at December 31, 2015	
Canadian dollars	\$ 16,984	48.0%	\$ 15,940	43.2%
U.S. dollars	9,740	27.5	13,499	36.6
Other	8,669	24.5	7,438	20.2
	\$ 35,393	100.0%	\$ 36,877	100.0%

Refinancing programs and strategies

As Desjardins Group's Treasurer, *Caisse centrale* 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 three quarters of 2016, *Caisse centrale* 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* 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* 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* are as follows:

MAIN REFINANCING PROGRAMS

As at September 30, 2016

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

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

Caisse centrale also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of \$1.4 billion in the first nine months of 2016. During the same period, *Caisse centrale* 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* amounted to \$26.4 billion as at September 30, 2016, compared to \$25.8 billion as at December 31, 2015. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Combined Balance Sheets. *Capital Desjardins inc.*'s senior notes outstanding totalled \$1.4 billion as at September 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 \$527 million, net of issuance expenses, in the first nine 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*, 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 nine months of 2016, Desjardins Group's credit ratings remained unchanged. On August 22, 2016, the rating agency DBRS confirmed credit ratings and their outlooks, just as Fitch, Moody's and Standard & Poor's (S&P) had done in the first half of 2016.

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

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 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* 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's* credit rating were lowered three notches by one or several rating agencies, *Caisse centrale* 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* 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 September 30, 2016		As at December 31, 2015	
	Notional amounts	Fair value	Notional amounts	Fair value
Commercial mortgage-backed securities ⁽¹⁾	\$ 21	\$ 21	\$ 49	\$ 50
Financial asset-backed and mortgage-backed securities ⁽²⁾	238	248	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 September 30, 2016			As at December 31, 2015		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps ⁽¹⁾	\$ 634	\$ 8	\$ -	\$ 706	\$ 4	\$ -
Total return swaps ⁽²⁾	66	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 September 30, 2016	As at December 31, 2015
Leveraged finance loans ⁽¹⁾	\$ 176	\$ 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 September 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 nine months of 2016.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2015 are discussed in Note 2, "Basis of presentation and significant accounting policies", to 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).

IFRS 4, "Insurance Contracts"

In September 2016, the IASB issued amendments to IFRS 4, "Insurance Contracts", to address concerns of insurers and organizations representing them about the different effective dates for IFRS 9, "Financial Instruments", (January 1, 2018) and the upcoming new Standard on insurance contracts.

The amendments allow, but do not require, entities that issue insurance contracts to elect one of two optional approaches. The first option is to apply a temporary exemption by continuing to use IAS 39, "Financial Instruments: Recognition and Measurement", instead of IFRS 9 for annual periods beginning prior to January 1, 2021 provided that the entity has not previously applied IFRS 9 and its activities are predominantly connected with insurance. The second option is to apply an overlay approach to the eligible financial assets designated according to certain specific criteria by reclassifying, between profit and loss (P&L) and other comprehensive income (OCI), the difference between the amount presented in P&L under IFRS 9 and the amount that would have been presented in P&L if the entity had applied IAS 39.

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

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COMBINED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at September 30, 2016	As at December 31, 2015
ASSETS			
Cash and deposits with financial institutions		\$ 1,929	\$ 1,716
Securities			
Securities at fair value through profit and loss		32,112	28,715
Available-for-sale securities	5	23,687	23,272
		55,799	51,987
Securities borrowed or purchased under reverse repurchase agreements		7,677	7,881
Loans			
Residential mortgages	6	105,908	102,323
Consumer, credit card and other personal loans		21,723	21,204
Business and government		37,095	36,433
		164,726	159,960
Allowance for credit losses	6	(462)	(455)
		164,264	159,505
Segregated fund net assets		11,620	9,781
Other assets			
Clients' liability under acceptances		23	376
Premiums receivable		2,071	1,662
Derivative financial instruments	9	3,978	4,818
Amounts receivable from clients, brokers and financial institutions		3,051	2,033
Reinsurance assets		2,509	1,964
Investment property		778	683
Property, plant and equipment		1,438	1,451
Goodwill		470	472
Intangible assets		691	661
Deferred tax assets		1,052	784
Other		2,807	2,354
		18,868	17,258
TOTAL ASSETS		\$ 260,157	\$ 248,128
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
Individuals	8	\$ 95,122	\$ 91,243
Business and government		64,735	63,833
Deposit-taking institutions		1,480	1,498
		161,337	156,574
Other liabilities			
Acceptances		23	376
Commitments related to securities sold short		7,674	5,464
Commitments related to securities lent or sold under repurchase agreements		10,098	10,383
Derivative financial instruments	9	1,735	1,689
Amounts payable to clients, brokers and financial institutions		5,343	4,713
Insurance contract liabilities		28,988	26,734
Segregated fund net liabilities		11,607	9,776
Net defined benefit plan liabilities		3,312	2,428
Deferred tax liabilities		163	163
Other		6,176	6,219
		75,119	67,945
Subordinated notes		1,385	1,884
TOTAL LIABILITIES		237,841	226,403
EQUITY			
Capital stock	10	5,272	5,158
Share capital		89	86
Undistributed surplus earnings		1,345	1,793
Accumulated other comprehensive income	11	790	589
Reserves		13,971	12,864
Equity - Group's share		21,467	20,490
Non-controlling interests		849	1,235
TOTAL EQUITY		22,316	21,725
TOTAL LIABILITIES AND EQUITY		\$ 260,157	\$ 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 September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
INTEREST INCOME					
Loans		\$ 1,418	\$ 1,464	\$ 4,221	\$ 4,287
Securities		79	79	239	234
		1,497	1,543	4,460	4,521
INTEREST EXPENSE					
Deposits		415	417	1,227	1,280
Subordinated notes and other		18	32	67	95
		433	449	1,294	1,375
NET INTEREST INCOME		1,064	1,094	3,166	3,146
NET PREMIUMS		1,873	1,692	5,334	5,266
OTHER INCOME					
Deposit and payment service charges		128	125	365	365
Lending fees and credit card service revenues		158	149	481	459
Brokerage and investment fund services		278	255	824	774
Management and custodial service fees		94	90	274	274
Net income on securities at fair value through profit or loss	13	385	17	1,775	579
Net income on available-for-sale securities		99	34	277	246
Net other investment income		49	51	149	187
Foreign exchange income		20	20	58	67
Other		(42)	7	69	109
		1,169	748	4,272	3,060
TOTAL INCOME		4,106	3,534	12,772	11,472
PROVISION FOR CREDIT LOSSES	6	98	102	264	294
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE					
CONTRACT LIABILITIES		1,727	1,246	5,550	4,081
NON-INTEREST EXPENSE					
Salaries and fringe benefits		841	840	2,658	2,614
Premises, equipment and furniture, including depreciation		158	149	482	450
Service agreements and outsourcing		75	84	236	255
Communications		66	66	219	214
Other		578	529	1,775	1,664
		1,718	1,668	5,370	5,197
OPERATING SURPLUS EARNINGS		563	518	1,588	1,900
Income taxes on surplus earnings		109	114	325	403
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS⁽¹⁾		454	404	1,263	1,497
Member dividends		35	35	87	109
Tax recovery on member dividends		(10)	(9)	(24)	(29)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		\$ 429	\$ 378	\$ 1,200	\$ 1,417
of which:					
Group's share		\$ 419	\$ 361	\$ 1,148	\$ 1,301
Non-controlling interests' share		10	17	52	116

⁽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 September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Net surplus earnings for the period after member dividends	\$ 429	\$ 378	\$ 1,200	\$ 1,417
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	(200)	(25)	(653)	310
Share of associates and joint ventures accounted for using the equity method	(1)	-	(3)	1
	(201)	(25)	(656)	311
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	148	(227)	321	(83)
Reclassification to the Combined Statements of Income of (gains) losses on available-for-sale securities	(43)	21	(105)	(73)
	105	(206)	216	(156)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(24)	44	4	175
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(12)	(19)	(38)	(57)
	(36)	25	(34)	118
Net unrealized exchange gains (losses) on the translation of a net investment in a foreign operation, net of hedging transactions	-	1	(1)	2
	69	(180)	181	(36)
Total other comprehensive income, net of income taxes	(132)	(205)	(475)	275
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 297	\$ 173	\$ 725	\$ 1,692
of which:				
Group's share	\$ 284	\$ 173	\$ 675	\$ 1,581
Non-controlling interests' share	13	-	50	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 September 30		For the nine-month periods ended September 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	\$ (73)	\$ (9)	\$ (239)	\$ 113
	(73)	(9)	(239)	113
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	37	(73)	111	(39)
Reclassification to the Combined Statements of Income of (gains) losses on available-for-sale securities	(7)	3	(22)	(22)
	30	(70)	89	(61)
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	(7)	12	3	62
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(5)	(7)	(15)	(22)
	(12)	5	(12)	40
	18	(65)	77	(21)
Total income tax expense (recovery)	\$ (55)	\$ (74)	\$ (162)	\$ 92

COMBINED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the nine-month periods ended September 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	-	-	1,148	-	-	-	-	-	1,148	52	1,200
Other comprehensive income for the period	-	-	(643)	170	-	-	-	-	(473)	(2)	(475)
Comprehensive income for the period	-	-	505	170	-	-	-	-	675	50	725
Issuance of F capital shares	527	-	-	-	-	-	-	-	527	-	527
Other net change in capital stock	(413)	-	-	-	-	-	-	-	(413)	-	(413)
Issuance of share capital	-	3	-	-	-	-	-	-	3	3	6
Redemption of share capital	-	-	-	-	-	-	-	-	-	(3)	(3)
Remuneration on capital stock	-	-	(208)	-	-	-	-	-	(208)	-	(208)
Dividends	-	-	(4)	-	-	-	-	-	(4)	(26)	(30)
Transfer from participating contract holders ⁽¹⁾	-	-	362	34	-	-	-	-	396	(396)	-
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,103)	-	-	(21)	1,124	1,103	-	-	-
Transactions related to put options	-	-	-	-	-	-	1	1	1	(6)	(5)
Other	-	-	-	(3)	-	-	3	3	-	(8)	(8)
BALANCE AS AT SEPTEMBER 30, 2016	\$ 5,272	\$ 89	\$ 1,345	\$ 790	\$ 983	\$ 458	\$ 12,530	\$ 13,971	\$ 21,467	\$ 849	\$ 22,316
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	-	-	1,301	-	-	-	-	-	1,301	116	1,417
Other comprehensive income for the period	-	-	304	(24)	-	-	-	-	280	(5)	275
Comprehensive income for the period	-	-	1,605	(24)	-	-	-	-	1,581	111	1,692
Issuance of F capital shares	974	-	-	-	-	-	-	-	974	-	974
Other net change in capital stock	(600)	-	-	-	-	-	-	-	(600)	-	(600)
Issuance of share capital	-	2	-	-	-	-	-	-	2	652	654
Redemption of share capital	-	-	-	-	-	-	-	-	-	(21)	(21)
Remuneration on capital stock	-	-	(182)	-	-	-	-	-	(182)	-	(182)
Dividends	-	-	(3)	-	-	-	-	-	(3)	(30)	(33)
Transfer from undistributed surplus earnings (to reserves)	-	-	(1,459)	-	2	-	1,457	1,459	-	-	-
Transactions related to put options	-	-	-	-	-	-	13	13	13	(6)	7
Other	-	-	-	-	-	-	-	-	-	(3)	(3)
BALANCE AS AT SEPTEMBER 30, 2015	\$ 5,151	\$ 87	\$ 1,429	\$ 591	\$ 983	\$ 479	\$ 11,486	\$ 12,948	\$ 20,206	\$ 1,175	\$ 21,381

⁽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 nine-month periods ended September 30	
	2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 1,588	\$ 1,900
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	124	122
Net change in insurance contract liabilities	2,254	535
Provision for credit losses	264	294
Impairment on available-for-sale securities recognized in net income	22	101
Net realized gains on available-for-sale securities	(143)	(218)
Other	118	121
Change in operating assets and liabilities:		
Securities at fair value through profit and loss	(3,397)	(1,520)
Securities borrowed or purchased under reverse repurchase agreements	204	(175)
Loans	(5,023)	(6,549)
Derivative financial instruments, net amount	850	(1,525)
Net amounts receivable from and payable to clients, brokers and financial institutions	(388)	1,989
Deposits	4,763	8,219
Commitments related to securities sold short	2,210	2,278
Commitments related to securities lent or sold under repurchase agreements	(285)	(3,667)
Other	(1,530)	(202)
Income taxes paid on surplus earnings	(379)	(290)
Payment of member dividends	(157)	(177)
	1,095	1,236
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Issuance of subordinated notes	-	13
Redemption of subordinated notes	(500)	-
Purchase of debt securities and subordinated notes to third parties on the market	-	(26)
Issuance of F capital shares	426	909
Other net change in capital stock	(413)	(600)
Remuneration on capital stock	(107)	(117)
Issuance of share capital	6	654
Redemption of share capital	(3)	(21)
Dividends paid	(30)	(33)
Exercise of put options written on non-controlling interests	(17)	(49)
	(638)	730
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(37,811)	(40,629)
Proceeds from disposals of available-for-sale securities	14,483	22,524
Proceeds from maturities of available-for-sale securities	23,287	16,589
Business acquisitions, net of cash and cash equivalents acquired	-	(76)
Acquisitions of property, plant and equipment and investment property	(203)	(231)
	(244)	(1,823)
Net increase in cash and cash equivalents	213	143
Cash and cash equivalents at beginning of period	1,716	1,781
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,929	\$ 1,924
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 1,507	\$ 1,389
Interest and dividends received	5,419	4,493

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 November 10, 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).

IFRS 4, "Insurance Contracts"

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

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

Desjardins Group is currently assessing the impact of the choices proposed by these amendments, which will have to be applied to annual reporting periods beginning on or after January 1, 2018 if Desjardins Group elects to use one of the two options.

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 September 30, 2016						
Financial assets						
Cash and deposits with financial institutions	\$ 17	\$ 92	\$ 300	\$ 1,520	\$ -	\$ 1,929
Securities						
Securities at fair value through profit or loss	12,680	19,432	-	-	-	32,112
Available-for-sale securities	-	-	23,687	-	-	23,687
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,677	-	7,677
Loans ⁽¹⁾	-	-	-	164,264	-	164,264
Other financial assets						
Clients' liability under acceptances	-	-	-	23	-	23
Premiums receivable	-	-	-	2,071	-	2,071
Derivative financial instruments	2,318	-	-	-	1,660	3,978
Amounts receivable from clients, brokers and financial institutions	-	-	-	3,051	-	3,051
Other	-	-	-	1,340	-	1,340
Total financial assets	\$ 15,015	\$ 19,524	\$ 23,987	\$ 179,946	\$ 1,660	\$ 240,132
Financial liabilities						
Deposits	\$ -	\$ -	\$ -	\$ 161,337	\$ -	\$ 161,337
Other financial liabilities						
Acceptances	-	-	-	23	-	23
Commitments related to securities sold short	7,674	-	-	-	-	7,674
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,098	-	10,098
Derivative financial instruments	1,549	-	-	-	186	1,735
Amounts payable to clients, brokers and financial institutions	-	-	-	5,343	-	5,343
Other	306	-	-	3,814	-	4,120
Subordinated notes	-	-	-	1,385	-	1,385
Total financial liabilities	\$ 9,529	\$ -	\$ -	\$ 182,000	\$ 186	\$ 191,715

⁽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 September 30, 2016		As at December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	\$ 164,264	\$ 164,805	\$ 159,505	\$ 159,776
Financial liabilities				
Deposits	161,337	161,529	156,574	156,878
Subordinated notes	1,385	1,555	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 September 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	\$ 19	\$ 90	\$ -	\$ 109
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,473	713	-	8,186
Provincial governmental entities and municipal corporations in Canada	16,173	1,248	-	17,421
School or public corporations in Canada	31	114	-	145
Foreign public administrations	304	-	-	304
Other securities				
Financial institutions	31	844	61	936
Other issuers	-	1,921	1,840	3,761
Equity securities	1,026	232	101	1,359
	25,057	5,162	2,002	32,221
Derivative financial instruments				
Interest rate contracts	-	1,607	-	1,607
Foreign exchange contracts	-	1,192	-	1,192
Other contracts	-	1,179	-	1,179
	-	3,978	-	3,978
Total financial assets at fair value through profit or loss	25,057	9,140	2,002	36,199
Available-for-sale financial assets				
Cash and deposits with financial institutions	57	243	-	300
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,483	2,029	-	8,512
Provincial governmental entities and municipal corporations in Canada	9,394	986	-	10,380
School or public corporations in Canada	16	-	-	16
Foreign public administrations	10	25	-	35
Other securities				
Financial institutions	-	1,115	-	1,115
Other issuers	-	446	105	551
Equity securities	2,351	592	133	3,076
Total available-for-sale financial assets⁽¹⁾	18,311	5,436	238	23,985
Financial instruments of segregated funds	5,351	6,269	13	11,633
Total financial assets	\$ 48,719	\$ 20,845	\$ 2,253	\$ 71,817
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	\$ 7,533	\$ 141	\$ -	\$ 7,674
Other	-	-	306	306
	7,533	141	306	7,980
Derivative financial instruments				
Interest rate contracts	-	375	-	375
Foreign exchange contracts	-	233	-	233
Other contracts	-	1,127	-	1,127
	-	1,735	-	1,735
Total financial liabilities	\$ 7,533	\$ 1,876	\$ 306	\$ 9,715

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

NOTE 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 nine-month period ended September 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	\$ -	\$ (1)	\$ -	\$ -	\$ -	\$ (10)	\$ 61
Other issuers								
Hedge funds	8	-	(1)	-	-	-	-	7
Asset-backed term notes	801	-	11	-	-	-	(3)	809
Mortgage bonds	1,043	-	11	-	-	13	(43)	1,024
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	-	1	-	-	48	(16)	101
Total financial assets at fair value through profit or loss	2,019	-	22	-	-	61	(100)	2,002
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	1	-	-	(2)	105
Equity securities	131	1	(1)	25	(38)	24	(9)	133
Total available-for-sale financial assets	237	1	(1)	26	(38)	24	(11)	238
Financial instruments of segregated funds	8	-	-	-	-	5	-	13
Total financial assets	\$ 2,264	\$ 1	\$ 21	\$ 26	\$ (38)	\$ 90	\$ (111)	\$ 2,253
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	\$ 79	\$ -	\$ 7	\$ -	\$ -	\$ -	\$ (12)	\$ 74
Financial liability related to the contingent consideration	258	-	129	-	-	-	(155)	232
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
Total financial liabilities	\$ 375	\$ -	\$ 136	\$ -	\$ (38)	\$ -	\$ (167)	\$ 306

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 (continued)****Changes in fair value of financial instruments categorized within Level 3 (continued)**

For the nine-month period ended September 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72
Other issuers								
Hedge funds	10	-	(1)	-	-	-	-	9
Asset-backed term notes	1,641	-	39	-	-	-	(882)	798
Mortgage bonds	850	-	6	-	-	89	(23)	922
Financial asset-backed securities	26	-	1	-	-	-	-	27
Equity securities	21	-	1	-	-	56	(6)	72
Total financial assets at fair value through profit or loss	2,620	-	46	-	-	145	(911)	1,900
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	107	-	-	1	-	-	(2)	106
Equity securities	43	3	1	17	-	69	(11)	122
Total available-for-sale financial assets	150	3	1	18	-	69	(13)	228
Financial instruments of segregated funds								
Total financial assets	\$ 2,770	\$ 3	\$ 47	\$ 18	\$ -	\$ 214	\$ (924)	\$ 2,128
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	\$ 91	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ (23)	\$ 72
Financial liability related to the contingent consideration	-	-	121	-	-	113	-	234
Derivative financial instruments								
Other contracts - Other	17	3	14	-	-	3	(6)	31
Total financial liabilities	\$ 108	\$ 3	\$ 139	\$ -	\$ -	\$ 116	\$ (29)	\$ 337

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 (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 September 30, 2016	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Asset-backed term notes	\$ 809	Internal model ⁽¹⁾	Illiquidity premium ^(B)	0.60%
			Credit spread ^(B,C)	0 bp to 300 bp
Mortgage bonds	1,190	Discounted cash flows	Comparable inputs ^(B,C)	0 bp to 520 bp
Equity securities	234	Brokers' valuations	Brokers' inputs	- - ⁽²⁾
Other financial assets ⁽³⁾	20			
Total financial assets	\$ 2,253			
Financial liabilities				
Other liabilities - Other				
			Enterprise value ^(A,C)	- - ⁽⁴⁾
			Discount rate ^(B,C)	7.5%
Financial liability related to put options	\$ 74	Discounted cash flows	Put option exercise date ^(B,C)	9 month to 3.25 years
Financial liability related to the contingent consideration	232	Actuarial techniques ⁽⁵⁾	Provision for claims and adjustment expenses ^(B)	- - ⁽⁶⁾
Total financial liabilities	\$ 306			

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%
			Credit spread ^(B,C)	0 bp to 300 bp
Mortgage bonds	1,221	Discounted cash flows	Comparable inputs ^(B,C)	0 bp to 520 bp
			Proportion of credit spread ^(B,C)	75%
Equity securities	161	Option valuation model	Increase in exercise price ^(B,C)	5%
Other financial assets ⁽³⁾	43	Brokers' valuations	Brokers' inputs	- - ⁽²⁾
Total financial assets	\$ 2,264			
Financial liabilities				
Other liabilities - Other				
			Enterprise value ^(A,C)	- - ⁽⁴⁾
			Discount rate ^(B,C)	7.5%
Financial liability related to put options	\$ 79	Discounted cash flows	Put option exercise date ^(B,C)	6 months to 4 years
Financial liability related to the contingent consideration	258	Actuarial techniques ⁽⁵⁾	Provision for claims and adjustment expenses ^(B)	- - ⁽⁶⁾
Other financial liabilities ⁽⁷⁾	38			
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 September 30, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by:				
Canadian governmental entities	\$ 8,409	\$ 104	\$ 1	\$ 8,512
Provincial governmental entities and municipal corporations in Canada	10,092	288	-	10,380
School or public corporations in Canada	16	-	-	16
Foreign public administrations	34	1	-	35
Other securities				
Financial institutions	1,107	9	1	1,115
Other issuers	525	28	1	552
Equity securities ⁽¹⁾	2,738	394	55	3,077
	\$ 22,921	\$ 824	\$ 58	\$ 23,687
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 nine-month period ended September 30, 2016, Desjardins Group concluded that there was objective evidence of impairment. Impairment losses of \$8 million (\$70 million for the three-month period ended September 30, 2015) and \$22 million (\$101 million for the nine-month period ended September 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 \$809 million and \$839 million, respectively, as at September 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 September 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 September 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 September 30, 2016 (gain of \$5 million for the three-month period ended September 30, 2015) and a gain of \$11 million was recognized for the nine-month period ended September 30, 2016 (gain of \$39 million for the nine-month period ended September 30, 2015). In addition, a gain of \$1 million related to the derivative financial instruments hedging ABTNs was recognized for the three-month period ended September 30, 2016 (gain of \$1 million for the three-month period ended September 30, 2015) and a gain of \$2 million was recognized for the nine-month period ended September 30, 2016 (immaterial loss for the nine-month period ended September 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 September 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	\$ 103,606	\$ 2,108	\$ 194	\$ 19	\$ 46	\$ 105,843
Consumer, credit card and other personal loans	20,925	702	96	16	139	21,568
Business and government	36,459	328	308	85	157	36,853
	\$ 160,990	\$ 3,138	\$ 598	\$ 120	\$ 342	\$ 164,264

⁽¹⁾ Includes the collective allowance on impaired loans of \$21 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 September 30, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 1,750	\$ 151	\$ 84	\$ 123	\$ 2,108
Consumer, credit card and other personal loans	499	111	66	26	702
Business and government	189	40	19	80	328
	\$ 2,438	\$ 302	\$ 169	\$ 229	\$ 3,138

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 nine-month periods ended September 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	19	13	239	238	6	43	264	294
Write-offs and recoveries	(18)	(10)	(233)	(227)	(19)	(25)	(270)	(262)
Balance at end of period	\$ 66	\$ 68	\$ 195	\$ 187	\$ 294	\$ 324	\$ 555	\$ 579
Composed of:								
Allowance for credit losses	\$ 65	\$ 67	\$ 154	\$ 147	\$ 243	\$ 264	\$ 462	\$ 478
Allowance for off-balance sheet items ⁽¹⁾	1	1	41	40	51	60	93	101

⁽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 \$8,655 million as at September 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 \$6,378 million as at September 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 September 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	\$ 41,506	\$ 3,727	\$ 49,889	\$ 95,122	\$ 38,079	\$ 3,740	\$ 49,424	\$ 91,243
Business and government	22,695	306	41,734	64,735	19,869	368	43,596	63,833
Deposit-taking institutions	1,378	-	102	1,480	1,200	-	298	1,498
	\$ 65,579	\$ 4,033	\$ 91,725	\$ 161,337	\$ 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 September 30, 2016			As at December 31, 2015		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges	\$ 32,062	\$ 1,417	\$ 153	\$ 35,347	\$ 2,296	\$ 73
Cash flow hedges	21,354	243	33	21,686	389	48
Total - Designated as hedging instruments	53,416	1,660	186	57,033	2,685	121
Trading purposes	184,345	2,318	1,549	169,774	2,133	1,568
Total derivative financial instruments before impact of master netting agreements	237,761	3,978	1,735	226,807	4,818	1,689
Less :						
Impact of master netting agreements ⁽¹⁾	-	474	474	-	538	538
Total derivative financial instruments after impact of master netting agreements	\$ 237,761	\$ 3,504	\$ 1,261	\$ 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 on securities at fair value through profit or loss" in the Combined Statements of Income.

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Fair value hedge ineffectiveness	\$ 3	\$ 5	\$ 14	\$ 37
Cash flow hedge ineffectiveness	1	10	(6)	17

NOTE 10 – CAPITAL STOCK

ISSUANCE OF SHARES

During the nine-month period ended September 30, 2016, the Federation issued 42,616,888 F capital shares for a cash consideration of \$426 million. In addition, the Federation issued 10,062,747 F capital shares having a value of \$101 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 September 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	\$ 560	\$ 16	\$ 324	\$ 36
Net gains on derivative financial instruments designated as cash flow hedges	229	2	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	\$ 790	\$ 18	\$ 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 \$527 million, of which \$101 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 September 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 September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Income				
Net interest income	\$ 8	\$ 6	\$ 31	\$ 18
Net income (loss) on securities at fair value through profit or loss	(8)	105	326	168
	\$ -	\$ 111	\$ 357	\$ 186

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 September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Income				
Net interest income	\$ -	\$ -	\$ 1	\$ 3
Net income (loss) on securities at fair value through profit or loss	393	(88)	1,449	411
	\$ 393	\$ (88)	\$ 1,450	\$ 414

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 September 30										
Net interest income	\$ 991	\$ 1,038	\$ -	\$ -	\$ -	\$ 1	\$ 73	\$ 55	\$ 1,064	\$ 1,094
Net premiums	-	-	1,123	1,056	811	702	(61)	(66)	1,873	1,692
Other income	516	481	778	389	12	(31)	(137)	(91)	1,169	748
Total income	1,507	1,519	1,901	1,445	823	672	(125)	(102)	4,106	3,534
Provision for credit losses	102	113	-	-	-	-	(4)	(11)	98	102
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,216	814	510	436	1	(4)	1,727	1,246
Non-interest expense	1,032	1,042	531	510	278	265	(123)	(149)	1,718	1,668
Operating surplus earnings	373	364	154	121	35	(29)	1	62	563	518
Income taxes on surplus earnings	103	96	28	38	9	(6)	(31)	(14)	109	114
Surplus earnings before member dividends⁽¹⁾	270	268	126	83	26	(23)	32	76	454	404
Member dividends, net of income tax recovery	25	26	-	-	-	-	-	-	25	26
Net surplus earnings for the period after member dividends	\$ 245	\$ 242	\$ 126	\$ 83	\$ 26	\$ (23)	\$ 32	\$ 76	\$ 429	\$ 378
of which:										
Group's share	\$ 244	\$ 242	\$ 125	\$ 72	\$ 19	\$ (27)	\$ 31	\$ 74	\$ 419	\$ 361
Non-controlling interests' share	1	-	1	11	7	4	1	2	10	17

⁽¹⁾ For the three-month periods ended September 30, 2016 and 2015, the Group's share of "Surplus earnings before member dividends" was respectively \$269 million and \$268 million for the Personal Services and Business and Institutional Services segment, \$125 million and \$72 million for the Wealth Management and Life and Health Insurance segment, \$19 million and \$(27) million for the Property and Casualty Insurance segment and \$31 million and \$74 million 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 nine-month periods ended September 30										
Net interest income	\$ 2,950	\$ 2,982	\$ -	\$ -	\$ 1	\$ 1	\$ 215	\$ 163	\$ 3,166	\$ 3,146
Net premiums	-	-	3,126	3,038	2,391	2,425	(183)	(197)	5,334	5,266
Other income	1,536	1,474	2,827	1,581	297	233	(388)	(228)	4,272	3,060
Total income	4,486	4,456	5,953	4,619	2,689	2,659	(356)	(262)	12,772	11,472
Provision for credit losses	275	305	-	-	-	-	(11)	(11)	264	294
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	3,887	2,564	1,663	1,528	-	(11)	5,550	4,081
Non-interest expense	3,239	3,199	1,630	1,565	873	818	(372)	(385)	5,370	5,197
Operating surplus earnings	972	952	436	490	153	313	27	145	1,588	1,900
Income taxes on surplus earnings	265	249	89	114	39	66	(68)	(26)	325	403
Surplus earnings before member dividends⁽¹⁾	707	703	347	376	114	247	95	171	1,263	1,497
Member dividends, net of income tax recovery	63	80	-	-	-	-	-	-	63	80
Net surplus earnings for the period after member dividends	\$ 644	\$ 623	\$ 347	\$ 376	\$ 114	\$ 247	\$ 95	\$ 171	\$ 1,200	\$ 1,417
of which:										
Group's share	\$ 642	\$ 622	\$ 326	\$ 307	\$ 88	\$ 205	\$ 92	\$ 167	\$ 1,148	\$ 1,301
Non-controlling interests' share	2	1	21	69	26	42	3	4	52	116

⁽¹⁾ For the nine-month periods ended September 30, 2016 and 2015, the Group's share of "Surplus earnings before member dividends" was respectively \$705 million and \$702 million for the Personal Services and Business and Institutional Services segment, \$326 million and \$307 million for the Wealth Management and Life and Health Insurance segment, \$88 million and \$205 million for the Property and Casualty Insurance segment and \$92 million and \$167 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 September 30, 2016	\$ 195,923	\$ 39,695	\$ 14,970	\$ 9,569	\$ 260,157
As at December 31, 2015	\$ 187,759	\$ 35,393	\$ 14,420	\$ 10,556	\$ 248,128

NOTE 15 – SUBSEQUENT EVENT**MERGER PROJECT**

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

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

Upon completion of the merger, the Federation will enjoy all CCD's rights and will be responsible for all CCD's obligations, in addition to its own rights and obligations.

GENERAL INFORMATION

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