Desjardins

Financial Report

First quarter of 2017

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

Desjardins Group records surplus earnings of $383 million

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016[1]	March 31, 2016[1]
Net interest income	**$ 1,057**	$ 1,087	$ 1,054
Net premiums	**1,982**	1,834	1,721
Other operating income[2]	**716**	627	696
Operating income[2]	**3,755**	3,548	3,471
Investment income (loss)[2]	**435**	(1,082)	641
Total income	**4,190**	2,466	4,112
Provision for credit losses	**92**	55	91
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	(104)	1,758
Non-interest expense	**1,847**	1,871	1,773
Income taxes on surplus earnings	**115**	135	108
Surplus earnings before member dividends	**$ 383**	$ 509	$ 382
Return on equity[2]	**6.8%**	8.8%	7.1%
Productivity index[2]	**75.8**	72.8	75.3
Provisioning rate[2]	**0.22**	0.13	0.23

(1) Data for 2016 have been reclassified to conform to 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 March 31, 2017**	As at December 31, 2016
Balance sheet		
Assets	**$ 267,935**	$ 258,367
Net loans and acceptances	**167,703**	166,026
Deposits	**169,327**	160,546
Equity	**23,556**	23,293
Indicators		
Assets under administration	**$ 388,567**	$ 420,166
Assets under management [1]	**54,079**	51,550
Tier 1A capital ratio	**17.2%**	17.3%
Tier 1 capital ratio	**17.2**	17.3
Total capital ratio	**17.6**	17.9
Leverage ratio	**7.9**	8.1
Gross impaired loans/gross loans and acceptances[2]	**0.32**	0.32

(1) Assets under management may also be administered by Desjardins Group. When this is the case, they are included in assets under administration.
(2) See "Basis of presentation of financial information".

MESSAGE FROM SENIOR MANAGEMENT

Lévis, May 12, 2017 — For the first quarter ended March 31, 2017, Desjardins Group, the leading financial cooperative group in Canada, recorded surplus earnings before member dividends of $383 million, mainly due to the Personal and Business Services segment and of the life and health insurance activities, which experienced solid growth as well as a favourable experience. The Property and Casualty Insurance segment had to contend with a more difficult context, recording a higher claims experience for the current year as a result of unfavourable winter weather conditions, with damage caused by water and major snowfalls in Quebec, as well as the windstorm in Ontario.

This result reflects the contribution of $246 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment contributed $143 million to surplus earnings, while the Property and Casualty Insurance segment recorded an $18 million deficit. A $12 million contribution to surplus earnings resulted from the operations grouped under the Other category.

"We owe much of these good results to strong growth in our business volumes, not only in the caisse network but also in life and health insurance," said Guy Cormier, Chair of the board, President and Chief Executive Officer. "I should also mention the significant increase in our wealth management operations, where our teams are providing sound advice to members and clients. Ultimately, this allows us to increase member dividends and live up to our many community commitments, while continuing to invest in the development of our cooperative financial group, to the benefit of our members and clients."

Desjardins Group complies with Basel III rules and maintains very good capitalization. As at March 31, 2017, Desjardins Group's Tier 1A and total capital ratios were 17.2% and 17.6%, respectively, compared to 17.3% and 17.9%, respectively, as at December 31, 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated May 12, 2017 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended March 31, 2017, 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* prescribed by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this regulation. However, it has chosen to apply the practices provided in this regulation 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 March 31, 2017, and the 2016 Desjardins Group Annual Report (the 2016 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 Form of the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can be found on SEDAR as well. The name "Federation" also designates *Caisse centrale Desjardins*, a cooperative entity that merged with the Federation by absorption on January 1, 2017. Further information is available on the Desjardins website at **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 2016 MD&A, 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, liquidity regulatory guidance and capital guidelines, or interpretations thereof. There is also 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 essentially 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 technological advancement and regulatory developments, cybersecurity, household indebtedness and real estate market trends, geopolitical risks and communication and information. Furthermore, there are factors related to general 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; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied 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; geographic concentration; acquisitions and joint arrangements; 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, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the potential impact 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 2016 MD&A. 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 $267.9 billion. The organization brings together 293 caisses in Quebec and Ontario, the *Federation des caisses Desjardins du Québec* and its subsidiaries (including *Capital Desjardins inc.*), 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. Through its Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance business segments, Desjardins Group offers 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 close to 48,000 employees and the commitment of more than 4,400 elected officers.

The Federation is the treasurer and official representative of Desjardins Group with the Bank of Canada and the Canadian banking system.

SIGNIFICANT EVENT IN 2017

Sale of subsidiaries

On February 15, 2017, Desjardins Group reached an agreement to sell two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company, for a total consideration of approximately $775 million. The results of these subsidiaries are currently presented in the Property and Casualty Insurance segment. The transaction is expected to close in the third quarter of 2017, subject to the required regulatory approvals and standard closing conditions. These subsidiaries contributed $6 million to net surplus earnings, after member dividends, for the first quarter of 2017.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

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

Adjusted net surplus earnings − Property and Casualty Insurance segment

The net surplus earnings of the Property and Casualty Insurance segment (P&C) are adjusted to exclude the expenses, net of income taxes, incurred as part of the sale of Western Financial Group Inc. and Western Life Assurance Company as well as those incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), completed on January 1, 2015. These expenses include the costs related to the transaction, the integration of operations and processing expenses.

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		
	March 31, 2017	December 31, 2016	March 31, 2016
Presentation of the net surplus earnings (deficit) of the Property and Casualty Insurance segment in the Combined Financial Statements	**$ (18)**	$ 182	$ 39
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, net of income taxes	**13**	-	-
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes	**8**	9	7
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&A	**$ 3**	$ 191	$ 46

Productivity index

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

The following table presents the calculation of the productivity index as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016(1)	March 31, 2016(1)
Non-interest expense	**$ 1,847**	$ 1,871	$ 1,773
Total income	**4,190**	2,466	4,112
Claims, benefits, annuities and changes in insurance contract liabilities	**(1,753)**	104	(1,758)
Total income excluding claims	**$ 2,437**	$ 2,570	$ 2,354
Productivity index as presented in the MD&A	**75.8%**	72.8%	75.3%

(1) Data for 2016 have been reclassified to conform to the current period's presentation.

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.

The table “Gross impaired loans by borrower category”, of Desjardins Group’s MD&A provides more detailed information on this indicator.

Average loans and acceptances – Average deposits – Average equity

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.

Loss ratio – Expense ratio –Combined ratio

These ratios are used to measure the profitability of the Property and Casualty Insurance segment.

The loss ratio is equal to incurred claims less 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.

The expense ratio is equal to operating expenses expressed as a percentage of net premiums earned.

The combined ratio is equal to the sum of the above two ratios.

The following table presents the calculation of these ratios as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Net premiums	**$ 965**	$ 816	$ 783
Premiums excluded from the loss ratio[1]	**(32)**	(39)	(33)
Net premiums considered in the ratio denominators	**$ 933**	$ 777	$ 750
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 719**	$ 175	$ 584
Market yield adjustment (MYA)	**(16)**	106	(15)
Other items excluded from the loss ratio[1]	**(8)**	12	(13)
Claims, benefits, annuities and insurance contract liabilities excluding the MYA	**$ 695**	$ 293	$ 556
Loss ratio as presented in the MD&A	**74.5%**	37.8%	74.1%
Non-interest expense	**$ 326**	$ 259	$ 269
Other expenses excluded from the expense ratio[2]	**(85)**	(72)	(72)
Operating expenses	**$ 241**	$ 187	$ 197
Expense ratio as presented in the MD&A	**25.8%**	24.1%	26.2%
Combined ratio as presented in the MD&A	**100.3%**	61.9%	100.3%

(1) Comes mainly from the life insurance activities of Western Life Assurance Company.
(2) Comes mainly from the life insurance and insurance product distribution activities of Western Life Assurance Company and Western Financial Group Inc., including expenses related to the sale of these two entities and expenses related to the acquisition of State Farm’s Canadian operations.

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.

The following table presents the reconciliation of return on equity with surplus earnings before member dividends as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Surplus earnings before member dividends	**$ 383**	$ 509	$ 382
Non-controlling interests' share	**(5)**	(24)	(21)
Group's share	**378**	485	361
Average equity before non-controlling interests' share	**$ 22,607**	$ 21,971	$ 20,538
Return on equity presented in the MD&A[1]	**6.8%**	8.8%	7.1%

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

Income

Operating income

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

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

Investment income

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

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

(in millions of dollars)	**For the three-month periods ended**		
	March 31, 2017	December 31, 2016[1]	March 31, 2016[1]
Presentation of income in the Combined Financial Statements			
Net interest income	**$ 1,057**	$ 1,087	$ 1,054
Net premiums	**1,982**	1,834	1,721
Other income			
Deposit and payment service charges	**120**	123	118
Lending fees and credit card service revenues	**172**	150	149
Brokerage and investment fund services	**278**	282	260
Management and custodial service fees	**101**	102	88
Net income (loss) on securities at fair value through profit or loss	**301**	(1,242)	512
Net income on available-for-sale securities	**80**	111	79
Net other investment income	**54**	49	50
Foreign exchange income	**19**	12	16
Other	**26**	(42)	65
Total income	**$ 4,190**	$ 2,466	$ 4,112
Presentation of income in the MD&A			
Net interest income	**$ 1,057**	$ 1,087	$ 1,054
Net premiums	**1,982**	1,834	1,721
Other operating income			
Deposit and payment service charges	**120**	123	118
Lending fees and credit card service revenues	**172**	150	149
Brokerage and investment fund services	**278**	282	260
Management and custodial service fees	**101**	102	88
Foreign exchange income	**19**	12	16
Other	**26**	(42)	65
Operating income	**3,755**	3,548	3,471
Investment income (loss)			
Net income (loss) on securities at fair value through profit or loss	**301**	(1,242)	512
Net income on available-for-sale securities	**80**	111	79
Net other investment income	**54**	49	50
	435	(1,082)	641
Total income	**$ 4,190**	$ 2,466	$ 4,112

[1] Data for 2016 have been reclassified to conform to the current period's presentation.

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.

The following table presents the calculation of the provisioning rate as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Provision for credit losses	**$ 92**	$ 55	$ 91
Average gross loans	**167,264**	165,599	160,276
Average gross acceptances	**58**	17	231
Average gross loans and acceptances	**$ 167,322**	$ 165,616	$ 160,507
Provisioning rate as presented in the MD&A[(1)]	**0.22%**	0.13%	0.23%

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

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, tax evasion, protection of personal information, money laundering and terrorist financing in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2016 Annual MD&A.

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

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

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

On June 19, 2014, to strengthen the Canadian regime to fight money laundering and terrorist financing as well as improve the effectiveness of its 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 two new guidelines: the first on methods to ascertain the identity of individual clients, and the second to do with politically exposed persons and heads of international organizations. They come into force on June 30, 2016 (including a transitional period until June 30, 2017), and June 17, 2017, respectively. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to assess 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.

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

The Organisation for Economic Co-operation and Development (OECD) has set up a “Standard for Automatic Exchange of Financial Information in Tax Matters”, based on the same general principles and obligations as those of the *Foreign Account Tax Compliance Act* (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 is continuing its 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 December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards, which includes provisions with respect to the third pillar. Desjardins Group is currently working to ensure compliance with these new requirements once they take effect on December 31, 2018. The “Capital management” section of this MD&A presents additional information on the main changes in capital currently under study.

ECONOMIC ENVIRONMENT AND OUTLOOK

Rising interest rates and buoyant stock indices at the end of 2016 gave way to slightly more hesitation in the first quarter of 2017. Uncertainties remain over the measures that have been promised by the new administration in Washington. A quick recovery in oil production and very high crude oil inventories in the U.S. also weighed on oil prices, and this has raised doubts over the improved outlook for economic growth and for inflation. As a result, long-term bond rates in North America have only consolidated the increases registered at the end of 2016, even though the Fed has continued to tighten monetary policy. The stock markets nevertheless performed well in the first quarter of 2017. In the wake of the gains registered in 2016, the Toronto Stock Exchange was held back by profit-taking in the Energy sector.

If investors appeared to be hesitant, the central banks seemed encouraged by rising inflation and signs of a broad-based improvement in household and business confidence. The Fed let a full year pass before implementing a second hike in the federal funds rate, then it raised rates by another 0.25% in mid-March, representing a second consecutive quarterly increase. U.S. key interest rates should continue to increase gradually over the next few months, placing some upward pressure on bond rates. Europe’s central banks also adopted a more positive tone, and appear not to be considering easing monetary policy further. Despite encouraging economic indicators, the Bank of Canada continues to express some concerns, in particular over the threat of protectionism in the U.S. The central bank is not expected to begin tightening monetary policy until mid-2018. Until then, the Canadian dollar may weaken slightly against its U.S. counterpart, while the spreads in short-term rates between the two countries should widen.

Conditions in the global economy appear to be slowly improving. The advanced indicators of the OECD are positive for the industrialized countries as well as for the BRIC countries (Brazil, Russia, India and China). There has also been a relatively broad-based improvement in consumer and business confidence indicators. Furthermore, even global trade appears to be improving, with slightly stronger growth recorded in the final months of 2016 compared to the beginning of the year. Paradoxically, all these promising developments are occurring at a time when concerns about economic policies are very high. Growth is expected to continue at a good pace in Europe. However, the political situation is characterized by several crucial elections and the imminent start of Brexit negotiations, all of which may complicate the environment. But the results of the recent presidential election in France will probably ease some of the concerns. Furthermore, negotiations of Brexit have now begun between the European Union and the United Kingdom. The British government has even decided to call an election to strengthen its mandate. The election comes at a time when the resilience of the British economy is beginning to wane. In China, slightly slower growth is expected following the 6.7% gain recorded for 2016. Global real GDP is expected to grow 3.3%, following an estimated 3.0% gain in 2016. In 2018, the rate could be 3.5%.

The U.S. economy continues to generate good news. This is particularly evident in the labour market, where the unemployment rate fell to 4.5% in March 2017, a 10-year low. There has also been a clear improvement in consumer and business confidence. However, the results for the first quarter of 2017 may be disappointing since, with the exception of the employment figures, the real data have rarely confirmed the inflated expectations engendered by confidence surveys. First, consumption fell in the first two months of the year. Furthermore, the new administration has been slow to honour the promises made on the campaign trail. It would now appear that the expected tax cuts will come in 2018 rather than in 2017. Real GDP in the U.S. is forecast at 2.2% for 2017, accelerating to 2.4% in 2018.

In Canada, real GDP surpassed expectations in the fourth quarter of 2016, rising 2.6% (at an annualized quarterly rate). Given the 3.8% increase recorded in the third quarter, the Canadian economy performed very well in the second half of 2016. However, economic growth in 2016 was only 1.4% due to the problems encountered in the first half of the year, including the forest fires in the Fort McMurray region. The outlook for 2017 is nevertheless better, with a forecast growth of 2.2%. Furthermore, it would appear that the federal government’s investment plan is starting to have a positive impact. The tax measures introduced in the 2016 budget, including the child benefit, are also affecting the disposable income of Canadian households, which has shown stronger growth since mid-2016. If we also take into account good growth in the labour market over the last few months and the recent upswing in household confidence, the conditions are now in place for continued growth in consumer spending over the next few quarters. Yet despite the bullish trend over the last few months, it appears that crude oil prices will remain too low for most of the projects in the Energy sector to generate profits. This will temper growth in non-residential investment in 2017 and 2018. Furthermore, uncertainties surrounding the North American Free Trade Agreement (NAFTA) and trade between Canada and the U.S. will prompt many businesses to adopt a cautious approach.

In Quebec, 2016 ended on a positive note, with real GDP growing at a rate of 2.2% in the fourth quarter. Economic growth for the year was 2.0%, the best performance recorded since 2010. The positive environment for household spending in 2017 also augurs well for the economy. Consumer spending continued at a strong pace in the fourth quarter due to strong job creation and tax cuts that propelled household disposable income last year. The unemployment rate even fell to 6.5% in the last quarter of 2016, the lowest level seen in at least 40 years. The consumer confidence index also rose sharply, and this augurs well for consumer spending in 2017.

Quebec's residential sector regained momentum in 2016. New construction and the sales of existing properties were strong at the end of the year. The annual increase in average selling prices even rose, almost reaching 4% in the fourth quarter. Demand for single-family homes picked up, as did demand for condominiums, which has reduced an oversupply situation in the market. The stricter mortgage rules imposed by the federal government in the fall of 2016 did not have a negative impact on Quebec's real estate market due to the favourable environment for households.

Lastly, business investment picked-up in 2016. Non-residential construction grew at an annual rate of 2.8% in the last quarter of 2016, while investment in machinery and equipment flagged after a strong start to the year. Quebec's exports recovered in the fourth quarter following a decline in the first half of the year. The year was therefore characterized by relative stability. However, several risks related to U.S. trade policies since the election of the new president, including softwood lumber, nevertheless weigh on Quebec's foreign trade prospects. On April 24, 2017, the U.S. declared a 20% countervailing duty on Canadian wood exports. This represents another episode in a long-running battle that began in the 1980s. The conflict resurfaces on a regular basis and remains a constant irritant in Canada-U.S. trade relations. The softwood lumber industry alone represents between 0.2% and 0.3% of Quebec's GDP every year, while the wood products industry accounts for close to 1%.

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016[1]	March 31, 2016[1]
Results			
Net interest income	**$ 1,057**	$ 1,087	$ 1,054
Net premiums	**1,982**	1,834	1,721
Other operating income			
Deposit and payment service charges	**120**	123	118
Lending fees and credit card service revenues	**172**	150	149
Brokerage and investment fund services	**278**	282	260
Management and custodial service fees	**101**	102	88
Foreign exchange income	**19**	12	16
Other	**26**	(42)	65
Operating income[2]	**3,755**	3,548	3,471
Investment income (loss)[2]			
Net income (loss) on securities at fair value through profit or loss	**301**	(1,242)	512
Net income on available-for-sale securities	**80**	111	79
Net other investment income	**54**	49	50
	435	(1,082)	641
Total income	**4,190**	2,466	4,112
Provision for credit losses	**92**	55	91
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	(104)	1,758
Non-interest expense	**1,847**	1,871	1,773
Income taxes on surplus earnings	**115**	135	108
Surplus earnings before member dividends	**$ 383**	$ 509	$ 382
Contribution to combined surplus earnings by business segment[3]			
Personal and Business Services	**$ 246**	$ 258	$ 232
Wealth Management and Life and Health Insurance	**143**	114	97
Property and Casualty Insurance	**(18)**	182	39
Other	**12**	(45)	14
	$ 383	$ 509	$ 382
Amount returned to members and the community			
Member dividends	**$ 35**	$ 57	$ 30
Sponsorships and donations	**17**	25	16
Desjardins Member Advantages program	**9**	7	7
	$ 61	$ 89	$ 53
Indicators			
Return on equity[2]	**6.8%**	8.8%	7.1%
Productivity index[2]	**75.8**	72.8	75.3
Provisioning rate[2]	**0.22**	0.13	0.23

(1) Data for 2016 have been reclassified to conform to 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 first quarters of 2017 and 2016

Surplus earnings

For the first quarter ended March 31, 2017, Desjardins Group recorded surplus earnings before member dividends of $383 million mainly due to the operations of the Personal and Business Services segment as well as life and health insurance activities, which recorded solid growth and a favourable experience. The operations of the Property and Casualty Insurance segment had to contend with a more difficult context, recording a higher claims experience for the current year as a result of unfavourable winter weather conditions, with damage caused by water and major snowfalls in Quebec, as well as the windstorm in Ontario.

This result reflects the contribution of $246 million made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment contributed $143 million to surplus earnings, while the Property and Casualty Insurance segment recorded an $18 million deficit. A $12 million contribution to surplus earnings resulted from the operations grouped under the Other category.

Return on equity was 6.8%, comparable to the 7.1% recorded in the corresponding quarter of 2016.

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 quarter of 2017. The amount set aside for member dividends therefore totalled $35 million for the quarter, a $5 million, or 16.7%, increase compared to the same period of the previous year. If we add this amount to the $17 million given to various organizations in the form of donations and sponsorships, and the $9 million paid out through the Desjardins Member Advantages program, the amount returned to the community totalled $61 million for the first quarter, compared to $53 million for the same quarter in 2016, an increase of 15.1%.

Operating income

Operating income stood at $3,755 million, up $284 million, or 8.2%, compared to the first quarter of 2016.

Net interest income was $1,057 million, compared to $1,054 million for the same period in the previous year. Fierce competition in the market continued to put pressure on interest margins, despite growth in the entire portfolio of loans and acceptances outstanding, amounting to $7.5 billion, or 4.7%, during the year, which includes mortgage loan, business loan and credit card financing activities.

Net premiums were up $261 million, or 15.2%, compared to the first quarter of 2016, to total $1,982 million as at March 31, 2017.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $1,081 million for the first quarter of 2017, up $78 million, or 7.8%, compared to the same period in 2016. Insurance premiums increased by $42 million, with group insurance accounting for $31 million of this growth and individual insurance for $11 million. Annuity premiums increased by $36 million.

The Property and Casualty Insurance segment's operations generated net premium income of $965 million for the first quarter of 2017, compared to $783 million for the same period in 2016, an increase of $182 million, or 23.2%, 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, as well as from non-interest expense. 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.

Other operating income totalled $716 million, up $20 million, or 2.9%, compared to the corresponding quarter in 2016, chiefly as a result of growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities. This increase was mitigated by a larger increase than in first quarter 2016 in the contingent consideration payable arising from favourable developments in claims taken over as part of the acquisition of State Farm's Canadian operations.

Investment income

Investment income was down $206 million compared to the first quarter of 2016, primarily due to changes in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was largely offset by a change in actuarial liabilities which led to lower 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 stock, bond and derivatives portfolio. The change in the fair value of derivative financial instruments associated with Desjardins Group's hedging activities also contributed to the decrease in investment income in first quarter 2017. Finally, the Property and Casualty Insurance segment also recorded a reduction in investment income related to unfavourable changes in the fair value of derivative financial instruments in first quarter 2017. Growth in trading income from capital markets and treasury operations partially mitigated these reductions.

Total income

Total income amounted to $4,190 million, up $78 million, or 1.9%, compared to the same period in 2016.

Provision for credit losses

The provision for credit losses totalled $92 million for the first quarter of 2017, which is comparable to the first quarter of 2016. The provisioning rate was 0.22%, compared to 0.23% for the corresponding period of 2016. 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 0.32% as at March 31, 2017, compared to 0.35% for the corresponding quarter of 2016.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,753 million, down slightly compared to the corresponding quarter of 2016.

The Wealth Management and Life and Health Insurance segment recorded expenses of $1,036 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of $143 million compared to 2016. This change mainly resulted from a $168 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. In addition, the increase in annuity premiums and the good claims experience in insurance contributed to the change in actuarial liabilities.

The cost of claims for the Property and Casualty Insurance segment was $719 million for the first quarter, for an increase of $135 million, or 23.1%, compared to the first quarter of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 74.5% for the first quarter of 2017, compared to 74.1% in the corresponding quarter of 2016. This increase was chiefly due to the claims experience for the current year in automobile insurance and home insurance, which was higher than in the same quarter of 2016 because of unfavourable winter weather conditions, with damage caused by water and major snowfalls in Quebec, as well as the windstorm in Ontario. It was partially mitigated by favourable developments in the first quarter of 2017, in claims taken over as part of the acquisition of State Farm's Canadian operations, completed on January 1, 2015.

Non-interest expense and other item

Non-interest expense totalled $1,847 million, up $74 million, or 4.2%, compared to the first quarter of 2016, mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, as well as business growth, particularly in credit card and point-of-sale financing activities. The increase in these items was partially offset by productivity efforts.

The productivity index stood at 75.8% for the first quarter of 2017, compared to 75.3% for the same quarter a year earlier.

Income taxes

Income taxes on surplus earnings before member dividends totalled $115 million for the first quarter of 2017, a $7 million increase compared to the corresponding quarter in 2016. The effective tax rate was 23.1%, compared to 22.0% for the same quarter in 2016.

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. In first quarter 2017, certain changes were made to the business segments to reflect senior management's decisions about the way each segment is managed, as mentioned for the business segments concerned. Desjardins Group's financial results are divided into the following three business segments: Personal and Business 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. Prior period amounts have been restated to conform to these reclassifications.

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 2017 strategies and priorities, can be found on pages 33 to 43 of the 2016 MD&A.

PERSONAL AND BUSINESS SERVICES

The Personal and Business Services segment is central to Desjardins Group's operations. Through a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, Desjardins Group is a leading player on the financial services scene in Quebec and Ontario. To serve the constantly-changing needs of its members and clients, Desjardins Group offers its services through the Desjardins caisse network and its Desjardins Business centres as well as through complementary distribution networks and specialized teams, by phone, online, via applications for mobile devices, and at ATMs. The operations of the *Fonds de sécurité Desjardins* and the shared services which the Federation provides to this segment, formerly presented in the Other category, have been recorded in this segment since the first quarter of 2017.

PERSONAL AND BUSINESS SERVICES – SEGMENT RESULTS

(in millions of dollars and as a percentage)	**For the three-month periods ended**		
	March 31, 2017	December 31, 2016[1]	March 31, 2016[1]
Net interest income	**$ 985**	$ 1,021	$ 988
Other operating income	**500**	504	479
Operating income	**1,485**	1,525	1,467
Investment income	**37**	22	23
Total income	**1,522**	1,547	1,490
Provision for credit losses	**92**	54	91
Non-interest expense	**1,101**	1,086	1,086
Income taxes on surplus earnings	**83**	149	81
Surplus earnings before member dividends	**246**	258	232
Member dividends, net of income tax recovery	**26**	42	22
Net surplus earnings for the period after member dividends	**$ 220**	$ 216	$ 210
Of which:			
Group's share	**$ 220**	$ 216	$ 209
Non-controlling interests' share	**-**	-	1
Indicators			
Average gross loans and acceptances[2]	**$ 163,202**	$ 161,784	$ 156,636
Average deposits[2]	**134,567**	132,353	127,592
Provisioning rate[2]	**0.23%**	0.13%	0.23%
Gross impaired loans/gross loans and acceptances[2]	**0.33**	0.33	0.36

(1) Data for 2016 have been reclassified to conform to the current period's presentation.
(2) See "Basis of presentation of financial information".

Comparison of the first quarters of 2017 and 2016

For the first quarter of 2017, the Personal and Business Services segment's surplus earnings before member dividends totalled $246 million, an increase of $14 million, or 6.0%, compared to the same period in 2016, mainly due to growth in trading income from capital markets.

Operating income totalled $1,485 million, up $18 million, or 1.2%. Growth in the average overall portfolio outstanding of loans and acceptances, amounting to $6.6 billion, or 4.2%, during the year contributed to the increase in net interest income, despite fierce competition in the market, which continued to put pressure on interest margins.

Other operating income was up $21 million, or 4.4%, compared to the same period in 2016, to total $500 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 $37 million, an increase of $14 million compared to March 31, 2016, due to growth in trading income from capital markets.

Total income for the segment was $1,522 million, an increase of $32 million, or 2.1%, compared to the first quarter of 2016.

The provision for credit losses was $92 million, comparable to the first quarter of 2016.

Non-interest expense was $1,101 million, for an increase of $15 million, or 1.4%, compared to the same period in 2016. It was affected by business growth, particularly growth in credit card and point-of-sale financing activities, which was partly offset by productivity efforts.

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 made available to Desjardins Group members and other client bases across Canada through a vast and diversified distribution network, which includes, among others:

- 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
- securities brokers

Some product lines are also distributed directly online via the Internet, through client care centres, and via applications for mobile devices.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

(in millions of dollars)	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016[1]
Net premiums	**$ 1,081**	$ 1,078	$ 1,003
Other operating income	**365**	359	341
Operating income	**1,446**	1,437	1,344
Investment income (loss)	**332**	(1,005)	512
Total income	**1,778**	432	1,856
Claims, benefits, annuities and changes in insurance contract liabilities	**1,036**	(278)	1,179
Non-interest expense	**561**	578	551
Income taxes on surplus earnings	**38**	18	29
Net surplus earnings for the period	**$ 143**	$ 114	$ 97
Of which:			
Group's share	**$ 142**	$ 114	$ 86
Non-controlling interests' share	**1**	-	11
Indicators			
Net sales of savings products	**$ 2,467**	$ 1,557	$ 2,278
Insurance sales	**176**	111	141
Group insurance premiums	**785**	776	754
Individual insurance premiums	**204**	210	193
Annuity premiums	**92**	92	56
Segregated fund receipts[2]	**488**	658	560

(1) Data for the three-month period ended March 31, 2016 have been reclassified to conform to 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 available, which are comprised of investment funds whose capital is guaranteed upon death or at maturity.

Comparison of the first quarters of 2017 and 2016

For the first quarter of 2017, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $143 million, up $46 million, or 47.4%, compared to the corresponding period in 2016, mainly as a result of an overall more favourable claims experience in individual and group insurance.

Operating income stood at $1,446 million, up $102 million, or 7.6%, compared to the same period in 2016. Insurance premiums were up $42 million due to growth of $31 million in group insurance premiums and of $11 million in individual insurance premiums while annuity premiums increased by $36 million.

Other operating income grew by $24 million, or 7.0%, to total $365 million for the first quarter of 2017, chiefly because of growth in income related to assets under management.

Investment income was down $180 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This decrease was largely offset by a change in actuarial liabilities, leading to reduced 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 stock, bond and derivatives portfolio.

The segment's total income was $1,778 million, for a decrease of $78 million, or 4.2%, compared to the corresponding quarter in 2016, mainly because of the lower investment income, as previously explained.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at $1,036 million, down $143 million compared to 2016. This change primarily resulted from a $168 million decrease in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease in the fair value of matched investments. Furthermore, the increase in annuity premiums and the good claims experience in insurance contributed to the change in actuarial liabilities.

Non-interest expense was $561 million for the first quarter of 2017, up $10 million, or 1.8%, compared to the same period in 2016. 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., Western Financial Group Inc. and Western Life Assurance Company. 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.

On February 15, 2017, Desjardins Group entered into an agreement to sell two of its subsidiaries, namely Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd., a subsidiary of The Wawanesa Mutual Insurance Company, for a total consideration of approximately $775 million. The results of these subsidiaries are currently presented under the results of this business segment. The transaction is expected to close in the third quarter of 2017, subject to the required regulatory approvals and standard closing conditions. These subsidiaries' contribution to net surplus earnings for the period totalled $6 million for the first quarter of 2017.

PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Net interest income	**$ 1**	$ -	$ -
Net premiums	**965**	816	783
Other operating income (loss)	**(5)**	(85)	43
Operating income	**961**	731	826
Investment income (loss)	**69**	(61)	79
Total income	**1,030**	670	905
Claims, benefits, annuities and changes in insurance contract liabilities	**719**	175	584
Non-interest expense	**326**	259	269
Income taxes on surplus earnings	**3**	54	13
Net surplus earnings (deficit) for the period	**$ (18)**	$ 182	$ 39
Expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company, net of income taxes(1)	**13**	-	-
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes(1)	**8**	9	7
Adjusted net surplus earnings for the period(1)	**$ 3**	$ 191	$ 46
Based on net surplus earnings for the period:			
Group's share	**$ (22)**	$ 157	$ 30
Non-controlling interests' share	**4**	25	9
Indicators			
Gross written premiums(2)	**$ 965**	$ 1,039	$ 1,100
Loss ratio(1)	**74.5%**	37.8%	74.1%
Expense ratio(1)	**25.8**	24.1	26.2
Combined ratio(1)	**100.3**	61.9	100.3

(1) See "Basis of presentation of financial information".
(2) Includes Western Financial Group Inc. life insurance premiums.

Comparison of the first quarters of 2017 and 2016

For the first quarter of 2017, the Property and Casualty Insurance segment recorded a net deficit of $18 million, compared to net surplus earnings of $39 million for the first quarter of 2016. Net surplus earnings, adjusted for expenses related to the sale of subsidiaries and the acquisition of State Farm's Canadian operations, totalled $3 million, compared to $46 million in the first quarter of 2016. This drop in surplus earnings resulted mainly from the claims experience for the current year, which was higher than in the first quarter of 2016 because of unfavourable winter weather conditions, with damage caused by water and heavy snowfalls in Quebec as well as the windstorm in Ontario.

Operating income totalled $961 million, up $135 million, or 16.3%, mainly due to the growth of $182 million, or 23.2%, in net premiums resulting primarily from 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, as well as from non-interest expense. 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.

Other operating income was down $48 million, chiefly as a result of the larger increase in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations, and the favourable developments in the claims taken over.

Investment income was down $10 million, compared to the same period in 2016, mainly due to the decrease in the fair value of derivative financial instruments, while an increase had been recorded in the first quarter of 2016.

The segment's total income rose to $1,030 million for the first quarter of 2017, up $125 million, or 13.8%, compared to the first quarter of 2016.

The Property and Casualty Insurance segment's cost of claims was $719 million for the first quarter, for an increase of $135 million, or 23.1%, compared to the first quarter of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations. The loss ratio of the P&C insurers was 74.5% for the first quarter of 2017, compared to 74.1% in the corresponding quarter of 2016. This increase was chiefly due to the higher claims experience for the current year in automobile insurance and home insurance than in the corresponding quarter in 2016 because of unfavourable winter weather conditions, with damage caused by water and heavy snowfalls in Quebec as well as the windstorm in Ontario. However, it was partly offset by favourable developments during the first quarter of 2017, in the claims taken over as part of the acquisition of State Farm's Canadian operations that was completed on January 1, 2015.

Non-interest expense was $326 million for the first quarter of 2017, up $57 million, or 21.2%, compared to the same quarter a year earlier. This increase was primarily due to the effect of the reinsurance treaty on the expenses covered by it.

OTHER CATEGORY

The Other category includes financial information that is not specific to a business segment. It mainly includes treasury activities 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, and the operations of *Capital Desjardins inc.* 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. The operations of the *Fonds de sécurité Desjardins* and the shared services which the Federation provides, formerly presented in the Other category, have been recorded in the Personal and Business Services segment since first quarter 2017.

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.

OTHER CATEGORY

(in millions of dollars)	For the three-month periods ended		
	March 31, 2017	December 31, 2016[1]	March 31, 2016[1]
Treasury activities	**$ 23**	$ 7	$ 42
Activities related to derivatives associated with hedging activities	**(1)**	(17)	(2)
Other[2]	**(10)**	(35)	(26)
Net surplus earnings for the period	**$ 12**	$ (45)	$ 14
Of which:			
Group's share	**$ 12**	$ (44)	$ 14
Non-controlling interests' share	**-**	(1)	-

[1] Data for 2016 have been reclassified to conform to the current period's presentation.
[2] Includes support function activities, various adjustments required to prepare the Interim Combined Financial Statements, and intersegment balance eliminations.

Contribution to surplus earnings

Comparison of the first quarters of 2017 and 2016

Net surplus earnings for the period arising from operations grouped under the Other category totalled $12 million for the first quarter of 2017, compared to $14 million for the corresponding period in 2016.

Treasury activities contributed $23 million to surplus earnings for the quarter, a decrease of $19 million compared to the same period in 2016, due mainly to the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that does not qualify for hedge accounting. This was mitigated by the higher income generated by trading activities.

Other activities were mainly affected in the first quarters of 2017 and 2016 by 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.

Since January 2017, Desjardins Group has no longer been exposed to asset-backed term note (ABTN) activities, which generated surplus earnings of $3 million in the first quarter of 2016 as a result of the increase in the fair value of the ABTN portfolio, net of hedging positions.

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)	2017	2016				2015		
	Q1	Q4[(1)]	Q3[(1)]	Q2[(1)]	Q1[(1)]	Q4[(1)]	Q3[(1)]	Q2[(1)]
Net interest income	**$ 1,057**	$ 1,087	$ 1,071	$ 1,061	$ 1,054	$ 1,115	$ 1,100	$ 1,063
Net premiums	**1,982**	1,834	1,873	1,740	1,721	1,641	1,692	1,698
Other operating income								
Deposit and payment service charges	**120**	123	128	119	118	124	125	122
Lending fees and credit card service revenues	**172**	150	139	136	149	142	131	139
Brokerage and investment fund services	**278**	282	278	286	260	263	255	267
Management and custodial service fees	**101**	102	94	92	88	91	90	95
Foreign exchange income	**19**	12	20	22	16	21	20	21
Other	**26**	(42)	(42)	46	65	56	7	12
Operating income	**3,755**	3,548	3,561	3,502	3,471	3,453	3,420	3,417
Investment income (loss)								
Net income (loss) on securities at fair value through profit or loss	**301**	(1,242)	385	878	512	230	17	(612)
Net income on available-for-sale securities	**80**	111	99	99	79	72	34	107
Net other investment income	**54**	49	49	50	50	48	51	92
	435	(1,082)	533	1,027	641	350	102	(413)
Total income	**4,190**	2,466	4,094	4,529	4,112	3,803	3,522	3,004
Provision for credit losses	**92**	55	98	75	91	83	102	103
Claims, benefits, annuities and changes in insurance contract liabilities	**1,753**	(104)	1,727	2,065	1,758	1,350	1,246	332
Non-interest expense	**1,847**	1,871	1,706	1,854	1,773	1,795	1,656	1,770
Income taxes on surplus earnings	**115**	135	109	108	108	113	114	170
Surplus earnings before member dividends	**383**	509	454	427	382	462	404	629
Member dividends, net of income tax recovery	**26**	42	25	16	22	33	26	24
Net surplus earnings for the period after member dividends	**$ 357**	$ 467	$ 429	$ 411	$ 360	$ 429	$ 378	$ 605
Of which:								
Group’s share	**$ 352**	$ 443	$ 419	$ 390	$ 339	$ 373	$ 361	$ 531
Non-controlling interests’ share	**5**	24	10	21	21	56	17	74

(1) Prior-period data have been reclassified to conform to 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 conditions and capital market conditions. For more information about quarterly trends, see pages 46 and 47 of the 2016 MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

COMBINED BALANCE SHEETS

(in millions of dollars and as a percentage)	As at March 31, 2017		As at December 31, 2016	
Assets				
Cash and deposits with financial institutions	**$ 2,333**	**0.9%**	$ 1,876	0.7%
Securities	**58,578**	**21.9**	53,285	20.6
Securities borrowed or purchased under reverse repurchase agreements	**8,912**	**3.3**	7,690	3.0
Net loans and acceptances	**167,703**	**62.6**	166,026	64.3
Segregated fund net assets	**12,429**	**4.6**	11,965	4.6
Derivative financial instruments	**2,986**	**1.1**	3,572	1.4
Other assets	**14,994**	**5.6**	13,953	5.4
Total assets	**$ 267,935**	**100.0%**	$ 258,367	100.0%
Liabilities and equity				
Deposits	**$ 169,327**	**63.2%**	$ 160,546	62.2%
Commitments related to securities sold short	**7,167**	**2.7**	8,196	3.2
Commitments related to securities lent or sold under repurchase agreements	**9,521**	**3.6**	10,323	4.0
Derivative financial instruments	**2,186**	**0.8**	2,057	0.8
Insurance contract liabilities	**27,549**	**10.3**	27,493	10.6
Segregated fund net liabilities	**12,412**	**4.6**	11,957	4.6
Other liabilities	**14,827**	**5.5**	13,124	5.1
Subordinated notes	**1,390**	**0.5**	1,378	0.5
Equity	**23,556**	**8.8**	23,293	9.0
Total liabilities and equity	**$ 267,935**	**100.0%**	$ 258,367	100.0%

TOTAL ASSETS

As at March 31, 2017, Desjardins Group's total assets stood at $267.9 billion, up by $9.6 billion, or 3.7%, since December 31, 2016. This growth was due in part to an increase in securities, including those borrowed or purchased under reverse repurchase agreements, which were up $6.5 billion during the same period, as well as the $1.7 billion increase in the portfolio of net loans and acceptances.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at March 31, 2017, Desjardins Group's cash and deposits with financial institutions amounted to $2.3 billion, an increase of $457 million, or 24.4%, since December 31, 2016. The volume of securities, including securities borrowed or purchased under reverse repurchase agreements, was up $6.5 billion, or 10.7%, to total $67.5 billion as at March 31, 2017. The increase was due to growth in market activities and deposits.

LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at March 31, 2017, Desjardins Group's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $167.7 billion, an increase of $1.7 billion, or 1.0%, since December 31, 2016. This increase was chiefly due to business and government loans, which accounted for 23.0% of the portfolio at the end of the quarter.

LOANS AND ACCEPTANCES

(in millions of dollars and as a percentage)	As at March 31, 2017		As at December 31, 2016	
Residential mortgages	**$ 107,246**	**63.8%**	$ 106,695	64.1%
Consumer, credit card and other personal loans	**22,243**	**13.2**	22,150	13.3
Business and government	**38,672**	**23.0**	37,637	22.6
	168,161	**100.0%**	166,482	100.0%
Allowance for credit losses	**(458)**		(456)	
Total loans and acceptances by borrower category	**$ 167,703**		$ 166,026	
Loans guaranteed or insured[1]	**$ 45,297**		$ 45,373	

[1] Loans fully or partially guaranteed or insured by a public or private insurer or a government.

Outstanding business and government loans totalled $38.7 billion as at March 31, 2017, up $1.0 billion, or 2.7%, since December 31, 2016. The improvement in corporate investments in Quebec and Ontario during the same period created a favourable environment for Desjardins Group's business development.

Residential mortgages, which accounted for 63.8% of Desjardins Group's portfolio at the end of the quarter, grew by $551 million, or 0.5%, since December 31, 2016, to stand at $107.2 billion as at March 31, 2017. Consumer, credit card and other personal loans amounted to $22.2 billion as at the same date, for an increase of $93 million, or 0.4%, since the end of 2016.

CREDIT QUALITY

Information about the quality of Desjardins Group's loan portfolio is presented in the "Risk management" section on page 23 of this MD&A.

DEPOSITS

Desjardins Group's outstanding deposits totalled $169.3 billion as at March 31, 2017, up $8.8 billion, or 5.5%, since December 31, 2016. Savings from individuals, accounting for 57.4% of this portfolio, grew by $844 million, or 0.9%, during the same period, to total $97.1 billion as at March 31, 2017.

DEPOSITS

(in millions of dollars and as a percentage)	**As at March 31, 2017**		As at December 31, 2016	
Individuals	**$ 97,122**	**57.4%**	$ 96,278	60.0%
Business and government	**69,966**	**41.3**	62,799	39.1
Deposit-taking institutions and other	**2,239**	**1.3**	1,469	0.9
Total deposits	**$ 169,327**	**100.0%**	$ 160,546	100.0%

Business and government deposits accounted for 41.3% of Desjardins Group's total deposit portfolio as at March 31, 2017, which amounted to $70.0 billion, up $7.2 billion, or 11.4%, since December 31, 2016. The growth in these deposits resulted in particular from the various issuances of securities made on the U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements. Savings from deposit-taking institutions and other sources increased by $770 million, or 52.4%, during the same period, to reach $2.2 billion as at March 31, 2017.

EQUITY

Equity totalled $23.6 billion as at March 31, 2017, up $263 million, or 1.1%, since the prior year-end. Net surplus earnings after member dividends, totalling $357 million for the first three months of 2017, and issuances of the Federation's capital shares amounting to $119 million, net of issuance expenses, were the source of this growth. The redemption of permanent shares and the remuneration of $167 million on the Federation's capital shares reduced equity.

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. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of Desjardins Group's 2016 MD&A.

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 senior management, through 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.

The Basel III regulatory framework increases capital requirements. Even though it 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 levels established for 2019 for Tier 1A, Tier 1 and total capital ratios in the first quarter of 2013. The AMF may also set higher target ratios at its discretion when circumstances warrant.

Under this framework, a minimum amount of capital must be maintained on a combined basis by all the Desjardins Group components.

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 subsidiaries within the scope of Desjardins Group, 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.

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 March 31, 2017
Tier 1A capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**17.2%**
Tier 1 capital	> 6.0	2.5	> 8.5	1.0	> 9.5	**17.2**
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	**17.6**
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	**7.9**

(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 guideline 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) off-balance sheet items.
(3) In June 2013, the AMF determined that Desjardins Group met the criteria for designation as a domestic systemically important financial institution (D-SIFI). 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.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS). Additional information in this regard can be found in the 2016 MD&A on page 51. The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations.

An update to the guideline went into effect on January 1, 2017, featuring a change in the treatment of equity investments in investment funds as well as the implementation of a level of loss in the event of failure to slow residential mortgages, for financial institutions applying the Internal Ratings-Based Approach on loans secured by residential real estate.

Compliance with requirements

As at March 31, 2017, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 17.2%, 17.2% and 17.6%, respectively. The leverage ratio was 7.9%. 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 March 31, 2017.

Regulatory capital

The following tables present Desjardins Group's main capital components, regulatory 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	• 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)]	• Non-controlling interests[(2)]	• Eligible collective allowance • Subordinated notes subject to phase-out • Eligible qualifying shares • Non-controlling interests[(2)]
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance		
Deductions	• Mainly significant investments in financial entities[(3)]		• 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%.

REGULATORY CAPITAL, RISK-WEIGHTED ASSETS AND CAPITAL RATIOS

(in millions of dollars and as a percentage)	As at March 31, 2017	As at December 31, 2016
Capital		
Tier 1A capital	**$ 18,935**	$ 18,720
Tier 1 capital	**18,948**	18,732
Total capital	**19,405**	19,343
Risk-weighted assets		
Credit risk	**$ 80,209**	$ 78,778
Market risk	**2,608**	1,810
Operational risk	**13,365**	13,315
Total risk-weighted assets before the adjustment charge and the threshold	**96,182**	93,903
Credit valuation adjustment (CVA) charge and transitional threshold adjustment[(1)(2)]	**14,187**	14,241
Total risk-weighted assets	**$ 110,369**	$ 108,144
Ratios and leverage ratio exposure		
Tier 1A capital	**17.2%**	17.3%
Tier 1 capital	**17.2**	17.3
Total capital	**17.6**	17.9
Leverage	**7.9**	8.1
Leverage ratio exposure	**$ 239,397**	$ 230,472

(1) As prescribed in Section 1.6 of the AMF guideline, the threshold was presented to account for risk-weighted assets 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 72%, 77% and 81%, respectively, in 2017 (64%, 71% and 77% in 2016). They will reach 100% for each capital tier 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, as prescribed. 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. Desjardins Group has not issued any instruments of this type as discussions concerning the application of these regulations by Desjardins Group are still in progress with the AMF.

On December 21, 2016, the Federation filed a new short form prospectus and obtained a receipt to issue F capital shares for a maximum of $250 million during the 12 months following the date of the receipt. This new issue started on January 24, 2017. During the first quarter of 2017, the Federation issued capital shares for net proceeds of $119 million.

As at March 31, 2017, the Tier 1A capital ratio was down 15 basis points compared to 2016. Growth in surplus earnings and reserves was offset by an increase in risk-weighted assets.

CHANGE IN REGULATORY CAPITAL
For the three-month period ended

(in millions of dollars)	March 31, 2017
Tier 1A capital	
Balance at beginning of period	**$ 18,720**
Increase in reserves and undistributed surplus earnings(1)	**167**
Eligible accumulated other comprehensive income	**122**
Federation's capital shares(2)	**120**
Permanent shares and surplus shares subject to phase-out	**(127)**
Deductions	**(67)**
Balance at end of period	**18,935**
Tier 1B capital	
Balance at beginning of period	**12**
Non-controlling interests	**1**
Balance at end of period	**13**
Total Tier 1 capital	**18,948**
Tier 2 capital	
Balance at beginning of period	**611**
Eligible qualifying shares	**(1)**
Senior notes subject to phase-out	**(171)**
Eligible collective allowance	**18**
Balance at end of period	**457**
Total capital	**$ 19,405**

(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.

Credit risk is comprised of two separate items, namely credit risk, and counterparty risk. In credit risk, the main fluctuations in RWA during the first quarter 2017 were due to changes in the portfolio’s size, resulting in a $2.1 billion increase in RWA, the implementation of a level of loss in the event of failure to slow residential mortgages, which led to an increase of $242 million, and the improvement in portfolio quality which caused a decrease of $788 million. In counterparty risk, the change in the method of calculation of the regulatory capital, as well as the lower transaction volume, produced an increase of $49 million.

In market risk, a $798 million increase in RWA was observed due to a change in risk levels. A $50 million increase was also noted in operational risk, due to fluctuations in income generated.

The threshold adjustment as previously defined has decreased by $139 million since December 31, 2016, basically as a result of a change in the size and quality of the portfolios subject to credit risk, and of revisions to the regulatory capital calculation method.

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. Additional information can be found in the “Off-balance sheet arrangements” section of Desjardins Group’s 2016 MD&A.

Assets under management and under administration

As at March 31, 2017, Desjardins Group administered, for the account of its members and clients, assets worth $388.6 billion, for a decrease of $31.6 billion, or 7.5%, since December 31, 2016. The financial assets entrusted to Desjardins Group as wealth manager totalled $54.1 billion as at March 31, 2017, up $2.5 billion, or 4.9%, since December 31, 2016.

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. 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 the 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 have been created for the specific purpose of aggregating the restructured notes arising from asset-backed commercial paper held by Canadian institutional investors. During the three-month period ended March 31, 2017, substantially all of the ABTN were the subject of a settlement. Furthermore, Desjardins Group ended its commitment to contribute to the margin funding facility during the year ended December 31, 2016.

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 securitization of Desjardins Group’s loans.

RISK MANAGEMENT

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 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 risk 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 three months of fiscal 2017, 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 operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 61 to 92 of the 2016 MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group’s control, could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 58 to 60 of the 2016 MD&A.

Risk disclosure developments will be further promoted so as to comply fully, 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 March 31, 2017, gross impaired loans outstanding stood at $544 million, up $12 million compared to December 31, 2016. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.32% for the first quarter of 2017, unchanged from what it was as at December 31, 2016. Desjardins Group's loan portfolio continues to be of high quality.

Individual allowances for credit losses, which totalled $121 million as at March 31, 2017, made it possible to obtain a total coverage ratio of 22.2% of the gross impaired loans portfolio, compared to a ratio of 22.7% as at December 31, 2016.

The collective allowance stood at $337 million as at March 31, 2017, slightly up compared to $335 million recorded at year-end 2016. In addition, an allowance for risk related to off-balance sheet arrangements of $55 million was recognized under "Other liabilities – Other" on the Combined Balance Sheets as at March 31, 2017, down $1 million compared to the amount recorded as at December 31, 2016. The collective allowance reflects the best estimate of the risk of credit losses that have not yet been designated individually as impaired loans.

The following tables present gross impaired loans by Desjardins Group borrower category and the change in the gross impaired loan balance.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)	**As at March 31, 2017**				As at December 31, 2016
	Gross loans and acceptances	**Gross impaired loans**	**Individual allowances for credit losses**	**Net impaired loans**	Net impaired loans
Residential mortgages	**$ 107,246**	**$ 178**	**$ 18**	**$ 160**	$ 155
Consumer, credit card and other personal loans	**22,243**	**100**	**14**	**86**	87
Business and government	**38,672**	**266**	**89**	**177**	169
Total	**$ 168,161**	**$ 544**	**$ 121**	**$ 423**	$ 411
As a percentage of gross loans and acceptances		**0.32%**		**0.25%**	0.25%

CHANGE IN GROSS IMPAIRED LOAN BALANCE

(in millions of dollars)	**As at March 31, 2017**	As at December 31, 2016
Gross impaired loans at the end of the preceding period	**$ 532**	$ 598
Gross impaired loans since the last period	**265**	254
Loans returned to unimpaired status	**(169)**	(232)
Write-offs	**(91)**	(97)
Other changes	**7**	9
Gross impaired loans at the end of the period under consideration	**$ 544**	$ 532

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.

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 primarily exposed to market risk 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, insurance activities and structural interest rate risk management activities. Aggregate VaR and aggregate stressed VaR (SVaR) presented in the "VaR by risk category" table are primarily used to monitor trading activities. These different measurements are completed by stress testing programs. The main measurement for structural interest rate risk management and insurance activities is presented in the "Interest rate sensitivity" table at the end of this section.

Connection between market risk and the Combined Balance Sheets

The following table presents the connection between the main Combined Balance Sheet data and the positions included in trading activities and non-trading activities. The principal market risks associated with non-trading activities are also indicated in the table.

CONNECTION BETWEEN MARKET RISK AND THE COMBINED BALANCE SHEETS
As at March 31, 2017

		Exposed to market risk			
(in millions of dollars)	Combined Balance Sheets	Trading activities[(1)]	Non trading activities[(2)]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 2,333	$ -	$ 2,333	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	33,951	15,566	18,385	-	Interest rate
Available-for-sale securities	24,627	-	24,627	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	8,912	8,402	510	-	Interest rate
Net loans and acceptances	167,703	-	167,703	-	Interest rate
Segregated fund net assets	12,429	-	12,429	-	Interest rate, price
Derivative financial instruments	2,986	187	2,799	-	Interest rate, FX, price
Other assets	14,994	-	-	14,994	
Total assets	$ 267,935	$ 24,155	$ 228,786	$ 14,994	
Liabilities and equity					
Deposits	$ 169,327	$ -	$ 169,327	$ -	Interest rate
Commitments related to securities sold short	7,167	7,145	22	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	9,521	8,777	744	-	Interest rate
Derivative financial instruments	2,186	187	1,999	-	Interest rate, FX, price
Insurance contract liabilities	27,549	-	27,549	-	Interest rate
Segregated fund net liabilities	12,412	-	12,412	-	Interest rate, price
Other liabilities	14,827	-	2,287	12,540	Interest rate
Subordinated notes	1,390	-	1,390	-	Interest rate
Equity	23,556	-	-	23,556	
Total liabilities and equity	$ 267,935	$ 16,109	$ 215,730	$ 36,096	

Footnotes to this table are presented on the next page.

CONNECTION BETWEEN MARKET RISK AND THE COMBINED BALANCE SHEETS (continued)
As at December 31, 2016

(in millions of dollars)	Combined Balance Sheets	Exposed to market risk: Trading activities[1]	Exposed to market risk: Non trading activities[2]	Not exposed to market risk	Principal risks associated with non-trading activities
Assets					
Cash and deposits with financial institutions	$ 1,876	$ -	$ 1,876	$ -	Interest rate
Securities					
Securities at fair value through profit or loss	31,005	12,131	18,874	-	Interest rate
Available-for-sale securities	22,280	-	22,280	-	Interest rate, FX, price
Securities borrowed or purchased under reverse repurchase agreements	7,690	7,134	556	-	Interest rate
Net loans and acceptances	166,026	-	166,026	-	Interest rate
Segregated fund net assets	11,965	-	11,965	-	Interest rate, price
Derivative financial instruments	3,572	192	3,380	-	Interest rate, FX, price
Other assets	13,953	-	-	13,953	
Total assets	$ 258,367	$ 19,457	$ 224,957	$ 13,953	
Liabilities and equity					
Deposits	$ 160,546	$ -	$ 160,546	$ -	Interest rate
Commitments related to securities sold short	8,196	8,196	-	-	Interest rate
Commitments related to securities lent or sold under repurchase agreements	10,323	8,293	2,030	-	Interest rate
Derivative financial instruments	2,057	160	1,897	-	Interest rate, FX, price
Insurance contract liabilities	27,493	-	27,493	-	Interest rate
Segregated fund net liabilities	11,957	-	11,957	-	Interest rate, price
Other liabilities	13,124	-	2,267	10,857	Interest rate
Subordinated notes	1,378	-	1,378	-	Interest rate
Equity	23,293	-	-	23,293	
Total liabilities and equity	$ 258,367	$ 16,649	$ 207,568	$ 34,150	

[1] Trading activity positions for which the risk measure is VaR and SVaR.
[2] Positions mainly related to non-trading banking activities and insurance activities.

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 stressed VaR (SVaR). 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 SVaR 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 SVaR of trading activities by risk category, as well as the diversification effect. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate 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 March 31, 2017				For the quarters ended December 31, 2016		March 31, 2016	
	As at March 31, 2017	**Average**	**High**	**Low**	As at December 31, 2016	Average	As at March 31, 2016	Average
Equities	**$ 0.1**	**$ 0.2**	**$ 0.5**	**$ 0.1**	$ 0.3	$ 0.4	$ 0.1	$ 0.2
Foreign exchange	**0.5**	**0.2**	**1.8**	**0.1**	0.1	0.2	0.7	0.2
Interest rate	**4.5**	**3.6**	**4.5**	**3.1**	3.0	3.5	3.2	2.9
Specific interest rate risk(1)	**5.4**	**4.2**	**7.1**	**2.5**	3.0	4.6	4.9	4.7
Diversification effect(2)	**(6.0)**	**(4.5)**	**N/A(3)**	**N/A(3)**	(3.4)	(5.2)	(5.5)	(5.1)
Aggregate VaR	**$ 4.5**	**$ 3.7**	**$ 4.5**	**$ 3.0**	$ 3.0	$ 3.5	$ 3.4	$ 2.9
Aggregate SVaR	**$ 13.0**	**$ 12.6**	**$ 16.5**	**$ 8.4**	$ 8.7	$ 9.6	$ 9.9	$ 8.5

(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 the specific risk of an issuer such as provinces, municipalities and companies, and a sub-portfolio that contains the 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 $3.7 million for the quarter ended March 31, 2017, up $0.2 million from the quarter ended December 31, 2016, primarily as a result of a decrease in the diversification effect. The average of the aggregate SVaR was $12.6 million for the quarter ended March 31, 2017, up $3.0 million compared to the quarter ended December 31, 2016. It should be noted that there has been no change in the model or assumptions over the periods presented.

Aggregate VaR and aggregate SVaR 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.

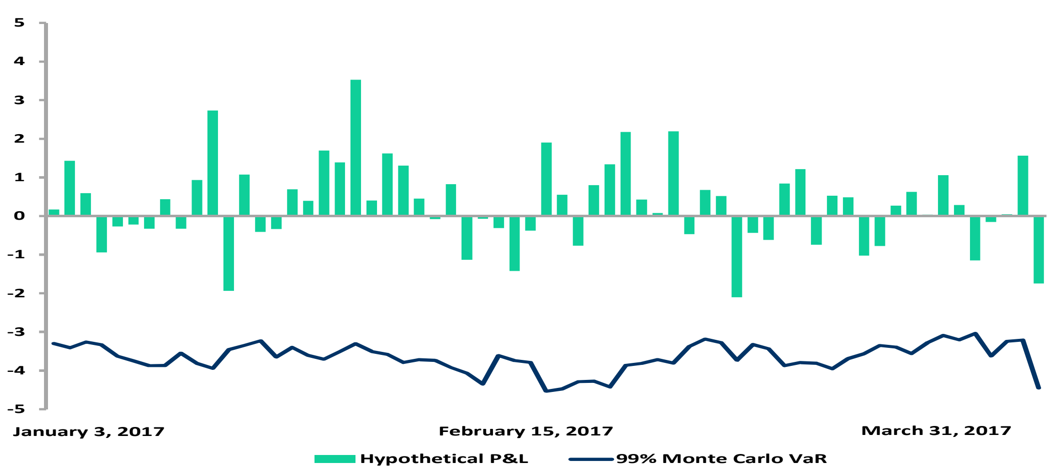
Back testing

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 the hypothetical P&L related to these activities. During the first quarter of 2017, 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 such stress testing, changes can be monitored in the market value of positions held depending on various scenarios. Most stress-testing is predictive. For a given stress test, shocks are applied to certain risk factors (interest rates, exchange rates and commodities) and the effects of these shocks are passed on to all the risk factors taking historical correlations into account. The running of each stress test is considered to be independent of the others. In addition, certain stress testing is 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.

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 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 selected, 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 March 31, 2017**		As at December 31, 2016		As at March 31, 2016	
	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	**$ 9**	**$ (13)**	$ (47)	$ 4	$ 21	$ (89)
Impact of a 100-basis-point decrease in interest rates[(4)]	**(54)**	**55**	(21)	77	(92)	265

(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 $218 million decrease in the economic value of equity before taxes as at March 31, 2017, and in a $205 million and $206 million decrease as at December 31, 2016 and March 31, 2016, respectively. A 100-basis-point decrease in interest rates would result in a $195 million increase in the economic value of equity before taxes as at March 31, 2017, and in a $177 million and $205 million increase as at December 31, 2016 and March 31, 2016, 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.

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 has established policies describing the principles, limits, risk appetite and tolerance thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices.

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

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 121.9% for the quarter ended March 31, 2017, compared to 121.1% 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.

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 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 function 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 of 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.

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 the Federation. 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 March 31, 2017

(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	**$ 1,757**	**$ -**	**$ 1,757**	**$ -**	**$ 1,757**
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	**29,918**	**9,453**	**39,371**	**16,780**	**22,591**
Other securities in Canada	**3,376**	**14**	**3,390**	**64**	**3,326**
Issued or guaranteed by foreign issuers	**63**	**-**	**63**	**-**	**63**
Loans					
Insured residential mortgage-backed securities	**3,335**	**-**	**3,335**	**-**	**3,335**
Total	**$ 38,449**	**$ 9,467**	**$ 47,916**	**$ 16,844**	**$ 31,072**

As at December 31, 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	$ 1,532	$ -	$ 1,532	$ -	$ 1,532
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign public administrations	25,986	8,544	34,530	18,899	15,631
Other securities in Canada	1,381	21	1,402	9	1,393
Issued or guaranteed by foreign issuers	46	-	46	-	46
Loans					
Insured residential mortgage-backed securities	4,018	-	4,018	1,254	2,764
Total	$ 32,963	$ 8,565	$ 41,528	$ 20,162	$ 21,366

(1) Excluding assets held by insurance subsidiaries.

UNENCUMBERED LIQUID ASSETS BY ENTITY[(1)]

(in millions of dollars)	**As at March 31, 2017**	As at December 31, 2016
Federation	**$ 12,602**	$ 8,286
Caisse network	**11,405**	10,098
Desjardins securities[(2)]	**4,347**	676
Other entities	**2,718**	2,306
Total	**$ 31,072**	$ 21,366

(1) Excluding assets held by insurance subsidiaries. Virtually all unencumbered liquid assets presented in this table are issued in Canadian dollars.
(2) Does not take into consideration amounts payable and receivable related to the settlement of securities lending and borrowing transactions.

Encumbered assets

In the normal course of its operations, Desjardins Group pledges securities, loans and other assets as collateral, mainly with regard to financing operations, participation in clearing and payments systems and operations related to provisions for claims and adjustment expenses. The following table presents, for all assets on the Combined Balance Sheets and securities held as collateral, those that are encumbered as well as those that may be pledged as collateral as part of financing or other transactions.

ENCUMBERED ASSETS

As at March 31, 2017

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	**Combined Balance Sheet assets**	**Securities held as collateral**	**Total assets**	**Pledged as collateral**	**Other[1]**	**Available as colateral**	**Other[2]**
Cash and deposits with financial institutions	**$ 2,333**	**$ -**	**$ 2,333**	**$ -**	**$ 31**	**$ 1,853**	**$ 449**
Securities	**58,578**	**1,016**	**59,594**	**17,057**	**3,379**	**17,303**	**21,855**
Securities borrowed or purchased under reverse repurchase agreements	**8,912**	**-**	**8,912**	**-**	**-**	**8,740**	**172**
Net loans and acceptances	**167,703**	**-**	**167,703**	**18,190**	**-**	**72,646**	**76,867**
Segregated fund net assets	**12,429**	**-**	**12,429**	**-**	**-**	**-**	**12,429**
Other assets	**17,980**	**-**	**17,980**	**-**	**-**	**-**	**17,980**
Total	**$ 267,935**	**$ 1,016**	**$ 268,951**	**$ 35,247**	**$ 3,410**	**$ 100,542**	**$ 129,752**

As at December 31, 2016

				Breakdown of total assets			
				Encumbered assets		Unencumbered assets	
(in millions of dollars)	Combined Balance Sheet assets	Securities held as collateral	Total assets	Pledged as collateral	Other[1]	Available as collateral	Other[2]
Cash and deposits with financial institutions	$ 1,876	$ -	$ 1,876	$ -	$ 33	$ 1,528	$ 315
Securities	53,285	1,332	54,617	18,544	4,182	10,199	21,692
Securities borrowed or purchased under reverse repurchase agreements	7,690	-	7,690	-	-	7,509	181
Net loans and acceptances	166,026	-	166,026	19,117	-	75,227	71,682
Segregated fund net assets	11,965	-	11,965	-	-	-	11,965
Other assets	17,525	-	17,525	-	-	-	17,525
Total	$ 258,367	$ 1,332	$ 259,699	$ 37,661	$ 4,215	$ 94,463	$ 123,360

(1) Assets that cannot be used for legal or other reasons, such as ABTN.
(2) "Other" unencumbered assets include those of the insurance companies as well as assets that in management's opinion would not be immediately available for collateral or financing purposes in their current form.

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 March 31, 2017 Total non-weighted value(2) (average)(4)	For the quarter ended March 31, 2017 Total weighted value(3) (average)(4)	For the quarter ended December 31, 2016 Total weighted value(3) (average)(4)
High-quality liquid assets			
Total high-quality liquid assets	**N/A**	**$ 20,513**	$ 21,444
Cash outflows			
Retail deposits and small business deposits, including:	**$ 63,371**	**$ 4,137**	$ 4,095
Stable deposits	**31,434**	**943**	937
Less stable deposits	**31,937**	**3,194**	3,158
Unsecured wholesale funding, including:	**19,023**	**11,072**	11,333
Operational deposits (all counterparties) and deposits in cooperative bank networks	**3,607**	**822**	909
Non-operational deposits (all counterparties)	**8,755**	**3,589**	3,508
Unsecured debt	**6,661**	**6,661**	6,916
Secured wholesale funding	**N/A**	**-**	3
Additional requirements, including:	**11,169**	**3,274**	3,692
Outflows related to exposures on derivatives and other collateral required	**1,291**	**1,287**	2,119
Outflows related to funding loss on debt products	**646**	**646**	228
Credit and liquidity facilities	**9,232**	**1,341**	1,345
Other contractual funding liabilities	**1,637**	**124**	378
Other contingent funding liabilities	**90,976**	**1,674**	1,593
Total cash outflows	**N/A**	**$ 20,281**	$ 21,094
Cash inflows			
Secured loans (e.g. reverse repurchase agreements)	**$ 2,074**	**$ 92**	$ 110
Inflows related to completely effective exposures	**3,034**	**1,521**	1,460
Other cash inflows	**1,847**	**1,847**	1,818
Total cash inflows	**$ 6,955**	**$ 3,460**	$ 3,388

	Total adjusted value(5)	Total adjusted value(5)
Total high-quality liquid assets	**$ 20,513**	$ 21,444
Total net cash outflows	**$ 16,821**	$ 17,706
Liquidity coverage ratio	**121.9%**	121.1%

(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) As of the first quarter of 2017, the result of the ratio is presented on the basis of the average of daily data for the quarter concerned.
(5) The total adjusted value takes into account, if applicable, the caps prescribed by the AMF for high-quality liquid assets and cash inflows.

Sources of financing

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 Group to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Combined Balance Sheets amounted to $169.3 billion as at March 31, 2017, up $8.8 billion since December 31, 2016. Additional information on deposits is presented in the "Balance sheet review" section of this MD&A.

Financing programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, which strategies are regulated by policies. In the first three months of 2017, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

In order to secure long-term financing at the lowest cost on the market, the Federation maintains an active presence in the federally-guaranteed mortgage loan securitization market under the *National Housing Act* (NHA) Mortgage-Backed Securities Program. In addition, to ensure stable financing, it 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 the Federation are as follows:

MAIN FINANCING PROGRAMS
As at March 31, 2017

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

The following table presents the remaining term to maturity of wholesale funding.

REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	As at March 31, 2017								As at December 31, 2016
	Less than 1 month	**1 month to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 12 months**	**Total Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 2,241**	**$ 1,250**	**$ 7**	**$ 3**	**$ 3,501**	**$ -**	**$ -**	**$ 3,501**	$ 1,908
Commercial paper	**7,775**	**3,022**	**99**	**-**	**10,896**	**-**	**-**	**10,896**	5,842
Medium-term notes	**-**	**-**	**3,059**	**3,347**	**6,406**	**1,249**	**3,871**	**11,526**	10,938
Mortgage loan securitization	**-**	**650**	**-**	**953**	**1,603**	**1,688**	**5,305**	**8,596**	7,975
Covered bonds	**-**	**-**	**-**	**-**	**-**	**1,418**	**2,830**	**4,248**	6,255
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**1,390**	**1,390**	1,378
Total	**$10,016**	**$ 4,922**	**$ 3,165**	**$ 4,303**	**$ 22,406**	**$ 4,355**	**$ 13,396**	**$ 40,157**	$ 34,296
Including:									
Secured	**$ -**	**$ 650**	**$ -**	**$ 953**	**$ 1,603**	**$ 3,106**	**$ 9,525**	**$ 14,234**	$ 15,608
Unsecured	**10,016**	**4,272**	**3,165**	**3,350**	**20,803**	**1,249**	**3,871**	**25,923**	18,688

Desjardins Group's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was up $5.9 billion compared to December 31, 2016, mainly because of an increase in commercial paper and bearer discount notes, partially offset by a decrease in covered bonds.

In addition, Desjardins Group diversifies its financing 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 loan securitization, covered bonds and subordinated notes.

WHOLESALE FUNDING BY CURRENCY

(in millions of dollars and as a percentage)	**As at March 31, 2017**		As at December 31, 2016	
Canadian dollars	**$ 17,903**	**44.6%**	$ 14,868	43.4%
U.S. dollars	**13,900**	**34.6**	11,670	34.0
Other	**8,354**	**20.8**	7,758	22.6
	$ 40,157	**100.0%**	$ 34,296	100.0%

The Federation also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $625 million in the first three months of 2017. During the same period, it also completed one issue under its Canadian medium-term note program for a total amount of $1.0 billion. In addition, on April 7, 2017, the Federation made a new issue of US$300 million under its multi-currency medium-term note program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $24.4 billion as at March 31, 2017, compared to $25.2 billion as at December 31, 2016. 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 March 31, 2017, unchanged from December 31, 2016. Furthermore, to round out its financing and increase its capital base, Desjardins Group, through the Federation, issued capital shares totalling $119 million, net of issuance expenses, in the first three months of 2017.

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 the Federation, 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 quarter of 2017, the credit ratings and outlooks assigned by the rating agencies Moody's, Standard & Poor's (S&P), DBRS and Fitch for the securities issued by Desjardins Group remained unchanged. Furthermore, in February 2017, following the announcement of the signing of an agreement to sell Western Financial Group Inc. and Western Life Assurance Company to Trimont Financial Ltd., the four rating agencies confirmed Desjardins Group's credit ratings and outlooks.

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

The ratings outlooks for Desjardins Group from S&P and Fitch are 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.

The Federation and *Capital Desjardins inc.* 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
Fédération des caisses Desjardins du Québec				
Short-term	R-1 (high)	A-1	P-1	F1+
Medium- and long-term, senior	AA	A+	Aa2	AA-
Capital Desjardins inc.				
Medium- and long-term, senior	AA (low)	A	A2	A+

Desjardins Group regularly monitors the additional level of obligations that its counterparties would require in the event of a credit rating downgrade for the Federation 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. Currently, Desjardins Group is not obliged to provide additional collateral to its counterparties in the event of its credit rating being lowered three notches by one or more credit rating agencies.

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 March 31, 2017**		As at December 31, 2016	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities[1]	**$ 1**	**$ 1**	$ 15	$ 15
Financial asset-backed and mortgage-backed securities[2]	**162**	**167**	170	174

[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 March 31, 2017**			As at December 31, 2016		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps[1]	**$ 638**	**$ 11**	**$ -**	$ 644	$ 10	$ -
Total return swaps[2]	**66**	**1**	**-**	66	-	-

[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 March 31, 2017	As at December 31, 2016
Leveraged finance loans[1]	$ 200	$ 179
Alt-A mortgage loans[2]	23	23
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 March 31, 2017, 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 93 and 94 of the 2016 MD&A.

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, 2016.

Additional information on Desjardins Group's related party transactions is provided in Note 33, "Related party disclosures", to the 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 114 to 129 of the 2016 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 94 to 98 of the 2016 MD&A.

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

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2016 are presented in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Group's Annual Combined Financial Statements, on pages 129 to 131 of the 2016 Annual Report. Additional information is also presented under "Future accounting changes" on pages 99 to 102 of the 2016 MD&A. The IASB did not issue any new accounting standard or amendment to an existing standard during the three-month period ended March 31, 2017.

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COMBINED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at March 31, 2017	As at December 31, 2016
ASSETS			
Cash and deposits with financial institutions		**$ 2,333**	$ 1,876
Securities			
Securities at fair value through profit and loss		**33,951**	31,005
Available-for-sale securities	5	**24,627**	22,280
		58,578	53,285
Securities borrowed or purchased under reverse repurchase agreements		**8,912**	7,690
Loans	6		
Residential mortgages		**107,246**	106,695
Consumer, credit card and other personal loans		**22,243**	22,150
Business and government		**38,567**	37,626
		168,056	166,471
Allowance for credit losses	6	**(458)**	(456)
		167,598	166,015
Segregated fund net assets		**12,429**	11,965
Other assets			
Clients' liability under acceptances		**105**	11
Premiums receivable		**1,822**	1,957
Derivative financial instruments		**2,986**	3,572
Amounts receivable from clients, brokers and financial institutions		**3,209**	2,532
Reinsurance assets		**2,167**	2,582
Investment property		**820**	823
Property, plant and equipment		**1,410**	1,435
Goodwill		**153**	471
Intangible assets		**528**	690
Deferred tax assets		**870**	874
Other		**3,073**	2,589
Assets of the group held for sale	9	**942**	-
		18,085	17,536
TOTAL ASSETS		**$ 267,935**	$ 258,367
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	8		
Individuals		**$ 97,122**	$ 96,278
Business and government		**69,966**	62,799
Deposit-taking institutions		**2,239**	1,469
		169,327	160,546
Other liabilities			
Acceptances		**105**	11
Commitments related to securities sold short		**7,167**	8,196
Commitments related to securities lent or sold under repurchase agreements		**9,521**	10,323
Derivative financial instruments		**2,186**	2,057
Amounts payable to clients, brokers and financial institutions		**6,461**	4,659
Insurance contract liabilities		**27,549**	27,493
Segregated fund net liabilities		**12,412**	11,957
Net defined benefit plan liabilities		**2,287**	2,256
Deferred tax liabilities		**149**	179
Other		**5,480**	6,019
Liabilities of the group held for sale	9	**345**	-
		73,662	73,150
Subordinated notes		**1,390**	1,378
TOTAL LIABILITIES		**244,379**	235,074
EQUITY			
Capital stock	10	**5,283**	5,292
Share capital		**91**	88
Undistributed surplus earnings		**1,606**	1,529
Accumulated other comprehensive income	11	**622**	514
Reserves		**15,136**	15,052
Equity - Group's share		**22,738**	22,475
Non-controlling interests		**818**	818
TOTAL EQUITY		**23,556**	23,293
TOTAL LIABILITIES AND EQUITY		**$ 267,935**	$ 258,367

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 March 31 2017	2016
INTEREST INCOME			
Loans		**$ 1,418**	$ 1,409
Securities		**77**	77
		1,495	1,486
INTEREST EXPENSE			
Deposits		**420**	406
Subordinated notes and other		**18**	26
		438	432
NET INTEREST INCOME		**1,057**	1,054
NET PREMIUMS		**1,982**	1,721
OTHER INCOME			
Deposit and payment service charges		**120**	118
Lending fees and credit card service revenues		**172**	149
Brokerage and investment fund services		**278**	260
Management and custodial service fees		**101**	88
Net income on securities at fair value through profit or loss	13	**301**	512
Net income on available-for-sale securities		**80**	79
Net other investment income		**54**	50
Foreign exchange income		**19**	16
Other		**26**	65
		1,151	1,337
TOTAL INCOME		**4,190**	4,112
PROVISION FOR CREDIT LOSSES	6	**92**	91
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**1,753**	1,758
NON-INTEREST EXPENSE			
Salaries and fringe benefits		**893**	910
Premises, equipment and furniture, including depreciation		**168**	159
Service agreements and outsourcing		**70**	83
Communications		**66**	71
Other		**650**	550
		1,847	1,773
OPERATING SURPLUS EARNINGS		**498**	490
Income taxes on surplus earnings		**115**	108
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS(1)		**383**	382
Member dividends		**35**	30
Tax recovery on member dividends		**(9)**	(8)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		**$ 357**	$ 360
of which:			
Group's share		**$ 352**	$ 339
Non-controlling interests' share		**5**	21

(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 March 31 2017	2016
Net surplus earnings for the period after member dividends	**$ 357**	$ 360
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	**(22)**	(277)
Share of associates and joint ventures accounted for using the equity method	**-**	(2)
	(22)	(279)
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**161**	37
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(31)**	(24)
	130	13
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**1**	29
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(17)**	(15)
	(16)	14
	114	27
Total other comprehensive income, net of income taxes	**92**	(252)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 449**	$ 108
of which:		
Group's share	**$ 439**	$ 92
Non-controlling interests' share	**10**	16

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 March 31 2017	2016
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (9)**	$ (101)
	(9)	(101)
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	**43**	25
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	**(2)**	(9)
	41	16
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**-**	11
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(6)**	(6)
	(6)	5
	35	21
Total income tax expense (recovery)	**$ 26**	$ (80)

COMBINED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the three-month periods ended March 31	Capital				Reserves						
(in millions of Canadian dollars)	Capital stock (Note 10)	Share capital	Undistributed surplus earnings	Accumulated other comprehensive income (Note 11)	Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2016	**$ 5,292**	**$ 88**	**$ 1,529**	**$ 514**	**$ 983**	**$ 459**	**$ 13,610**	**$ 15,052**	**$ 22,475**	**$ 818**	**$ 23,293**
Net surplus earnings for the period after member dividends	**-**	**-**	**352**	**-**	**-**	**-**	**-**	**-**	**352**	**5**	**357**
Other comprehensive income for the period	**-**	**-**	**(21)**	**108**	**-**	**-**	**-**	**-**	**87**	**5**	**92**
Comprehensive income for the period	**-**	**-**	**331**	**108**	**-**	**-**	**-**	**-**	**439**	**10**	**449**
Issuance of F capital shares	**119**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**119**	**-**	**119**
Other net change in capital stock	**(128)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(128)**	**-**	**(128)**
Issuance of share capital	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Remuneration on F capital shares	**-**	**-**	**(167)**	**-**	**-**	**-**	**-**	**-**	**(167)**	**-**	**(167)**
Dividends	**-**	**-**	**(3)**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(10)**	**(13)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**-**	**(84)**	**-**	**31**	**(12)**	**65**	**84**	**-**	**-**	**-**
BALANCE AS AT MARCH 31, 2017	**$ 5,283**	**$ 91**	**$ 1,606**	**$ 622**	**$ 1,014**	**$ 447**	**$ 13,675**	**$ 15,136**	**$ 22,738**	**$ 818**	**$ 23,556**
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	-	-	339	-	-	-	-	-	339	21	360
Other comprehensive income for the period	-	-	(272)	25	-	-	-	-	(247)	(5)	(252)
Comprehensive income for the period	-	-	67	25	-	-	-	-	92	16	108
Issuance of F capital shares	146	-	-	-	-	-	-	-	146	-	146
Other net change in capital stock	(137)	-	-	-	-	-	-	-	(137)	-	(137)
Issuance of share capital	-	3	-	-	-	-	-	-	3	1	4
Redemption of share capital	-	-	-	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	(4)	-	-	-	-	-	(4)	(8)	(12)
Transfer from undistributed surplus earnings (to reserves)	-	-	(444)	-	-	-	444	444	-	-	-
Other	-	-	-	-	-	-	(4)	(4)	(4)	(3)	(7)
BALANCE AS AT MARCH 31, 2016	$ 5,167	$ 89	$ 1,412	$ 614	$ 983	$ 479	$ 11,842	$ 13,304	$ 20,586	$ 1,238	$ 21,824

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)	Note	For the three-month periods ended March 31 2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Operating surplus earnings		**$ 498**	$ 490
Non-cash adjustments:			
Depreciation of property, plant and equipment and investment property		**41**	42
Net change in insurance contract liabilities		**216**	574
Provision for credit losses		**92**	91
Impairment on available-for-sale securities recognized in net income		**3**	2
Net realized gains on available-for-sale securities		**(37)**	(34)
Other		**41**	40
Change in operating assets and liabilities:			
Securities at fair value through profit and loss		**(3,063)**	(6,085)
Securities borrowed or purchased under reverse repurchase agreements		**(1,222)**	769
Loans		**(1,675)**	(724)
Derivative financial instruments, net amount		**695**	1,164
Net amounts receivable from and payable to clients, brokers and financial institutions		**1,109**	(598)
Deposits		**8,781**	2,186
Commitments related to securities sold short		**(1,029)**	1,569
Commitments related to securities lent or sold under repurchase agreements		**(802)**	1,447
Other		**(644)**	(528)
Income taxes paid on surplus earnings		**(209)**	(249)
		2,795	156
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market		**12**	(9)
Issuance of F capital shares		**119**	146
Other net change in capital stock		**(128)**	(137)
Issuance of share capital		**3**	4
Redemption of share capital		**-**	(3)
Dividends paid		**(13)**	(12)
Exercise of put options written on non-controlling interests		**(4)**	(2)
		(11)	(13)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchase of available-for-sale securities		**(16,476)**	(10,385)
Proceeds from disposals of available-for-sale securities		**7,266**	4,340
Proceeds from maturities of available-for-sale securities		**6,966**	6,162
Business sale, net of cash and cash equivalents sold		**40**	-
Acquisitions of property, plant and equipment and investment property		**(31)**	(79)
		(2,235)	38
Net increase in cash and cash equivalents		**549**	181
Cash and cash equivalents at beginning of period		**1,876**	1,716
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**2,425**	1,897
Less:			
Cash and cash equivalents, held for sale	9	**92**	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD, CONTINUING OPERATIONS		**$ 2,333**	$ 1,897
Supplemental information on cash flows from (used in) operating activities			
Interest paid		**$ 303**	$ 509
Interest and dividends received		**1,744**	1,743

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. Certain comparative figures have been reclassified to conform with the presentation of the Combined Financial Statements for the current year. These reclassifications had no impact on Desjardins Group's profit or loss or total assets and liabilities.

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, 2016, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual 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 May 12, 2017.

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.

FUTURE ACCOUNTING CHANGES

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

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss					
As at March 31, 2017	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Derivatives designated as hedging instruments**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ 21	$ 196	$ 358	$ 1,758	$ -	$ 2,333
Securities						
Securities at fair value through profit or loss	16,139	17,812	-	-	-	33,951
Available-for-sale securities	-	-	24,627	-	-	24,627
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,912	-	8,912
Loans(1)	-	-	-	167,598	-	167,598
Other financial assets						
Clients' liability under acceptances	-	-	-	105	-	105
Premiums receivable	-	-	-	1,822	-	1,822
Derivative financial instruments	2,315	-	-	-	671	2,986
Amounts receivable from clients, brokers and financial institutions	-	-	-	3,209	-	3,209
Other	-	-	-	1,647	-	1,647
Total financial assets	$ 18,475	$ 18,008	$ 24,985	$ 185,051	$ 671	$ 247,190
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 169,327	$ -	$ 169,327
Other financial liabilities						
Acceptances	-	-	-	105	-	105
Commitments related to securities sold short	7,167	-	-	-	-	7,167
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,521	-	9,521
Derivative financial instruments	1,747	-	-	-	439	2,186
Amounts payable to clients, brokers and financial institutions	-	-	-	6,461	-	6,461
Other	476	-	-	3,340	-	3,816
Subordinated notes	-	-	-	1,390	-	1,390
Total financial liabilities	$ 9,390	$ -	$ -	$ 190,144	$ 439	$ 199,973

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

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

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

	At fair value through profit or loss					
As at December 31, 2016	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments	Total
Financial assets						
Cash and deposits with financial institutions	$ 21	$ 122	$ 195	$ 1,538	$ -	$ 1,876
Securities						
Securities at fair value through profit or loss	12,363	18,642	-	-	-	31,005
Available-for-sale securities	-	-	22,280	-	-	22,280
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,690	-	7,690
Loans[(1)]	-	-	-	166,015	-	166,015
Other financial assets						
Clients' liability under acceptances	-	-	-	11	-	11
Premiums receivable	-	-	-	1,957	-	1,957
Derivative financial instruments	2,253	-	-	-	1,319	3,572
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,532	-	2,532
Other	-	-	-	1,173	-	1,173
Total financial assets	$ 14,637	$ 18,764	$ 22,475	$ 180,916	$ 1,319	$ 238,111
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 160,546	$ -	$ 160,546
Other financial liabilities						
Acceptances	-	-	-	11	-	11
Commitments related to securities sold short	8,196	-	-	-	-	8,196
Commitments related to securities lent or sold under repurchase agreements	-	-	-	10,323	-	10,323
Derivative financial instruments	1,625	-	-	-	432	2,057
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	-	4,659
Other	432	-	-	3,870	-	4,302
Subordinated notes	-	-	-	1,378	-	1,378
Total financial liabilities	$ 10,253	$ -	$ -	$ 180,787	$ 432	$ 191,472

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

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 March 31, 2017		As at December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans	**$ 167,598**	**$ 168,030**	$ 166,015	$ 166,246
Financial liabilities				
Deposits	**169,327**	**169,291**	160,546	160,895
Subordinated notes	**1,390**	**1,547**	1,378	1,521

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 March 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 122	$ 95	$ -	$ 217
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,184	1,501	-	9,685
Provincial governmental entities and municipal corporations in Canada	16,397	1,239	-	17,636
School or public corporations in Canada	14	96	-	110
Foreign public administrations	646	-	-	646
Other securities				
Financial institutions	29	1,096	60	1,185
Other issuers	-	2,089	989	3,078
Equity securities	1,182	240	189	1,611
	26,574	6,356	1,238	34,168
Derivative financial instruments				
Interest rate contracts	-	997	-	997
Foreign exchange contracts	-	533	-	533
Other contracts	-	1,456	-	1,456
	-	2,986	-	2,986
Total financial assets at fair value through profit or loss	26,574	9,342	1,238	37,154
Available-for-sale financial assets				
Cash and deposits with financial institutions	89	269	-	358
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	4,331	2,212	-	6,543
Provincial governmental entities and municipal corporations in Canada	9,859	1,226	-	11,085
School or public corporations in Canada	16	-	-	16
Foreign public administrations	10	22	-	32
Other securities				
Financial institutions	-	2,995	-	2,995
Other issuers	5	573	100	678
Equity securities	2,435	603	239	3,277
Total available-for-sale financial assets[1]	16,745	7,900	339	24,984
Financial instruments of segregated funds	5,504	6,904	28	12,436
Total financial assets	$ 48,823	$ 24,146	$ 1,605	$ 74,574
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 7,049	$ 118	$ -	$ 7,167
Other	-	-	476	476
	7,049	118	476	7,643
Derivative financial instruments				
Interest rate contracts	-	403	-	403
Foreign exchange contracts	-	395	-	395
Other contracts	-	1,388	-	1,388
	-	2,186	-	2,186
Total financial liabilities	$ 7,049	$ 2,304	$ 476	$ 9,829

[1] As at March 31, 2017, certain available-for-sale securities having a carrying amount of $1 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, 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 136	$ -	$ 143
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,569	1,026	-	8,595
Provincial governmental entities and municipal corporations in Canada	14,790	1,165	-	15,955
School or public corporations in Canada	19	97	-	116
Foreign public administrations	231	-	-	231
Other securities				
Financial institutions	29	1,009	60	1,098
Other issuers	-	2,624	996	3,620
Equity securities	1,066	227	97	1,390
	23,711	6,284	1,153	31,148
Derivative financial instruments				
Interest rate contracts	-	1,049	-	1,049
Foreign exchange contracts	-	1,183	-	1,183
Other contracts	-	1,340	-	1,340
	-	3,572	-	3,572
Total financial assets at fair value through profit or loss	23,711	9,856	1,153	34,720
Available-for-sale financial assets				
Cash and deposits with financial institutions	19	176	-	195
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	4,749	2,184	-	6,933
Provincial governmental entities and municipal corporations in Canada	8,971	1,311	-	10,282
School or public corporations in Canada	15	-	-	15
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	1,317	-	1,317
Other issuers	5	492	101	598
Equity securities	2,384	586	130	3,100
Total available-for-sale financial assets(1)	16,153	6,089	231	22,473
Financial instruments of segregated funds	5,331	6,627	20	11,978
Total financial assets	$ 45,195	$ 22,572	$ 1,404	$ 69,171
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 8,069	$ 127	$ -	$ 8,196
Other	-	-	432	432
	8,069	127	432	8,628
Derivative financial instruments				
Interest rate contracts	-	402	-	402
Foreign exchange contracts	-	371	-	371
Other contracts	-	1,284	-	1,284
	-	2,057	-	2,057
Total financial liabilities	$ 8,069	$ 2,184	$ 432	$ 10,685

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

During the three-month period ended March 31, 2017, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value. During the year ended December 31, 2016, ABTNs having a carrying amount of $800 million were transferred from Level 3 to Level 2 as they were settled during the three-month period ended March 31, 2017 and the unobservable inputs with respect to the related illiquidity premium were no longer deemed significant to the measurement of fair value. No other transfers attributable to changes in the observability of market data between hierarchy levels for instruments measured at fair value were made during the year ended December 31, 2016.

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. During the three-month period ended March 31, 2017, no significant changes were made to the key controls and procedures as well as the valuation techniques for financial instruments categorized within Level 3. For more information on the valuation process for financial instruments categorized within Level 3, refer to Note 4, "Fair value of financial instruments", to the Annual Combined Financial Statements.

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.

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

During the three-month period ended March 31, 2017, no changes were made to valuation techniques. Some changes were made to input value ranges used to determine fair value, but they did not result in material changes to 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 three-month period ended March 31, 2017	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	$ 60	$ -	$ -	$ -	$ -	$ -	$ -	$ 60
Other issuers								
Hedge funds	7	-	3	-	-	-	-	10
Asset-backed term notes	8	-	-	-	-	-	(1)	7
Mortgage bonds	981	-	1	-	-	-	(10)	972
Financial asset-backed securities	-	-	-	-	-	-	-	-
Equity securities	97	(1)	5	-	-	125	(37)	189
Total financial assets at fair value through profit or loss	1,153	(1)	9	-	-	125	(48)	1,238
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	-	-	-	(1)	100
Equity securities	130	-	-	18	-	93	(2)	239
Total available-for-sale financial assets	231	-	-	18	-	93	(3)	339
Financial instruments of segregated funds	20	-	1	-	(4)	11	-	28
Total financial assets	$ 1,404	$ (1)	$ 10	$ 18	$ (4)	$ 229	$ (51)	$ 1,605
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 68	$ -	$ (1)	$ -	$ -	$ -	$ -	$ 67
Financial liability related to the contingent consideration	364	-	45	-	-	-	-	409
Total financial liabilities	$ 432	$ -	$ 44	$ -	$ -	$ -	$ -	$ 476

(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 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 three-month period ended March 31, 2016	Balance at beginning of period	Realized gains / losses recognized in profit or loss(1)	Unrealized gains / losses recognized in profit or loss(2)	Unrealized gains / losses recognized in other comprehensive income(3)	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ -	$ -	$ -	$ -	$ (10)	$ 62
Other issuers								
Hedge funds	8	-	-	-	-	-	-	8
Asset-backed term notes	801	-	3	-	-	-	(1)	803
Mortgage bonds	1,043	-	-	-	-	5	(15)	1,033
Financial asset-backed securities	27	-	1	-	-	-	-	28
Equity securities	68	-	-	-	-	2	(16)	54
Total financial assets at fair value through profit or loss	2,019	-	4	-	-	7	(42)	1,988
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	-	-	-	(1)	105
Equity securities	131	-	(1)	26	(38)	3	(9)	112
Total available-for-sale financial assets	237	-	(1)	26	(38)	3	(10)	217
Financial instruments of segregated funds	8	-	-	-	-	2	-	10
Total financial assets	$ 2,264	$ -	$ 3	$ 26	$ (38)	$ 12	$ (52)	$ 2,215
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 1	$ -	$ -	$ -	$ -	$ 80
Financial liability related to the contingent consideration	258	-	(1)	-	-	-	-	257
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ -	$ -	$ (38)	$ -	$ -	$ 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 on available-for-sale securities” in the Combined Statements of Comprehensive Income.

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 March 31, 2017	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 6,525**	**$ 26**	**$ 8**	**$ 6,543**
Provincial governmental entities and municipal corporations in Canada	**10,955**	**139**	**9**	**11,085**
School or public corporations in Canada	**16**	**-**	**-**	**16**
Foreign public administrations	**32**	**-**	**-**	**32**
Other securities				
Financial institutions	**2,988**	**7**	**-**	**2,995**
Other issuers	**658**	**21**	**-**	**679**
Equity securities	**2,777**	**526**	**26**	**3,277**
	$ 23,951	**$ 719**	**$ 43**	**$ 24,627**

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

Impairment losses recognized

During the three-month period ended March 31, 2017, Desjardins Group concluded that there was objective evidence of impairment. Impairment losses of $3 million ($2 million for the three-month period ended March 31, 2016) 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 $8 million and $39 million, respectively, as at March 31, 2017 ($807 million and $839 million as at December 31, 2016). During the three-month period ended March 31, 2017, substantially all ABTNs were settled, and a cash consideration of $799 million, corresponding to the nominal value of these ABTNs, was received.

Impact on profit or loss

A non-material gain related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the three-month period ended March 31, 2017 (gain of $3 million for the three-month period ended March 31, 2016).

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 March 31, 2017	**Gross loans neither past due nor impaired**	**Gross loans past due but not impaired**	**Gross impaired loans**	**Individual allowances**	**Collective allowance[1]**	**Net loans**
Residential mortgages	**$ 104,983**	**$ 2,085**	**$ 178**	**$ 18**	**$ 48**	**$ 107,180**
Consumer, credit card and other personal loans	**21,408**	**735**	**100**	**14**	**162**	**22,067**
Business and government	**37,957**	**344**	**266**	**89**	**127**	**38,351**
	$ 164,348	**$ 3,164**	**$ 544**	**$ 121**	**$ 337**	**$ 167,598**

(1) Includes the collective allowance on impaired loans of $25 million.

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

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

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 March 31, 2017	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 1,681**	**$ 230**	**$ 67**	**$ 107**	**$ 2,085**
Consumer, credit card and other personal loans	**498**	**154**	**58**	**25**	**735**
Business and government	**216**	**50**	**16**	**62**	**344**
	$ 2,395	**$ 434**	**$ 141**	**$ 194**	**$ 3,164**

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

ALLOWANCES FOR CREDIT LOSSES

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

	Residential mortgages		**Consumer, credit card and other personal loans**		**Business and government**		**Total**	
For the three-month periods ended March 31	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance at beginning of period	**$ 67**	$ 65	**$ 191**	$ 188	**$ 254**	$ 307	**$ 512**	$ 560
Provision for credit losses	**15**	9	**79**	80	**(2)**	2	**92**	91
Write-offs and recoveries	**(15)**	(10)	**(76)**	(77)	**-**	(8)	**(91)**	(95)
Balance at end of period	**$ 67**	$ 64	**$ 194**	$ 191	**$ 252**	$ 301	**$ 513**	$ 556
Composed of:								
Allowance for credit losses	**$ 66**	$ 63	**$ 176**	$ 151	**$ 216**	$ 240	**$ 458**	$ 454
Allowance for off-balance sheet items[1]	**1**	1	**18**	40	**36**	61	**55**	102

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

NOTE 7 – INTERESTS IN OTHER ENTITIES

SUBSIDIARIES

On January 1, 2017, the Federation amalgamated with *Caisse centrale Desjardins* by absorption thereof. As a result of this amalgamation, the Federation holds all the rights and assumes all the obligations of *Caisse centrale Desjardins*, in addition to its own rights and obligations. This transaction had no significant impact on Desjardins Group's Combined Balance Sheet on the date it is completed.

COVERED BONDS

Under its covered bond program, Desjardins Group issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of this entity are included in the Combined Financial Statements of Desjardins Group as this entity is controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to this entity and granted it 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 this entity for purposes of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by this structured entity. The assets, totalling $6,306 million as at March 31, 2017 ($8,133 million as at December 31, 2016) are presented under "Loans – Residential mortgages", and the covered bonds, amounting to $4,248 million as at March 31, 2017 ($6,255 million as at December 31, 2016), are presented under "Deposits – Business and government" in the Combined Balance Sheets.

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 March 31, 2017				As at December 31, 2016			
	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	**$ 43,144**	**$ 3,761**	**$ 50,217**	**$ 97,122**	$ 42,513	$ 3,772	$ 49,993	$ 96,278
Business and government	**23,321**	**326**	**46,319**	**69,966**	21,866	322	40,611	62,799
Deposit-taking institutions	**1,804**	**-**	**435**	**2,239**	1,343	-	126	1,469
	$ 68,269	**$ 4,087**	**$ 96,971**	**$ 169,327**	$ 65,722	$ 4,094	$ 90,730	$ 160,546

NOTE 9 – GROUP HELD FOR SALE

On February 15, 2017, Desjardins Group entered into an agreement to sell its interests in two of its subsidiaries, Western Financial Group Inc., a financial services company, and Western Life Assurance Company, a life and health insurance company, to Trimont Financial Ltd, a subsidiary of The Wawanesa Mutual Insurance Company, for an estimated total consideration of $775 million. The transaction is expected to close in the third quarter of 2017, subject to the required regulatory approvals and standard closing conditions.

These two subsidiaries are classified as group held for sale, as their carrying amount will be recovered through this transaction rather than through continuing use. A group held for sale is measured at the lower of its carrying amount and fair value less costs to sell. The assets and liabilities of the group held for sale are presented separately in the Combined Balance Sheet as at March 31, 2017.

The assets and the liabilities of the two subsidiaries held for sale presented in the Combined Balance Sheet as at March 31, 2017 are as follows:

Assets		
Cash and deposit with financial institutions	**$**	**92**
Securities at fair value through profit or loss		**117**
Available-for-sale		**62**
Amount receivable from clients, brokers ans financial institutions		**17**
Reinsurance assets		**54**
Property, plant and equipment		**18**
Goodwill		**293**
Intangible assets		**154**
Deffered tax assets		**3**
Other assets		**132**
Total assets of the group held for sale	**$**	**942**
Liabilities		
Insurance contract liabilities	**$**	**155**
Deferred tax liabilities		**40**
Other liabilities		**150**
Total liabilities of the group held for sale	**$**	**345**

The operations of these two subsidiaries are presented in the Property and Casualty Insurance segment

NOTE 10 – CAPITAL STOCK

ISSUANCE OF SHARES

During the three-month period ended March 31, 2017, the Federation issued 11,872,681 F capital shares for a cash consideration of $119 million.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at March 31, 2017		As at December 31, 2016	
	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	**$ 500**	**$ 20**	$ 376	$ 14
Net gains on derivative financial instruments designated as cash flow hedges	**120**	**1**	136	1
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**2**	**-**	2	-
Accumulated other comprehensive income	**$ 622**	**$ 21**	$ 514	$ 15

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.

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. In addition, since January 1, 2015, Desjardins Group has been required by the AMF to meet a minimum leverage ratio of 3.0%.

As mentioned in Note 10, “Capital stock”, the Federation issued F capital shares in the first quarter of 2017 for a gross proceed of $119 million.

As at March 31, 2017, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

(in millions of dollars and as a percentage)	**As at March 31, 2017**	As at December 31, 2016
Capital		
Tier 1A capital	**$ 18,935**	$ 18,720
Tier 1B capital	**18,948**	18,732
Total capital	**19,405**	19,343
Risk-weighted assets for capital ratio calculation purposes[(1)]		
For Tier 1A capital	**110,369**	108,143
For Tier 1 capital	**110,369**	108,143
For total capital	**110,369**	108,143
Risk-weighted assets for total capital calculation purposes[(1)]		
Credit risk	**94,396**	93,018
Market risk	**2,608**	1,810
Operational risk	**13,365**	13,315
Total risk-weighted assets	**$ 110,369**	$ 108,143
Ratios and leverage ratio exposure		
Tier 1A capital	**17.2%**	17.3%
Tier 1 capital	**17.2**	17.3
Total capital	**17.6**	17.9
Leverage	**7.9**	8.1
Leverage ratio exposure	**$ 239,397**	$ 230,472

(1) Takes into account the requirements of the CVA charge that have been phased in since January 1, 2014 to calculate the Tier 1A, Tier 1 and total capital ratios, which are 72%, 77% and 81%, respectively. They will reach 100% for each category by 2019.

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

FINANCIAL INSTRUMENTS HELD FOR TRADING

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

	For the three-month periods ended March 31	
	2017	2016
Income		
Net interest income	**$ 11**	$ 10
Net income on securities at fair value through profit or loss	**4**	207
	$ 15	$ 217

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	For the three-month periods ended March 31	
	2017	2016
Income		
Net interest income	**$ 2**	$ -
Net income on securities at fair value through profit or loss	**297**	305
	$ 299	$ 305

NOTE 14 – SEGMENTED INFORMATION

Desjardins Group's financial reporting is grouped by activities, which are defined based on the needs of its members and clients and the markets in which Desjardins Group operates and reflect Desjardins Group's internal management method. During the first quarter of 2017, certain changes were made to business segments to reflect management's decisions as to how each segment is managed. Desjardins Group's financial results are grouped in three business segments, namely Personal Services and Business and Institutional Services, Wealth Management and Life and Health Insurance, and Property and Casualty insurance, plus an Other category. Prior period comparative amounts have been restated to reflect these reclassifications.

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated offering designed to meet the needs of individuals, businesses, institutions, not-for-profit organizations and cooperatives through the Desjardins caisse network, the Desjardins Business centres as well as specialized teams. This offering meets a range of needs including day-to-day and convenience transactions, savings, card and payment services, financing, specialty services, access to capital markets, development capital and business ownership transfers and advice. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by phone, online and via applications for mobile devices, as well as ATMs. The operations of *Fonds de sécurité Desjardins* and certain support functions provided by the Federation to this segment, which were previously presented in the Other category, have been presented in this segment since the first quarter of 2017.

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

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

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

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

NOTE 14 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

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

For the three-month periods ended March 31	Personal and Business Services 2017	Personal and Business Services 2016	Wealth Management and Life and Health Insurance 2017	Wealth Management and Life and Health Insurance 2016	Property and Casualty Insurance 2017	Property and Casualty Insurance 2016	Other 2017	Other 2016	Combined 2017	Combined 2016
Net interest income	**$ 985**	$ 988	**$ -**	$ -	**$ 1**	$ -	**$ 71**	$ 66	**$ 1,057**	$ 1,054
Net premiums	**-**	-	**1,081**	1,003	**965**	783	**(64)**	(65)	**1,982**	1,721
Other income	**537**	502	**697**	853	**64**	122	**(147)**	(140)	**1,151**	1,337
Total income	**1,522**	1,490	**1,778**	1,856	**1,030**	905	**(140)**	(139)	**4,190**	4,112
Provision for credit losses	**92**	91	**-**	-	**-**	-	**-**	-	**92**	91
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**1,036**	1,179	**719**	584	**(2)**	(5)	**1,753**	1,758
Non-interest expense	**1,101**	1,086	**561**	551	**326**	269	**(141)**	(133)	**1,847**	1,773
Operating surplus earnings	**329**	313	**181**	126	**(15)**	52	**3**	(1)	**498**	490
Income taxes on surplus earnings	**83**	81	**38**	29	**3**	13	**(9)**	(15)	**115**	108
Surplus earnings before member dividends[(1)]	**246**	232	**143**	97	**(18)**	39	**12**	14	**383**	382
Member dividends, net of income tax recovery	**26**	22	**-**	-	**-**	-	**-**	-	**26**	22
Net surplus earnings for the period after member dividends	**$ 220**	$ 210	**$ 143**	$ 97	**$ (18)**	$ 39	**$ 12**	$ 14	**$ 357**	$ 360
of which:										
Group's share	**$ 220**	$ 209	**$ 142**	$ 86	**$ (22)**	$ 30	**$ 12**	$ 14	**$ 352**	$ 339
Non-controlling interests' share	**-**	1	**1**	11	**4**	9	**-**	-	**5**	21

(1) For the three-month periods ended March 31, 2017 and 2016, the Group's share of "Surplus earnings before member dividends" was respectively $246 million and $231 million for the Personal Services and Business segment, $142 million and $86 million for the Wealth Management and Life and Health Insurance segment, $(22) million and $30 million for the Property and Casualty Insurance segment and $12 million and $14 million for the Other category.

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at March 31, 2017	**$ 201,036**	**$ 39,958**	**$ 14,034**	**$ 12,907**	**$ 267,935**
As at December 31, 2016	$ 196,749	$ 38,616	$ 14,568	$ 8,434	$ 258,367