Fédération des caisses Desjardins du Québec

Financial Report
Third quarter of 2017

The *Fédération des caisses Desjardins du Québec* (the Federation) is a cooperative entity of Desjardins Group (Desjardins Group or Desjardins). Desjardins Group comprises the Desjardins caisse network in Quebec and Ontario (the caisses), the Federation and its subsidiaries (including *Capital Desjardins inc.*), the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*.

The role of the Federation and of its main subsidiaries is presented in "The Federation's profile".

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Net interest income	**$ 364**	$ 344	$ 332	**$ 1,047**	$ 972
Net premiums	**2,007**	2,099	1,897	**6,112**	5,406
Other operating income[2]	**1,130**	924	794	**2,956**	2,561
Operating income[2]	**3,501**	3,367	3,023	**10,115**	8,939
Investment income (loss)[2]	**(316)**	734	538	**843**	2,170
Total income	**3,185**	4,101	3,561	**10,958**	11,109
Provision for credit losses	**72**	59	70	**204**	200
Claims, benefits, annuities and changes in insurance contract liabilities	**1,000**	1,922	1,727	**4,675**	5,550
Non-interest expense	**1,433**	1,605	1,458	**4,588**	4,462
Income taxes on surplus earnings	**89**	100	32	**256**	120
Surplus earnings before dividends to member caisses	**$ 591**	$ 415	$ 274	**$ 1,235**	$ 777
Adjusted surplus earnings before dividends to member caisses[2]	**$ 341**	$ 424	$ 281	**$ 1,010**	$ 801
Return on equity[2]	**15.3%**	11.2%	7.8%	**11.1%**	7.5%
Adjusted return on equity[2]	**8.7**	11.4	7.9	**9.0**	7.7
Provisioning rate[2]	**0.51**	0.44	0.55	**0.50**	0.52

[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

(in millions of dollars)	**As at September 30, 2017**	As at December 31, 2016
Assets	**$ 148,020**	$ 134,658
Net loans and acceptances	**56,303**	52,441
Deposits	**53,262**	46,902
Equity	**16,114**	14,680

MESSAGE FROM SENIOR MANAGEMENT

Lévis, November 10, 2017 — For the third quarter ended September 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of $591 million, an increase of $317 million compared to the corresponding quarter of 2016. Surplus earnings adjusted for specific items, namely the gain and expenses related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company as well as the expenses incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company totalled $341 million compared to $281 million in the third quarter of 2016, a $60 million, or 21.4%, increase. This increase is due to the Property and Casualty Insurance segment, which enjoyed a more favourable claims experience for the current year than in the corresponding quarter of 2016, chiefly in automobile and home insurance because of the less significant impact of major events compared to third quarter 2016, when there had been more major events as well as a disaster related to hail in Alberta.

This result reflects the contribution of $86 million, or 14.5% of surplus earnings, made by the Personal and Business Services segment. The Wealth Management and Life and Health Insurance segment contributed $121 million to surplus earnings, while the Property and Casualty Insurance segment, including the gain on the sale of subsidiaries, contributed $318 million, representing 20.5% and 53.8%, respectively, of surplus earnings. A $66 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 11.2% of surplus earnings.

“We can certainly take pride in these excellent results, but what gives me the greatest satisfaction are the tangible impacts that Desjardins generates, as seen in the increased amounts we gave back to our members and the community,” said Guy Cormier, Chair of the Board, President and Chief Executive Officer. “In addition to this, we are determined to get even closer to our members and clients. Our $100-million Development Fund to support projects throughout Quebec and Ontario, in line with our socioeconomic mission, provides tangible proof of this.”

The Federation complies with Basel III rules and maintains very good capitalization. As at September 30, 2017, its Tier 1A and total capital ratios were 17.7% and 17.6%, compared to 15.9% and 15.9% as at December 31, 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated November 10, 2017 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended September 30, 2017, in comparison to previous periods. The Federation 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). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) as at September 30, 2017, including the notes thereto, and the Federation's 2016 Annual Report (the 2016 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

Additional information about the Federation is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com** (under the *Fédération des caisses Desjardins du Québec* profile), where its Annual Information Form can be found 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 also 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

The Federation'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 the Federation'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 the Federation's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. The Federation 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 the Federation'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 the Federation as a result of environmental impacts or issues, whether they are a result of the Federation'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 the Federation 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 the Federation 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 the Federation 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 the Federation; new products and services to maintain or increase the Federation'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 the Federation's disaster recovery plan within a reasonable time, the potential impact of international conflicts or natural disasters, and the Federation'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 the Federation's results. Additional information about these and other factors is found in section 4.0, "Risk management" of the 2016 MD&A. Although the Federation believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. The Federation 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 the Federation'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. The Federation 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 the Federation, except as required under applicable securities legislation.

THE FEDERATION'S PROFILE

The Federation is a cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group, and acts as a financial agent on Canadian and international capital markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services.

The Federation enables the caisses and other Desjardins Group components to accelerate their development and better respond to the needs of their members and clients. The Federation's structure has been designed to take into account the needs of Desjardins Group's members and clients, as well as the markets in which it operates.

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

Sales of subsidiaries

On July 1, 2017, Desjardins Group completed the sale of 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 $722 million. A gain of $249 million, net of expenses and after income taxes, on the sale of these subsidiaries was recognized in the Consolidated Statements of Income for the nine-month period ended September 30, 2017 (a gain of $258 million, net of expenses and after income taxes, for the three-month period ended September 30, 2017). The results of these subsidiaries were presented in the Property and Casualty Insurance segment.

It should also be recalled that the sale of Western Financial Insurance Company to Economical Insurance was completed on January 1, 2017.

Additional financial information on these subsidiaries is presented in the "Impact of the sale of subsidiaries" section.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim Consolidated Financial Statements have been prepared by the Federation'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 Consolidated Financial Statements of the Federation have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". For further information about the accounting policies applied, see the Annual and Interim Consolidated Financial Statements.

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

To assess its performance, the Federation 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 surplus earnings of the Federation before dividends to member caisses

The concept of adjusted surplus earnings is used to exclude specific items in order to present financial performance based on operating activities. These specific items, such as acquisitions and disposals, are unrelated to operations.

The Federation's surplus earnings before dividends to member caisses are adjusted to exclude the following specific items: the gain and expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company as well as the expenses incurred as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm), completed on January 1, 2015. The latter expenses include the costs related to the transaction and the integration of operations as well as processing expenses.

The following table presents a reconciliation of surplus earnings before dividends to member caisses as presented in the Consolidated Financial Statements and the adjusted surplus earnings as presented in the MD&A.

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Presentation of the surplus earnings before dividends to member caisses in the Consolidated Financial Statements	**$ 591**	$ 415	$ 274	**$ 1,235**	$ 777
Specific items, net of income taxes					
Gain and expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company(1)(2)	**(258)**	1	-	**(249)**	-
Expenses related to the acquisition of State Farm's Canadian operations	**8**	8	7	**24**	24
Presentation of the adjusted surplus earnings before dividends to member caisses in the MD&A	**$ 341**	$ 424	$ 281	**$ 1,010**	$ 801

(1) The amount before income taxes is $278 million for the nine-month period ended September 30, 2017, as presented in Note 9, "Significant disposals" to the Interim Consolidated Financial Statements.
(2) Certain expenses and taxes were recognized in the first six months of 2017.

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 following specific items: the gain and expenses, net of income taxes, related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017, as well as the expenses incurred as part of the acquisition of State Farm's Canadian operations, completed on January 1, 2015. These latter expenses include the costs related to the transaction and the integration of operations as well as processing expenses.

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

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Consolidated Financial Statements	**$ 318**	$ 98	$ 26	**$ 398**	$ 114
Specific items, net of income taxes					
Gain and expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company(1)(2)	**(255)**	1	-	**(241)**	-
Expenses related to the acquisition of State Farm's Canadian operations	**8**	8	7	**24**	24
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&A	**$ 71**	$ 107	$ 33	**$ 181**	$ 138

(1) The difference between these data and those presented in the table for the adjusted surplus earnings of the Federation before dividends to member caisses is related to intersegment transaction expenses.
(2) Certain expenses and taxes were recognized in the first six months of 2017.

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" in the Federation's MD&A provides more detailed information on this indicator.

Average loans and acceptances – Average deposits – Average equity

The average balances for these items are used to measure growth. They are equal to averages of the amounts presented in the Consolidated 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			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Net premiums	**$ 967**	$ 981	$ 811	**$ 2,913**	$ 2,391
Premiums excluded from the loss ratio[1]	**-**	(30)	(39)	**(61)**	(110)
Net premiums considered in the ratio denominators	**$ 967**	$ 951	$ 772	**$ 2,852**	$ 2,281
Claims, benefits, annuities and changes in insurance contract liabilities	**$ 643**	$ 594	$ 510	**$ 1,956**	$ 1,663
Market yield adjustment (MYA)	**63**	25	(19)	**72**	(74)
Other items excluded from the loss ratio[1]	**-**	(12)	(11)	**(19)**	(42)
Claims, benefits, annuities and insurance contract liabilities excluding the MYA	**$ 706**	$ 607	$ 480	**$ 2,009**	$ 1,547
Loss ratio as presented in the MD&A	**73.0%**	63.8%	62.2%	**70.4%**	67.8%
Non-interest expense	**$ 205**	$ 319	$ 278	**$ 850**	$ 873
Other expenses excluded from the expense ratio[2]	**20**	(80)	(85)	**(145)**	(257)
Operating expenses	**$ 225**	$ 239	$ 193	**$ 705**	$ 616
Expense ratio as presented in the MD&A	**23.3%**	25.1%	25.0%	**24.7%**	27.0%
Combined ratio as presented in the MD&A	**96.3**	88.9	87.2	**95.1**	94.8

(1) Comes mainly from the life insurance activities of Western Life Assurance Company, the sale of which was completed on July 1, 2017.
(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 on July 1, 2017 and expenses related to the acquisition on January 1, 2015 of State Farm's Canadian operations.

Return on equity and adjusted return on equity

Return on equity is used to measure profitability. Expressed as a percentage, it is equal to surplus earnings before dividends to member caisses, excluding the non-controlling interests' share and interest paid to holders of PL and PL-2 investment shares (which are not eligible for the distribution of surplus earnings), divided by average equity before non-controlling interests and PL and PL-2 investment shares.

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

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Surplus earnings before dividends to member caisses	**$ 591**	$ 415	$ 274	**$ 1,235**	$ 777
Non-controlling interests' share	**(15)**	(14)	(13)	**(34)**	(59)
Group's share	**$ 576**	$ 401	$ 261	**$ 1,201**	$ 718
Average equity before non-controlling interests' share	**$ 14,912**	$ 14,323	$ 13,359	**$ 14,427**	$ 12,851
Return on equity presented in the MD&A[1]	**15.3%**	11.2%	7.8%	**11.1%**	7.5%
Adjusted return on equity presented in the MD&A[1][2]	**8.7**	11.4	7.9	**9.0**	7.7

(1) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.
(2) Takes into account the specific items presented in the "Adjusted surplus earnings of the Federation before dividends to member caisses" subsection of this section.

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 the volatility of results specific to investments, particularly regarding the extent of life and health insurance and P&C insurance operations, for which a very large proportion of investments are recognized at fair value through profit or loss. The analysis therefore breaks down the Federation'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, generated mainly by the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category, net premiums and other operating income such as assessments, service agreements, 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 Consolidated 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 Consolidated Financial Statements. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, for which results are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Consolidated Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss.

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

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Presentation of income in the Consolidated Financial Statements					
Net interest income	**$ 364**	$ 344	$ 332	**$ 1,047**	$ 972
Net premiums	**2,007**	2,099	1,897	**6,112**	5,406
Other income					
Assessments	**93**	91	99	**283**	295
Service agreements	**187**	194	175	**548**	525
Lending fees and credit card service revenues	**154**	153	138	**478**	424
Brokerage and investment fund services	**241**	307	279	**826**	825
Management and custodial service fees	**109**	111	99	**326**	289
Net income (loss) on securities at fair value through profit or loss	**(440)**	497	396	**352**	1,776
Net income on available-for-sale securities	**66**	183	91	**325**	242
Net other investment income	**58**	54	51	**166**	152
Foreign exchange income	**16**	21	21	**55**	50
Other	**330**	47	(17)	**440**	153
Total income	**$ 3,185**	$ 4,101	$ 3,561	**$ 10,958**	$ 11,109
Presentation of income in the MD&A					
Net interest income	**$ 364**	$ 344	$ 332	**$ 1,047**	$ 972
Net premiums	**2,007**	2,099	1,897	**6,112**	5,406
Other operating income					
Assessments	**93**	91	99	**283**	295
Service agreements	**187**	194	175	**548**	525
Lending fees and credit card service revenues	**154**	153	138	**478**	424
Brokerage and investment fund services	**241**	307	279	**826**	825
Management and custodial service fees	**109**	111	99	**326**	289
Foreign exchange income	**16**	21	21	**55**	50
Other	**330**	47	(17)	**440**	153
Operating income	**3,501**	3,367	3,023	**10,115**	8,939
Investment income (loss)					
Net income (loss) on securities at fair value through profit or loss	**(440)**	497	396	**352**	1,776
Net income on available-for-sale securities	**66**	183	91	**325**	242
Net other investment income	**58**	54	51	**166**	152
	(316)	734	538	**843**	2,170
Total income	**$ 3,185**	$ 4,101	$ 3,561	**$ 10,958**	$ 11,109

[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			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Provision for credit losses	**$ 72**	$ 59	$ 70	**$ 204**	$ 200
Average gross loans	**55,458**	53,822	50,852	**54,155**	50,956
Average gross acceptances	**100**	82	35	**79**	133
Average gross loans and acceptances	**$ 55,558**	$ 53,904	$ 50,887	**$ 54,234**	$ 51,089
Provisioning rate as presented in the MD&A[2]	**0.51%**	0.44%	0.55%	**0.50%**	0.52%

(1) Data for 2016 have been reclassified to conform to the current period's presentation.
(2) Corresponds to an annualized calculation that takes into account the number of days in the period concerned.

CHANGES IN THE REGULATORY ENVIRONMENT

This section presents items related to changes in the regulatory environment that apply to Desjardins Group as a whole, including those specific to the Federation and its components.

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 October 5, 2017, the Quebec Minister of Finance tabled Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* (the Bill) in the National Assembly. The Bill will have significant impacts on all institutions and intermediaries operating in Quebec’s financial sector. Bill 141 is intended to update and modernize the legislative framework for Quebec’s financial sector so that the financial institutions that it governs will have all the levers they need to operate in a very competitive environment and governance that is consistent with best practices. The Bill will have impacts on a series of laws, including the *Act respecting insurance*, the *Act respecting financial services cooperatives*, the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act*. The *Act respecting financial service cooperatives* will be amended to, among other things, prescribe the rules for organizing a network of financial services cooperatives and the rules for issuing capital shares and investment shares; grant federations special powers with regard to member credit unions’ activities; add a chapter concerning the Groupe coopératif Desjardins, which will replace the *Act respecting the Mouvement Desjardins*; and strengthen the supervision and intervention duties of the Fonds de sécurité Desjardins regarding the protection of creditors. The proposed amendments to the *Deposit Insurance Act* include a proposal to have the Act govern the supervision and control of deposit taking and the activities of authorized deposit institutions, as well as settlement and resolution mechanisms in the event of non-compliance by deposit institutions. Furthermore, the Bill will provide for revised supervision for Quebec insurers, including the introduction of a modern regime for selling insurance over the Internet. The government’s parliamentary leader has not provided a specific timeline for adoption of the Bill in its definitive version. Desjardins Group continues to closely monitor the legislative process and analyze the impacts of 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 July 12, 2017, the Quebec government issued draft regulations for comments on setting the requirements applicable to the elements introduced in 2016, particularly the funding policy and the annuity purchase policy. Desjardins Group continues to monitor developments in these draft regulations and any other draft regulation that may have an impact on its operations.

The Capital Adequacy Requirements (CAR) Guideline of the Office of the Superintendent of Financial Institutions (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 financial sanctions, the Parliament of Canada passed the *Economic Action Plan 2014 Act, No. 1*. The Act includes, in particular, amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the regulations thereunder. Some of these amendments came into effect in June 2016. The rest will come into effect gradually. The transitional period for the application of the new measures for ascertaining identity has been extended to January 23, 2018. Furthermore, on June 22, 2017, the Parliament of Canada passed an *Act to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures*. This Act includes amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to assess their impact on its operations.

On June 16, 2017, the Department of Finance Canada pre-published three draft regulations to implement the Bank Recapitalization (Bail-in) Regime (the Regulations) and the OSFI issued a draft guideline on Total Loss Absorbing Capacity (TLAC). The introduction of the Regulations and the TLAC guideline are intended to ensure that a non-viable domestic systemically important bank (D-SIB) has sufficient loss absorbing capacity to support its recapitalization. The consultation period for the Regulations and the TLAC guideline ended on July 17, 2017. According to the Department of Finance Canada, a definitive version of the regulations is expected in fall 2017. The D-SIBs will be required to issue the ratios specified in the TLAC guideline as of the quarter commencing November 1, 2018 and comply with the requirements of the TLAC guideline no later than November 1, 2021. This regime is not applicable immediately to Desjardins Group because it is regulated by the AMF. Furthermore, the bill tabled by the government of Quebec on October 5, 2017, as mentioned above, provides for certain settlement and resolution mechanisms in the event of non-compliance by deposit institutions.

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 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*, but globally. The standard took effect in Canada on July 1, 2017, with the first exchange of information between Canada and the competent authorities scheduled for May 1, 2018. Desjardins Group has implemented various solutions to ensure its compliance while minimizing the impact on member and client experience.

Data confidentiality and security is a rapidly changing area. In Canada, new provisions of the *Personal Information Protection and Electronic Documents Act* (PIPEDA) will soon come into force, in particular provisions that require businesses to give notice of any breaches of security safeguards and provisions that impose the keeping of a register. Failure to give notice will result in a fine. It should be noted that in Europe, the *General Data Protection Regulation* (GDPR), which will enter into force in May 2018, provides for new obligations that will apply internationally to entities that control or process the personal data of citizens of the European Union. Several of these obligations, if applicable, could require changes to the processes used by Desjardins Group. In Quebec, consultations are currently underway concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its activities.

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.

ECONOMIC ENVIRONMENT AND OUTLOOK

In the third quarter of 2017, the financial markets continued to be favoured by new signs of improving economic environments and outlooks in the industrialized countries, despite increasing geopolitical concerns related to North Korea. As a result, most of the international stock indices continued to trend upward, with the S&P 500 recently reaching an all-time high. Following a rather disappointing first half of the year, prices for industrial metals and oil have risen over the past few months, buoyed by accelerating growth in the global economy. This has allowed the Toronto Stock Exchange to edge past the level reached at the end of 2016.

The most notable financial event in Canada in the third quarter was clearly the increase in key interest rates. The Bank of Canada not only began tightening monetary policy in July, but it also announced a second hike in key interest rates at its September 6 meeting. The result was that the target overnight rate effectively doubled within a seven-week period, to 1.0%, placing considerable pressure on the dollar and on all Canadian interest rates. Even though the Canadian monetary authorities have not been giving clear signals on what will follow, gradual hikes to key interest rates should be expected in 2018 and 2019 as the Canadian economy continues to expand faster than its potential growth rate. In addition, the U.S. Federal Reserve (the Fed) is staying the course as it normalizes monetary policy. At its September meeting, the Fed confirmed that it would begin gradually unwinding its balance sheet, and it clearly signaled an intention to raise its key interest rates again by the end of 2017 and in the years to come. In this context, U.S. bond rates, which generally fell in July and August, have recently begun an upward trend that appears likely to continue.

The situation in the global economy is improving. Household and business confidence indices have been performing well, and there also appears to be good momentum in global trade. In the eurozone, real GDP growth has picked up speed over the past few quarters. Furthermore, the political risks that weighed heavily on the economic outlook have been receding. However, the environment may become more complicated as the European Union and the United Kingdom negotiate Brexit. In addition, the United Kingdom's position has become even more difficult since the recent general election as economic activity in Britain has slowed. Real global GDP is expected to grow 3.4% in 2017, following an estimated gain of 3.0% in 2016. In 2018 it could grow 3.6%.

The U.S. economy grew faster in the second quarter, with real GDP up 3.1% on an annual basis. The initial indicators for the third quarter boded well, but hurricanes Harvey, Irma and Maria have had some negative impacts. However, the downward pressure on growth was brief, and real GDP rose by 3.0% in the third quarter. The Trump administration and Republican leaders of Congress have proposed tax reforms and cuts to income taxes. The Republicans' previous legislative setbacks and the budget estimates of these changes suggest a low likelihood of this reform being implemented. Real GDP growth in the U.S. is estimated at 2.1% in 2017 and 2.4% in 2018.

In Canada, the economy continued to grow at a sustained pace in the second quarter, with real GDP up 4.5% (annual rate). This follows 3.7% growth in the first quarter, bringing the cumulative gain since the beginning of 2017 to 4.1% (annual rate). The economy has not grown this strongly at the start of the year since 2002. As is often the case when growth is this vigorous, all sectors of the economy contributed to these results. Consumer spending grew strongly again, stimulated by good performance in the labour market, rising household income and relatively high consumer confidence. The only exception was residential investment, which declined 4.7% in the second quarter. The Toronto market responded to new restrictive measures implemented by the Government of Ontario, and this was a major contributing factor. Factoring in the interest rate hikes begun in July of this year, there is every reason to believe that the housing market will continue on a downward course over the next few quarters. The higher interest rate environment may also be felt in other segments of the Canadian economy, including in spending on durable consumer goods. Under these conditions, growth in real Canadian GDP should slow over the next few quarters toward a more sustainable pace in the medium term. Real GDP could grow 2.2% in 2018.

In Quebec, real GDP increased 2.5% (annual rate) in the second quarter of 2017. Despite the fact that results for the first quarter were revised downward, the Quebec economy grew at a good pace in the first half of the year. Real GDP has grown by between 2.5% and 3.0% for four consecutive quarters, which represents an excellent run for the province. Even if consumer spending has slowed slightly, its contribution to economic growth remained strong. The labour market continued to support households, with the unemployment rate near 6% in the third quarter. Consumer confidence has also remained high this fall. The residential sector has benefited from this positive environment, with increased sales of existing homes and higher prices. Some positive signals from businesses, such as an upturn in exports following a difficult start to the year and rising investment in machinery and equipment, are satisfactory in the current environment. It remains to be seen what will come out of the NAFTA negotiations currently underway.

REVIEW OF FINANCIAL RESULTS

IMPACT OF THE SALE OF SUBSIDIARIES

On July 1, 2017, Desjardins Group completed the sale of 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 $722 million. A gain of $249 million, net of expenses and after income taxes, on the sale of these subsidiaries was recognized in the Consolidated Statements of Income for the nine-month period ended September 30, 2017 (a gain of $258 million, net of expenses and after income taxes, for the three-month period ended September 30, 2017).

It should also be recalled that the sale of Western Financial Insurance Company to Economical Insurance was completed on January 1, 2017.

The table below presents the operating results of these three subsidiaries included in the Federation’s financial results in the Property and Casualty Insurance segment.

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Net interest income	**$ -**	$ 1	$ 2	**$ 3**	$ 4
Net premiums	**-**	31	55	**65**	158
Other operating income[(1)]	**-**	57	51	**97**	150
Operating income[(1)]	**-**	89	108	**165**	312
Investment income[(1)]	**-**	7	4	**9**	18
Total income	**-**	96	112	**174**	330
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	13	22	**22**	72
Non-interest expense	**-**	66	71	**124**	223
Income taxes on surplus earnings	**-**	5	5	**9**	13
Surplus earnings before dividends to member caisses	**$ -**	$ 12	$ 14	**$ 19**	$ 22

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

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Results					
Net interest income	**$ 364**	$ 344	$ 332	**$ 1,047**	$ 972
Net premiums	**2,007**	2,099	1,897	**6,112**	5,406
Other operating income[2]					
Assessments	**93**	91	99	**283**	295
Service agreements	**187**	194	175	**548**	525
Lending fees and credit card service revenues	**154**	153	138	**478**	424
Brokerage and investment fund services	**241**	307	279	**826**	825
Management and custodial service fees	**109**	111	99	**326**	289
Foreign exchange income	**16**	21	21	**55**	50
Other	**330**	47	(17)	**440**	153
Operating income[2]	**3,501**	3,367	3,023	**10,115**	8,939
Investment income (loss)[2]					
Net income (loss) on securities at fair value through profit or loss	**(440)**	497	396	**352**	1,776
Net income on available-for-sale securities	**66**	183	91	**325**	242
Net other investment income	**58**	54	51	**166**	152
	(316)	734	538	**843**	2,170
Total income	**3,185**	4,101	3,561	**10,958**	11,109
Provision for credit losses	**72**	59	70	**204**	200
Claims, benefits, annuities and changes in insurance contract liabilities	**1,000**	1,922	1,727	**4,675**	5,550
Non-interest expense	**1,433**	1,605	1,458	**4,588**	4,462
Income taxes on surplus earnings	**89**	100	32	**256**	120
Surplus earnings before dividends to member caisses	**591**	415	274	**1,235**	777
Adjusted surplus earnings before dividends to member caisses[2]	**$ 341**	$ 424	$ 281	**$ 1,010**	$ 801
Contribution to consolidated surplus earnings by business segment[3]					
Personal and Business Services	**$ 86**	$ 85	$ 88	**$ 255**	$ 252
Wealth Management and Life and Health Insurance	**121**	189	126	**453**	347
Property and Casualty Insurance	**318**	98	26	**398**	114
Treasury and Other Support to Desjardins Group Entities	**66**	43	34	**129**	64
	$ 591	$ 415	$ 274	**$ 1,235**	$ 777
Indicators					
Return on equity[2]	**15.3%**	11.2%	7.8%	**11.1%**	7.5%
Adjusted return on equity[2]	**8.7**	11.4	7.9	**9.0**	7.7

[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 Consolidated Financial Statements.

ANALYSIS OF RESULTS

Comparison of the third quarters of 2017 and 2016

Surplus earnings

For the third quarter ended September 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of $591 million, compared to $274 million for the corresponding quarter of 2016, an increase of $317 million. Surplus earnings adjusted for specific items, namely the gain and expenses related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company as well as the expenses incurred as part of the acquisition of State Farm’s Canadian operations totalled $341 million, a $60 million, or 21.4%, increase compared to the third quarter of 2016. This increase is due to the Property and Casualty Insurance segment, which enjoyed a more favourable claims experience for the current year than in the corresponding quarter of 2016, chiefly in automobile and home insurance because of the less significant impact of major events compared to third quarter 2016, when there had been more major events as well as a disaster related to hail in Alberta. The change in the fair value of derivative financial instruments associated with the Federation’s hedging activities and Card and Payment Services operations also contributed to the increase in surplus earnings for the quarter.

This result reflects the contribution of $86 million made by the Personal and Business Services segment, or 14.5% of surplus earnings. The Wealth Management and Life and Health Insurance segment contributed $121 million to surplus earnings, while the Property and Casualty Insurance segment contributed, including the gain on the sale of subsidiaries, $318 million, representing 20.5% and 53.8%, respectively, of surplus earnings. A $66 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 11.2% of surplus earnings.

Return on equity was 15.3%, compared to 7.8% in the corresponding quarter of 2016. The adjusted return on equity was 8.7%, compared to 7.9% in the third quarter of 2016. This increase was mainly due to higher surplus earnings, as explained above.

Operating income

Operating income stood at $3,501 million, up $478 million, or 15.8%, compared to the third quarter of 2016. If the $278 million gross gain on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company is excluded, operating income would have been $3,223 million, a $200 million, or 6.6%, increase compared to the same quarter in 2016.

Net interest income increased by $32 million, or 9.6%, to stand at $364 million, compared to $332 million for the same period in the previous year. This increase is due to growth in the entire loans and acceptances portfolio outstanding, amounting to $5.1 billion, or 10.0%, during the year, which includes consumer, credit card and other personal loan financing activities, particularly point-of-sale financing, as well as business and government loans.

Net premiums were up $110 million, or 5.8%, compared to the third quarter of 2016, to total $2,007 million as at September 30, 2017.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $1,078 million for the third quarter of 2017, down $45 million, or 4.0%, compared to the same period in 2016. Insurance premiums increased by $54 million, with group insurance accounting for $47 million of this growth and individual insurance for $7 million. Annuity premiums decreased by $99 million.

The Property and Casualty Insurance segment's operations generated net premium income of $967 million for the third quarter of 2017, compared to $811 million for the same period in 2016, an increase of $156 million, or 19.2%, 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. 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. These increases were partially offset by the reduction in net premiums following the sale of Western Life Assurance Company on July 1, 2017 and of Western Financial Insurance Company on January 1, 2017.

Other operating income totalled $1,130 million, up $336 million, or 42.3%, compared to the corresponding quarter in 2016. If the $278 million gross gain on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company is excluded, other operating income would have been $852 million, a $58 million, or 7.3%, increase compared to the same quarter in 2016, chiefly as a result of the smaller increase than in third 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. In addition, growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities were contributing factors. This increase was mitigated by lower income from the subsidiaries sold in 2017, as presented in the "Impact of the sale of subsidiaries" section.

Investment income

Investment income was down $854 million compared to the third 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 Property and Casualty Insurance segment also recorded a reduction in investment income related mainly to a decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in third quarter 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies. Lower gains on the disposal of investments in the third quarter of 2017 compared to the corresponding quarter of 2016 also contributed to the lower investment income. Finally, the change in the fair value of derivative financial instruments associated with the Federation's hedging activities, mitigated the decrease in investment income.

Total income

Total income amounted to $3,185 million, down $376 million, or 10.6%, compared to the same period in 2016.

Provision for credit losses

The provision for credit losses totalled $72 million for the third quarter of 2017, which is comparable to the third quarter of 2016. The Federation's loan portfolio continued to be of high quality, as shown by the ratio of gross impaired loans which, as a percentage of the total gross loans and acceptances portfolio, was 0.13% as at September 30, 2017, down from 0.18% 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 $1,000 million, down by $727 million, or 42.1%, compared to the corresponding quarter of 2016.

The Wealth Management and Life and Health Insurance segment recorded expenses of $357 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of $859 million compared to 2016. This change mainly resulted from a $938 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. However, an increase in benefits related to growth in operations limited the reduction.

The cost of claims for the Property and Casualty Insurance segment was $643 million for the third quarter, for an increase of $133 million, or 26.1%, compared to the third quarter of 2016. The increase was mainly on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations and favourable developments in prior-year claims, which were lower than in the same quarter of 2016. The loss ratio of the P&C insurers was 73.0% for the third quarter of 2017, compared to 62.2% in the corresponding quarter of 2016. This increase was chiefly due to favourable developments in claims for prior years in automobile insurance, which were lower than in the same quarter of 2016, essentially for the claims taken over from State Farm on January 1, 2015, partially mitigated by the claims experience for the current year, mainly in automobile insurance and home insurance, which was more favourable than in the third quarter of 2016. Although automobile insurance claims experience remains high, it is lower than in the same quarter of 2016 because of the less significant impact of major events compared to third quarter 2016, when there had been more major events as well as a disaster related to hail in Alberta.

Non-interest expense

Non-interest expense totalled $1,433 million, down $25 million, or 1.7%, compared to the third quarter of 2016. Remuneration and other payments included in non-interest expense were $135 million, a $7 million, or 5.5%, increase compared to the same period in 2016 due to an increase in sales of various Desjardins Group products by the caisse network. If this item were excluded, non-interest expense would have been down $32 million, or 2.4%. This decrease in expense reflects the deployment of productivity initiatives, especially regarding salaries, as well as the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, and of Western Financial Insurance Company on January 1, 2017. The effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, and business growth, particularly in credit card and point-of-sale financing activities and assets under management, partially offset the decrease in non-interest expense.

Income taxes

Income taxes on surplus earnings before dividends to member caisses totalled $89 million for the third quarter of 2017, a $57 million increase compared to the corresponding quarter in 2016. The effective tax rate was 13.1%, compared to 10.5% for the same quarter in 2016. If the specific items are excluded, the effective tax rate would have been 16.6%. Furthermore, income taxes for 2016 included an income tax recovery on remuneration of capital stock, which was not the case in 2017.

Comparison of the first nine months of 2017 and 2016

Surplus earnings

For the nine months ended September 30, 2017, the Federation recorded surplus earnings before dividends to member caisses of $1,235 million, an increase of $458 million, or 58.9%, compared to $777 million for the corresponding period of 2016. Surplus earnings adjusted for specific items totalled $1,010 million, up $209 million, or 26.1%, compared to the same period a year earlier. This increase was partly due to good investment performance, combined with growth in assets under management in the Wealth Management and Life and Health Insurance segment. It was also due to a more favourable claims experience in the Property and Casualty Insurance segment for the current year than in the corresponding period of 2016 in automobile and home insurance because of the less significant impact of major events and disasters compared to the first nine months of 2016, when there had been two disasters related to hail and the Fort McMurray wildfire in Alberta.

This result reflects the contribution of $255 million made by the Personal and Business Services segment, or 20.7% of surplus earnings. The Wealth Management and Life and Health Insurance segment contributed $453 million to surplus earnings, while the Property and Casualty Insurance segment, including the gain on the sale of subsidiaries, contributed $398 million, representing 36.7% and 32.2%, respectively, of surplus earnings. A $129 million contribution to surplus earnings resulted from the operations grouped under the Treasury and Other Support to Desjardins Group Entities category, representing 10.4% of surplus earnings.

Return on equity was 11.1%, compared to 7.5% in the corresponding period of 2016. The adjusted return on capital was 9.0%, compared to 7.7% for the same period a year earlier. This increase was mainly due to higher surplus earnings, as explained above.

Operating income

Operating income stood at $10,115 million, up $1,176 million, or 13.2%, compared to the first nine months of 2016. If the $278 million gross gain on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company is excluded, operating income would have been $9,837 million, an $898 million, or 10.0%, increase compared to the same period in 2016.

Net interest income increased by $75 million, or 7.7%, to stand at $1,047 million, compared to $972 million for the same period in the previous year. This increase is due to growth in the entire loans and acceptances portfolio outstanding, amounting to $5.1 billion, or 10.0%, during the year, which includes consumer, credit card and other personal loan financing activities, particularly point-of-sale financing, as well as business and government loans.

Net premiums rose by $706 million, or 13.1%, to total $6,112 million as at September 30, 2017.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $3,318 million for the first nine months of 2017, compared to $3,126 million for the same period in 2016, an increase of $192 million, or 6.1%. Insurance premiums increased by $149 million, with group insurance accounting for $119 million of this growth and individual insurance for $30 million. Annuity premiums increased by $43 million.

The Property and Casualty Insurance segment's operations generated net premium income of $2,913 million for the first nine months of 2017, compared to $2,391 million for the same period in 2016, up $522 million, or 21.8%, mainly on account of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, which provides for the cession, scaled down over a five-year term, of the premiums and claims arising from new business and renewals after the acquisition date. To a lesser extent, the increase was also due to the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions. These increases were partially offset by the reduction in net premiums following the sale of Western Life Assurance Company on July 1, 2017 and of Western Financial Insurance Company on January 1, 2017.

Other operating income totalled $2,956 million, up $395 million, or 15.4%, compared to the first nine months of 2016. If the $278 million gross gain on the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company is excluded, other operating income would have been $2,678 million, a $117 million, or 4.6%, increase compared to the same period in 2016. Growth in income from assets under management and higher income related to growth in credit card and point-of-sale financing activities, as well as increased income from the caisses related in particular to various ongoing Desjardins-wide projects were the main factors in this increase, which was mitigated, however, by lower income from the subsidiaries sold in 2017, as presented in the "Impact of the sale of subsidiaries" section.

Investment income

Investment income was down $1,327 million compared to the first nine months 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. Changes in the fair value of derivative financial instruments also contributed to the lower investment income. Finally, the Property and Casualty Insurance segment recorded a reduction in investment income related mainly to a decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in the first nine months of 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies. Higher gains on the disposal of investments in the first nine months of 2017 compared to the corresponding period in 2016 as well as changes in the fair value of derivative financial instruments associated with the Federation's hedging activities mitigated the lower investment income.

Total income

Total income amounted to $10,958 million, down $151 million, or 1.4%, compared to the same period in 2016.

Provision for credit losses

The provision for credit losses totalled $204 million for the first nine months of 2017, which is comparable to the corresponding period in 2016. The Federation's loan portfolio continued to be of high quality, as shown by the ratio of gross impaired loans which, as a percentage of the total gross loans and acceptances portfolio, was 0.13% as at September 30, 2017, down from 0.18% for the corresponding period of 2016.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $4,675 million, down $875 million, or 15.8%, compared to the first nine months of 2016.

The Wealth Management and Life and Health Insurance segment recorded expenses of $2,720 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of $1,167 million compared to the first nine months of 2016. This change mainly resulted from a $1,300 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. However, an increase in benefits related to growth in operations limited the reduction.

The cost of claims for the Property and Casualty Insurance segment was $1,956 million for the first nine months of 2017, for an increase of $293 million, or 17.6%, compared to the corresponding period of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, partly offset by the decrease in the cost of claims following the sale of Western Life Assurance Company and Western Financial Insurance Company. The loss ratio of the P&C insurers was 70.4% for the first nine months of 2017, compared to 67.8% in the corresponding period of 2016. This increase was chiefly due to favourable developments in prior-year automobile insurance claims, which were lower than in the first nine months of 2016. It was partially offset by the claims experience for the current year in home insurance and automobile insurance, which was more favourable than in the corresponding period of 2016 because of the less significant impact of major events and disasters compared to the first nine months of 2016, when there had been two disasters related to hail and the Fort McMurray wildfire in Alberta. Claims experience still remains high in automobile insurance.

Non-interest expense

Non-interest expense totalled $4,588 million, up $126 million, or 2.8%, compared to the first nine months of 2016. Remuneration and other payments included in non-interest expense were $403 million, a $36 million, or 9.8%, increase compared to the same period in 2016 due to an increase in sales of various Desjardins Group products by the caisse network. If this item were excluded, non-interest expense would have up $90 million, or 2.2%. This increase in expense is mainly due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations and business growth, particularly in credit card and point-of-sale financing activities and in assets under management. The increase in these items was partially offset by the implementation of productivity initiatives, especially regarding salaries, and the reduction in non-interest expense due to the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, and of Western Financial Insurance Company on January 1, 2017.

Income taxes

Income taxes on surplus earnings before dividends to member caisses totalled $256 million for the first nine months of 2017, a $136 million increase compared to the corresponding period in 2016. The effective tax rate was 17.2%, compared to 13.4% in 2016. If the specific items are excluded, the effective tax rate would have been 18.4%. Furthermore, income taxes for 2016 included an income tax recovery on remuneration of capital stock, which was not the case in 2017.

RESULTS BY BUSINESS SEGMENT

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which the Federation 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. The Federation's financial results are therefore 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 Treasury and Other Support to Desjardins Group Entities 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 22 to 32 of the 2016 MD&A.

PERSONAL AND BUSINESS SERVICES

The Personal and Business Services segment is central to Desjardins Group's operations. It is responsible for developing a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives through the Desjardins caisse network, its Desjardins Business centres and specialized teams. It thereby enables Desjardins Group to be a leading player on the financial services scene in Quebec and Ontario. To serve the constantly-changing needs of caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through implementing and managing complementary access methods, by phone, online, via applications for mobile devices, and at ATMs. The shared services which the Federation provides to this segment, formerly presented in the Treasury and Other Support to Desjardins Group Entities 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			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Net interest income	**$ 278**	$ 266	$ 262	**$ 808**	$ 767
Other operating income[2]	**392**	414	365	**1,205**	1,103
Operating income[2]	**670**	680	627	**2,013**	1,870
Investment income[2]	**6**	4	8	**40**	26
Total income	**676**	684	635	**2,053**	1,896
Provision for credit losses	**72**	59	70	**204**	200
Non-interest expense	**487**	511	456	**1,502**	1,386
Income taxes on surplus earnings	**31**	29	21	**92**	58
Net surplus earnings for the period before dividends to member caisses	**$ 86**	$ 85	$ 88	**$ 255**	$ 252
Of which:					
Group's share	**$ 86**	$ 85	$ 86	**$ 255**	$ 247
Non-controlling interests' share	**-**	-	2	**-**	5
Indicators					
Average gross loans and acceptances[2]	**$ 26,863**	$ 25,975	$ 23,930	**$ 25,938**	$ 23,520
Average deposits[2]	**16,710**	17,171	14,633	**15,860**	14,083
Provisioning rate[2]	**1.06%**	0.91%	1.16%	**1.05%**	1.14%
Gross impaired loans/gross loans and acceptances[2]	**0.27**	0.28	0.36	**0.27**	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 third quarters of 2017 and 2016

For the third quarter of 2017, the Personal and Business Services segment's surplus earnings before dividends to member caisses totalled $86 million, which is comparable to the same period in 2016.

Operating income totalled $670 million, up $43 million, or 6.9%.

Net interest income increased by $16 million, or 6.1%, as a result of $2.6 billion, or 10.8% growth in the overall portfolio of loans and acceptances outstanding during the year. This portfolio includes consumer, credit card and other personal loan financing activities, particularly point-of-sale financing as well as business and government loans.

Other operating income was up $27 million, or 7.4%, compared to the same period in 2016, to total $392 million, primarily because of income from growth in credit card and point-of-sale financing activities as well as growth in income from mergers and acquisitions related to capital markets.

Investment income was down $2 million compared to the same period in 2016.

Total income for the segment was $676 million, an increase of $41 million, or 6.5%, compared to the third quarter of 2016.

The provision for credit losses was $72 million, comparable to the third quarter of 2016.

Non-interest expense was $487 million, for an increase of $31 million, or 6.8%, compared to the same period in 2016, mainly due to business growth, particularly growth in credit card and point-of-sale financing activities.

Comparison of the first nine months of 2017 and 2016

For the first nine months of 2017, the Personal and Business Services segment's surplus earnings before dividends to member caisses totalled $255 million, which was comparable to the same period in 2016.

Operating income totalled $2,013 million, up $143 million, or 7.6%.

Net interest income was up $41 million, or 5.3%, as a result of the $2.6 billion, or 10.8%, growth during the year in the overall portfolio of loans and acceptances outstanding. This portfolio includes consumer, credit card and other personal loan financing activities, particularly point-of-sale financing, as well as business and government loans.

Other operating income was up $102 million, or 9.2%, compared to the same period in 2016, chiefly because of income from growth in credit card and point-of-sale financing activities as well as higher capital market income.

Investment income was up $14 million to total $40 million for the first nine months of 2017, primarily due to growth in capital market trading income.

Total income for the segment was $2,053 million, for an increase of $157 million, or 8.3%, compared to the same period in 2016.

The provision for credit losses was $204 million, up $4 million, or 2.0%.

Non-interest expense was $1,502 million, for an increase of $116 million, or 8.4%, compared to the same period in 2016. It was chiefly due to business growth, particularly growth in credit card and point-of-sale financing activities.

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			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Net interest income	**$ 1**	$ -	$ -	**$ 1**	$ -
Net premiums	**1,078**	1,159	1,123	**3,318**	3,126
Other operating income[1]	**368**	378	344	**1,111**	1,027
Operating income[1]	**1,447**	1,537	1,467	**4,430**	4,153
Investment income (loss)[1]	**(385)**	622	434	**569**	1,800
Total income	**1,062**	2,159	1,901	**4,999**	5,953
Claims, benefits, annuities and changes in insurance contract liabilities	**357**	1,327	1,216	**2,720**	3,887
Non-interest expense	**564**	596	531	**1,721**	1,630
Income taxes on surplus earnings	**20**	47	28	**105**	89
Net surplus earnings for the period	**$ 121**	$ 189	$ 126	**$ 453**	$ 347
Of which:					
Group's share	**$ 121**	$ 189	$ 125	**$ 452**	$ 326
Non-controlling interests' share	**-**	-	1	**1**	21
Indicators					
Net sales of savings products	**$ 1,876**	$ 2,075	$ 2,974	**$ 6,385**	$ 6,959
Insurance sales	**100**	152	100	**428**	359
Group insurance premiums	**827**	803	780	**2,415**	2,296
Individual insurance premiums	**206**	206	199	**616**	586
Annuity premiums	**45**	150	144	**287**	244
Segregated fund receipts[2]	**417**	364	1,296	**1,269**	2,153

(1) See "Basis of presentation of financial information".
(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 third quarters of 2017 and 2016

For the third quarter of 2017, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $121 million, slightly down from the corresponding period in 2016. Overall, the deterioration in claims experience, partly offset by improved interest rates, which led to a release of the provision and growth in assets under management, accounted for the lower net surplus earnings.

Operating income stood at $1,447 million, down $20 million, or 1.4%, compared to the same period in 2016. Insurance premiums were up $54 million due to growth of $47 million in group insurance premiums and of $7 million in individual insurance premiums while annuity premiums decreased by $99 million.

Other operating income grew by $24 million, or 7.0%, to total $368 million for the third quarter of 2017, chiefly because of growth in income related to assets under management.

Investment income was down $819 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. In addition, lower gains on the disposal of investments compared to the corresponding period in 2016 contributed to the decline in investment income.

The segment's total income was $1,062 million, for a decrease of $839 million, or 44.1%, compared to the corresponding quarter in 2016.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at $357 million, down $859 million compared to 2016. This change primarily resulted from a $938 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. An increase in benefits related to operations growth limited this decrease.

Non-interest expense was $564 million for the third quarter of 2017, up $33 million, or 6.2%, 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.

Comparison of the first nine months of 2017 and 2016

For the first nine months of 2017, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $453 million, up $106 million, or 30.5%, mainly due to the good performance of investments and the higher income from growth in assets under management.

Operating income totalled $4,430 million, up $277 million, or 6.7%, compared to the same period in 2016. Insurance premiums were up $149 million due to growth of $119 million in group insurance premiums and of $30 million in individual insurance premiums while annuity premiums increased by $43 million.

Other operating income rose by $84 million, or 8.2%, to total $1,111 million for the first nine months of 2017, chiefly because of growth in income related to assets under management.

Investment income was down $1,231 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 partially 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. However, higher gains on the disposal of investments mitigated the decline in investment income.

The segment's total income was $4,999 million, for a decrease of $954 million, or 16.0%, compared to the corresponding first nine months of 2016.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at $2,720 million, down $1,167 million compared to 2016. This change primarily resulted from a $1,300 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. An increase in benefits related to operations growth limited this decrease.

Non-interest expense was $1,721 million for the first nine months of 2017, up $91 million, or 5.6%, 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 July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely Western Financial Group Inc. and Western Life Assurance Company. It should also be recalled that the sale of Western Financial Insurance Company was completed on January 1, 2017. Additional information concerning these transactions is found under "Impact of the sale of subsidiaries" on page 10.

PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

(in millions of dollars and as a percentage)	**For the three-month periods ended**			**For the nine-month periods ended**	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Net interest income	**$ -**	$ -	$ -	**$ 1**	$ 1
Net premiums	**967**	981	811	**2,913**	2,391
Other operating income (loss)[(1)]	**230**	11	(55)	**236**	30
Operating income[(1)]	**1,197**	992	756	**3,150**	2,422
Investment income[(1)]	**9**	51	67	**129**	267
Total income	**1,206**	1,043	823	**3,279**	2,689
Claims, benefits, annuities and changes in insurance contract liabilities	**643**	594	510	**1,956**	1,663
Non-interest expense	**205**	319	278	**850**	873
Income taxes on surplus earnings	**40**	32	9	**75**	39
Net surplus earnings for the period	**$ 318**	$ 98	$ 26	**$ 398**	$ 114
Specific items, net of income taxes					
Gain and expenses related to the sale of Western Financial Group Inc. and Western Life Assurance Company[(2)(3)]	**(255)**	1	-	**(241)**	-
Expenses related to the acquisition of State Farm's Canadian operations	**8**	8	7	**24**	24
Adjusted net surplus earnings for the period[(1)]	**$ 71**	$ 107	$ 33	**$ 181**	$ 138
Of which:					
Group's share	**$ 303**	$ 84	$ 19	**$ 365**	$ 88
Non-controlling interests' share	**15**	14	7	**33**	26
Indicators					
Gross written premiums[(4)]	**$ 1,207**	$ 1,288	$ 1,212	**$ 3,460**	$ 3,670
Loss ratio[(1)]	**73.0%**	63.8%	62.2%	**70.4%**	67.8%
Expense ratio[(1)]	**23.3**	25.1	25.0	**24.7**	27.0
Combined ratio[(1)]	**96.3**	88.9	87.2	**95.1**	94.8

(1) See "Basis of presentation of financial information".
(2) The difference with the data presented in the table for the Federation's adjusted surplus earnings before dividends to member caisses is related to intersegment transaction expenses.
(3) Certain expenses and taxes were recognized in the first six months of 2017.
(4) Includes Western Financial Group Inc. life insurance premiums.

Comparison of the third quarters of 2017 and 2016

For the third quarter of 2017, the Property and Casualty Insurance segment recorded net surplus earnings of $318 million, up $292 million, compared to the third quarter of 2016. Net surplus earnings, adjusted for the gain and expenses related to the sale of the subsidiaries Western Financial Group Inc. and Western Life Assurance Company, as well as the expenses related to the acquisition of State Farm's Canadian operations, totalled $71 million compared to $33 million in the third quarter of 2016. This increase in surplus earnings resulted mainly from the more favourable claims experience for the current year than in the corresponding quarter of 2016, chiefly in automobile insurance and home insurance, because of the less significant impact of major events compared to third quarter 2016, when there had been more major events as well as a disaster related to hail in Alberta.

Operating income totalled $1,197 million, up $441 million, or 58.3%. Apart from the gain on the sale of subsidiaries, this increase can be accounted for by the growth of $156 million, or 19.2%, 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. 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. These increases were partially offset by the reduction in net premiums following the sale of Western Life Assurance Company on July 1, 2017, and of Western Financial Insurance Company on January 1, 2017.

Other operating income grew by $285 million, chiefly as a result of the gain on the sale of subsidiaries and of the smaller increase than during the corresponding quarter of 2016 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. These increases were mitigated by the reduction in fee income following the sale of Western Financial Group Inc.

Investment income was down $58 million compared to the same period in 2016, mainly due to the decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in third quarter 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies.

The segment's total income rose to $1,206 million for the third quarter of 2017, up $383 million, or 46.5%, compared to the third quarter of 2016.

The Property and Casualty Insurance segment's cost of claims was $643 million for the third quarter of 2017, for an increase of $133 million, or 26.1%, compared to the third quarter of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations and the favourable developments in prior-year claims, which were lower than in the same quarter of 2016. The loss ratio of the P&C insurers was 73.0% for the third quarter of 2017, compared to 62.2% in the corresponding quarter of 2016. This increase was chiefly due to favourable developments in prior-year automobile insurance claims, which were lower than in the corresponding quarter in 2016, essentially for the claims taken over from State Farm as at January 1, 2015, partially offset by the more favourable claims experience for the current year than in the third quarter of 2016, chiefly in automobile insurance and home insurance. Although automobile insurance claims experience remains high, it is lower than in the same quarter of 2016 because of the less significant impact of major events compared to third quarter 2016, when there had been more major events as well as a disaster related to hail in Alberta.

Non-interest expense was $205 million for the third quarter of 2017, down $73 million, or 26.3%, compared to the same quarter a year earlier. This decrease was primarily due to the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, as well as the sale of the pet insurance operations of Western Financial Insurance Company, completed on January 1, 2017.

Comparison of the first nine months of 2017 and 2016

For the first nine months of 2017, the Property and Casualty Insurance segment recorded net surplus earnings of $398 million, up $284 million compared to the first nine months of 2016. Adjusted net surplus earnings totalled $181 million, up $43 million, or 31.2%, mainly as a result of the more favourable claims experience for the current year than in the corresponding period of 2016, in automobile insurance and home insurance because of the less significant impact of major events and disasters compared to the first nine months of 2016, when there had been two disasters related to hail and the Fort McMurray wildfire in Alberta.

Operating income totalled $3,150 million, for an increase of $728 million, or 30.1%. Apart from the gain on the sale of subsidiaries, this increase can be accounted for by the growth of $522 million, or 21.8%, 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. 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. These increases were partially offset by the reduction in net premiums following the sale of Western Life Assurance Company on July 1, 2017, and of Western Financial Insurance Company on January 1, 2017.

Other operating income increased by $206 million, chiefly as a result of the gain on the sale of the Western subsidiaries.

Investment income was down $138 million, or 51.7%, compared to the same period in 2016, mainly due to the decrease in the fair value of bonds on account of the higher interest rates observed on the markets, whereas there had been an increase in the first nine months of 2016. It should be remembered that this reduction in the value of bonds was offset by a similar reduction in the cost of claims because of matching strategies.

The segment's total income rose to $3,279 million for the first nine months of 2017, up $590 million, or 21.9%, compared to the first nine months of 2016.

The Property and Casualty Insurance segment's cost of claims was $1,956 million for the first nine months of 2017, for an increase of $293 million, or 17.6%, compared to the first nine months of 2016. The increase was mainly due to the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations, partly offset by the decrease in the cost of claims following the sale of Western Life Assurance Company and Western Financial Insurance Company. The loss ratio of the P&C insurers was 70.4% for the first nine months of 2017, compared to 67.8% in the corresponding period of 2016. This increase was chiefly due to favourable developments in prior-year automobile insurance claims, which were lower than in the first nine months of 2016, and partially offset by a more favourable claims experience for the current year than in the corresponding period of 2016, in automobile insurance and home insurance because of the less significant impact of major events and disasters compared to the first nine months of 2016, when there had been two disasters related to hail and the Fort McMurray wildfire in Alberta. Claims experience still remains high in automobile insurance.

Non-interest expense was $850 million for the first nine months of 2017, down $23 million, or 2.6%, compared to the same period a year earlier. This decrease was primarily due to the sale of Western Financial Group Inc. and Western Life Assurance Company on July 1, 2017, as well as the sale of the pet insurance operations of Western Financial Insurance Company on January 1, 2017, but was partially offset by the effect of the aforementioned reinsurance treaty on the charges covered by it.

TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

The Treasury and Other Support to Desjardins Group Entities 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, as well as orientation and organizational activities for Desjardins Group. This category also includes 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 Consolidated Financial Statements, this category also contains intersegment balance eliminations. The shared services that the Federation provides, formerly presented in the Treasury and Other Support to Desjardins Group Entities category, have been recorded in the Personal and Business Services segment since first quarter 2017.

The Federation 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, the Federation presents an analysis of these operations based on their contribution to surplus earnings.

TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES

(in millions of dollars)	For the three-month periods ended			For the nine-month periods ended	
	September 30, 2017	June 30, 2017	September 30, 2016[1]	**September 30, 2017**	September 30, 2016[1]
Treasury activities	**$ 31**	$ 36	$ 36	**$ 90**	$ 105
Derivatives activities associated with hedging activities	**49**	25	(3)	**79**	9
Other[2]	**(14)**	(18)	1	**(40)**	(50)
Net surplus earnings for the period	**$ 66**	$ 43	$ 34	**$ 129**	$ 64
Of which:					
Group's share	**$ 66**	$ 43	$ 31	**$ 129**	$ 57
Non-controlling interests' share	**-**	-	3	**-**	7

[1] Data for 2016 have been reclassified to conform to the current period's presentation.
[2] Includes support function activities, income from asset-backed term notes, various adjustments required to prepare the Interim Consolidated Financial Statements, and intersegment balance eliminations.

Contribution to surplus earnings

Comparison of the third quarters of 2017 and 2016

Net surplus earnings for the period arising from operations grouped under the Treasury and Other Support to Desjardins Group Entities category totalled $66 million for the third quarter of 2017, compared to surplus earnings of $34 million for the corresponding period in 2016.

Treasury activities contributed $31 million to surplus earnings for the quarter, down $5 million compared to the same period in 2016.

Derivatives activities associated with hedging activities recorded surplus earnings of $49 million, compared to a deficit of $3 million for the corresponding period in 2016, chiefly due to the positive change in the fair value of swaps resulting from higher interest rates in the third quarter of 2017, compared to a decline in the corresponding period of 2016.

Other activities were mainly affected in the third quarters of 2017 and 2016 by expenses related to the continued implementation of Desjardins-wide strategic projects. These projects aim, in particular, to improve systems and processes as well as to enhance the products and services offered to members and clients by better meeting their needs, at the best price. In addition, severance costs had been incurred for the same period in 2016, following changes in Desjardins Group's senior management.

Comparison of the first nine months of 2017 and 2016

Net surplus earnings for the period arising from operations grouped under the Treasury and Other Support to Desjardins Group Entities category, totalled $129 million for the first nine months of 2017, compared to $64 million for the corresponding period in 2016.

Treasury activities contributed $90 million to surplus earnings, down $15 million, mainly as a result of the unfavourable effect of fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative instruments used to hedge foreign currency deposits that does not qualify for hedge accounting. This was mitigated by growth in trading income.

Derivatives activities associated with hedging activities generated surplus earnings of $79 million, compared to surplus earnings of $9 million for the corresponding period in 2016, chiefly due to the positive change in the fair value of swaps resulting from higher interest rates in 2017, compared to a decline in the corresponding period of 2016.

Since January 2017, substantially all of the asset-backed term notes (ABTN) have been settled. ABTN activities generated surplus earnings of $10 million in the first nine months of 2016 as a result of the increase in the fair value of the ABTN portfolio, net of hedging positions.

Other activities were mainly affected in 2017 and 2016 by expenses related to the continued implementation of Desjardins-wide strategic projects. These projects aim, in particular, to improve systems and processes, as well as to enhance the products and services offered to members and clients by better meeting their needs, at the best price. In addition, severance costs had been incurred for the first nine months of 2016, following changes in Desjardins Group's senior management.

SUMMARY OF INTERIM RESULTS

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

RESULTS OF THE MOST RECENT EIGHT QUARTERS

(in millions of dollars)	**2017**			2016				2015
	Q3	Q2	Q1	Q4[1]	Q3[1]	Q2[1]	Q1[1]	Q4[1]
Net interest income	**$ 364**	$ 344	$ 339	$ 331	$ 332	$ 321	$ 319	$ 328
Net premiums	**2,007**	2,099	2,006	1,857	1,897	1,764	1,745	1,665
Other operating income[2]								
Assessments	**93**	91	99	98	99	114	82	94
Service agreements	**187**	194	167	174	175	158	192	192
Lending fees and credit card service revenues	**154**	153	171	151	138	135	151	139
Brokerage and investment fund services	**241**	307	278	281	279	286	260	263
Management and custodial service fees	**109**	111	106	108	99	97	93	96
Foreign exchange income	**16**	21	18	20	21	17	12	17
Other	**330**	47	63	(13)	(17)	76	94	57
Operating income[2]	**3,501**	3,367	3,247	3,007	3,023	2,968	2,948	2,851
Investment income (loss)[2]								
Net income (loss) on securities at fair value through profit or loss	**(440)**	497	295	(1,204)	396	870	510	220
Net income on available-for-sale securities	**66**	183	76	93	91	84	67	69
Net other investment income	**58**	54	54	49	51	51	50	48
	(316)	734	425	(1,062)	538	1,005	627	337
Total income	**3,185**	4,101	3,672	1,945	3,561	3,973	3,575	3,188
Provision for credit losses	**72**	59	73	48	70	58	72	79
Claims, benefits, annuities and changes in insurance contract liabilities	**1,000**	1,922	1,753	(104)	1,727	2,065	1,758	1,350
Non-interest expense	**1,433**	1,605	1,550	1,560	1,458	1,536	1,468	1,489
Income taxes on surplus earnings	**89**	100	67	27	32	43	45	33
Surplus earnings before dividends to member caisses	**591**	415	229	414	274	271	232	237
Dividends to member caisses, net of income tax recovery	**-**	-	-	18	-	-	-	-
Net surplus earnings for the period after dividends to member caisses	**$ 591**	$ 415	$ 229	$ 396	$ 274	$ 271	$ 232	$ 237
Of which:								
Group's share	**$ 576**	$ 401	$ 224	$ 370	$ 261	$ 248	$ 209	$ 179
Non-controlling interests' share	**15**	14	5	26	13	23	23	58

[1] Prior-period data have been reclassified to conform to the current period's presentation.
[2] See "Basis of presentation of financial information".

Quarterly income, expenses and surplus earnings before dividends to member caisses fluctuate based on certain trends, including seasonal variations and changes in general economic conditions and capital market conditions. The results of the first three quarters of 2017 were affected by the sale of Western Financial Insurance Company, which was completed on January 1, 2017, while the results of the third quarter of 2017 were affected by the sale of Western Financial Group Inc. and Western Life Assurance Company, completed on July 1, 2017. Additional information concerning these transactions is found under "Impact of the sale of subsidiaries" on page 10. For more information about quarterly trends, see page 35 and 36 of the 2016 MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

CONSOLIDATED BALANCE SHEETS

(in millions of dollars and as a percentage)	As at September 30, 2017		As at December 31, 2016	
Assets				
Cash and deposits with financial institutions	**$ 1,523**	**1.0%**	$ 1,212	0.9%
Securities	**48,669**	**32.9**	44,937	33.4
Securities borrowed or purchased under reverse repurchase agreements	**10,757**	**7.3**	7,713	5.7
Net loans and acceptances	**56,303**	**38.0**	52,441	38.9
Segregated fund net assets	**12,679**	**8.6**	11,965	8.9
Derivative financial instruments	**3,516**	**2.4**	3,706	2.8
Other assets	**14,573**	**9.8**	12,684	9.4
Total assets	**$ 148,020**	**100.0%**	$ 134,658	100.0%
Liabilities and equity				
Deposits	**$ 53,262**	**36.0%**	$ 46,902	34.8%
Commitments related to securities sold short	**10,249**	**6.9**	8,196	6.1
Commitments related to securities lent or sold under repurchase agreements	**9,422**	**6.4**	9,870	7.3
Derivative financial instruments	**3,488**	**2.4**	2,540	1.9
Insurance contract liabilities	**27,782**	**18.8**	27,493	20.4
Segregated fund net liabilities	**12,658**	**8.6**	11,957	8.9
Other liabilities	**13,688**	**9.1**	11,642	8.7
Subordinated notes	**1,357**	**0.9**	1,378	1.0
Equity	**16,114**	**10.9**	14,680	10.9
Total liabilities and equity	**$ 148,020**	**100.0%**	$ 134,658	100.0%

TOTAL ASSETS

As at September 30, 2017, the Federation's total assets stood at $148.0 billion, up $13.4 billion, or 9.9%, since December 31, 2016. This growth was largely due to securities, including those borrowed or purchased under reverse repurchase agreements, as well as net loans and acceptances, which were up $6.8 billion and $3.9 billion, respectively.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at September 30, 2017, the Federation's cash and deposits with financial institutions amounted to $1.5 billion, an increase of $311 million, or 25.7%, since December 31, 2016. The volume of securities, including securities borrowed or purchased under reverse repurchase agreements, was up $6.8 billion, or 12.9%, to total $59.4 billion as at September 30, 2017. The increase was due to growth in market activities and deposits.

LOANS AND CLIENTS' LIABILITY UNDER ACCEPTANCES

As at September 30, 2017, the Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $56.3 billion, an increase of $3.9 billion, or 7.4%, since December 31, 2016.

LOANS AND ACCEPTANCES

(in millions of dollars and as a percentage)	As at September 30, 2017		As at December 31, 2016	
Residential mortgages	**$ 4,129**	**7.3%**	$ 3,486	6.6%
Consumer, credit card and other personal loans	**16,986**	**30.1**	15,720	29.9
Business and government	**35,381**	**62.6**	33,427	63.5
	56,496	**100.0%**	52,633	100.0%
Allowance for credit losses	**(193)**		(192)	
Total loans and acceptances by borrower category	**$ 56,303**		$ 52,441	
Loans guaranteed or insured[(1)]	**$ 5,185**		$ 5,196	

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

Business and government loans, including acceptances, were up $2.0 billion, or 5.8%, since the end of 2016, to total $35.4 billion as at September 30, 2017. Consumer, credit card and other personal loans outstanding, which made up 30.1% of the Federation's total loan portfolio, amounted to $17.0 billion as at September 30, 2017, an increase of $1.3 billion, or 8.1%, since December 31, 2016. Outstanding residential mortgages totalled $4.1 billion as at September 30, 2017, up $643 million, or 18.4%, since December 31, 2016.

CREDIT QUALITY

Information about the quality of the Federation's loan portfolio is presented in the "Risk management" section on page 29 of this MD&A.

DEPOSITS

The Federation's outstanding deposits totalled $53.3 billion as at September 30, 2017, up $6.4 billion, or 13.6%, since December 31, 2016. Deposits from businesses and governments, which comprised 78.6% of the total deposit portfolio, mainly accounted for this growth. They are the Federation's primary source of funding and were up $5.1 billion, or 13.8%, since the end of 2016, to stand at $41.9 billion as at September 30, 2017. The growth in these deposits resulted in particular from the various issuances of securities made on U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

DEPOSITS

(in millions of dollars and as a percentage)	**As at September 30, 2017**			As at December 31, 2016		
Individuals	**$**	**4,309**	**8.1%**	$	3,817	8.1%
Business and government		**41,854**	**78.6**		36,780	78.5
Deposit-taking institutions and other		**7,099**	**13.3**		6,305	13.4
Total deposits	**$**	**53,262**	**100.0%**	$	46,902	100.0%

Deposits from deposit-taking institutions and other sources totalled $7.1 billion as at September 30, 2017, up $794 million, or 12.6%, since December 31, 2016. Deposits from individuals were up $492 million, or 12.9%, since the end of 2016, to total $4.3 billion as at September 30, 2017.

EQUITY

Equity totalled $16.1 billion as at September 30, 2017, up $1.4 billion, or 9.8%, since the prior year-end. Net surplus earnings after dividends to member caisses, totalling $1,235 million for the first nine months of 2017, were the source of this growth. In addition, the Federation issued F capital shares for proceeds of $228 million, net of issuance expenses, as well as F capital shares having a value of $125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares. The remuneration of $167 million on the F capital shares reduced equity.

Note 21, "Capital stock", to the Annual Consolidated Financial Statements provides additional information about the Federation's capital stock.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group, including the Federation. 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 the Federation'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, including the Federation, 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, including the Federation, has a solid capital base that maintains it among the best-capitalized financial institutions.

The Federation's 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 minimum amount of Tier 1A capital that the Federation must maintain is 8%. In addition, the Tier 1 and total capital ratios must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3%.

This capital takes into consideration investments made in other Federation 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 Federation subsidiaries, including the insurance companies, are subject to regulatory requirements from the AMF or other regulators. Most of these subsidiaries must comply with minimum capital requirements that could limit the Federation's ability to allocate part of this capital or these funds to other purposes.

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 Federation's 2016 MD&A on pages 39 and 40. The "Changes in the regulatory environment" section presents additional details on regulation as it affects all Desjardins Group operations. In addition, this section contains information on the internal recapitalization (bail-in) file, or the TLAC guideline project.

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 downturn loss given default on residential mortgages, for financial institutions applying the Internal Ratings-Based Approach on loans secured by residential real estate.

On March 15, 2017, the BCBS issued a second consultative document on identification and management of step-in risk, aimed at measuring the risk related to the support a financial institution could give an unconsolidated entity, should such entity find itself in financial distress, even beyond or in the absence of contractual obligations. The proposed framework does not call for capital requirements to be automatically added to those required under present Basel standards. It is scheduled to come into force in the fourth quarter of 2019.

On March 29, 2017, the BCBS issued a final document entitled "Regulatory treatment of accounting provisions – interim and transitional arrangements". This document is the result of the application of IFRS 9 effective January 1, 2018, which requires provisioning for expected credit losses rather than incurred losses, as required under the present standard. Given the imminent coming into force of IFRS 9, the BCBS will maintain the present regulatory treatment of provisions under the Basel Accord framework for a transitional period. Furthermore, on August 21, the OSFI issued a draft for public consultation on the revision of the Capital Adequacy Requirements Guideline to be implemented in the first quarter of 2018. The proposed changes take up the same principles as the BCBS. Authorities may adopt transitional measures in order to gradually take into account any significant future negative effect on regulatory capital as a result of the introduction of the new depreciation model based on expected credit loss provisioning under IFRS 9. The AMF has not yet issued a guideline in this regard.

On June 29, 2017, the BCBS issued a consultative document entitled "Simplified alternative to the standardised approach to market risk capital requirements" which offers a simplified version of the rules defined in the document issued in January 2016 concerning the Standardized Approach. In this regard, the BCBS had issued, on January 14, 2016, the revised version of the minimum capital requirements for market risk. The objective of the revised framework is to arrange that, for the treatment of market risk, the Standardized Approach and the Internal Ratings-Based Approach produce credible results regarding the capital base and promote the harmonious implementation of standards in all jurisdictions.

On July 6, 2017, the BCBS issued a consultative document entitled "Capital treatment for simple, transparent and comparable short-term securitisations" which sets out additional guidance and requirements allowing financial institutions acting as investors in or as sponsors of simple, transparent and comparable short-term securitizations to determine whether they can benefit from preferential regulatory capital treatment. The proposed treatment is in accordance with the revisions to the securitization framework made by the BCBS in July 2016.

The AMF has not expressed its intentions with respect to the consultative documents mentioned above.

Compliance with requirements

As at September 30, 2017, the Tier 1A capital ratio of the Federation, calculated in accordance with Basel III requirements, stood at 17.7%, whereas Tier 1 and total capital ratios were 17.6%, respectively. The leverage ratio was 7.5%.

The Federation and its subsidiaries that are subject to minimum regulatory capital requirements were in compliance with said requirements as at September 30, 2017.

Regulatory capital

The following tables present the Federation'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 • Capital shares • 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 • Cross-investments[(3)]		
Deductions	• Mainly significant investments in financial entities[(4)]		• 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) Cross-investments in Tier 1A capital of the Desjardins caisse network in Quebec.
(4) 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

(in millions of dollars and as a percentage)	**As at September 30, 2017**	As at December 31, 2016
Tier 1A capital		
Federation's capital shares	**$ 4,480**	$ 4,127
Other capital shares	**4,036**	3,939
Reserves	**639**	524
Undistributed surplus earnings	**5,779**	4,765
Eligible accumulated other comprehensive income	**345**	386
Non-controlling interests	**-**	32
Deductions[(1)(2)]	**(6,478)**	(6,456)
Total Tier 1A capital	**8,801**	7,317
Non-controlling interests	**14**	19
Deductions[(1)]	**(14)**	(19)
Total Tier 1B capital	**-**	-
Total Tier 1 capital	**8,801**	7,317
Tier 2 capital		
Subordinated notes subject to phase-out	**1,001**	1,200
Eligible collective allowance	**132**	132
Non-controlling interests	**-**	6
Deductions[(1)]	**(1,133)**	(1,338)
Total Tier 2 capital	**-**	-
Total regulatory capital (Tiers 1 and 2)	**$ 8,801**	$ 7,317
Ratios and leverage ratio exposure		
Tier 1A capital ratio[(3)]	**17.7%**	15.9%
Tier 1 capital ratio[(3)]	**17.6**	15.9
Total capital ratio[(3)]	**17.6**	15.9
Leverage ratio[(4)]	**7.5**	7.4
Leverage ratio exposure	**$ 117,568**	$ 98,892

(1) As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.
(2) Deductions from Tier 1A are comprised of regulatory adjustments ($2,163 million, $1,886 million in 2016), of which cross-investments ($1,582 million, $1,318 million in 2016), significant investments ($3,585 million, $3,841 million in 2016), deferred tax assets attributable to temporary differences ($0 million, $16 million in 2016), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($730 million, $713 million in 2016).
(3) As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.
(4) 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 exposure, and 4) off-balance sheet exposures.

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. 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 nine months of 2017, the Federation issued F capital shares for proceeds of $228 million, net of issuance expenses. In addition, the Federation issued F capital shares having a value of $125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

During the same period, the Federation issued A capital shares for a cash consideration of $25 million. In addition, on October 27, 2016, the Federation's Board of Directors approved the creation of a new class of capital shares, class G. On January 1, 2017, namely the date of the merger, the CCD capital shares issued and outstanding were converted into G shares issued to members of the Federation. CCD capital shares have not been part of the Federation's authorized share capital since the merger date. During the first nine months of 2017, the Federation issued G capital shares for a cash consideration of $72 million.

As at September 30, 2017, the Tier 1A capital ratio was up 172 points compared to December 31, 2016. Growth in surplus earnings and reserves was offset by an increase in risk-weighted assets and significant investments. On July 1, 2017, Desjardins Group completed the sale of two of its subsidiaries, namely Western Financial Group Inc. and Western Life Assurance Company, which resulted in a significant increase in the Tier 1A capital ratio.

CHANGE IN REGULATORY CAPITAL
For the nine-month period ended

(in millions of dollars)	September 30, 2017
Tier 1A capital	
Balance at beginning of period	**$ 7,317**
Increase in reserves and undistributed surplus earnings[1]	**1,129**
Eligible accumulated other comprehensive income	**(41)**
Federation's capital shares	**353**
Other capital shares	**97**
Non-controlling interests	**(32)**
Deductions	**(22)**
Balance at end of period	**8,801**
Tier 1B capital	
Balance at beginning of period	**-**
Non-controlling interests	**(5)**
Deductions	**5**
Balance at end of period	**-**
Total Tier 1 capital	**8,801**
Tier 2 capital	
Balance at beginning of period	**-**
Non-controlling interests	**(6)**
Senior notes subject to phase-out	**(199)**
Eligible collective allowance	**-**
Deductions	**205**
Balance at end of period	**-**
Total capital	**$ 8,801**

(1) Including the change in defined benefit pension plan liabilities.

Risk-weighted assets (RWA)

The Federation calculates the risk-weighted assets for credit risk, market risk and operational risk. It uses 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. On June 19, 2017, the Federation received the AMF's authorization to use the Standardized Approach for calculating operational risk as of the present quarter.

As indicated in the table below, risk-weighted assets totalled $49.8 billion as at September 30, 2017. Of this amount, $39.7 billion was for credit risk, $2.3 billion for market risk and $8.1 billion for operational risk. As at December 31, 2016, risk-weighted assets stood at $45.9 billion.

RISK-WEIGHTED ASSETS

(in millions of dollars and as a percentage)	Internal Ratings-Based Approach		Standardized Approach		Total as at September 30, 2017			Total as at December 31, 2016
	Exposure(1)	Risk-weighted assets	Exposure(1)	Risk-weighted assets	Exposure(1)	Risk-weighted assets	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk								
Sovereign borrowers	$ -	$ -	$ 6,356	$ 22	$ 6,356	$ 22	- %	$ -
Financial institutions	-	-	37,113	7,462	37,113	7,462	20	5,330
Businesses	-	-	13,794	13,428	13,794	13,428	97	12,491
Securitizations	-	-	7	85	7	85	1,214	1,138
Equities	-	-	124	213	124	213	172	98
SMEs similar to other retail client exposures	-	-	1,907	1,463	1,907	1,463	77	1,048
Mortgages	1,712	171	271	35	1,983	206	10	207
Other retail client exposures (excluding SMEs)	5,553	2,638	257	213	5,810	2,851	49	2,396
Qualifying revolving retail client exposures	29,120	6,933	-	-	29,120	6,933	24	6,881
Subtotal - Credit risk other than counterparty risk	36,385	9,742	59,829	22,921	96,214	32,663	34	29,589
Counterparty risk								
Sovereign borrowers	-	-	5	-	5	-	-	-
Financial institutions	-	-	1,622	325	1,622	325	20	316
Businesses	-	-	4	4	4	4	100	8
Trading portfolio	-	-	1,225	341	1,225	341	28	192
Credit valuation adjustment charge (CVA)	-	-	-	-	-	862	-	808
Additional requirements for banking and trading portfolio	-	-	-	-	86	2	-	1
Subtotal - Counterparty risk	-	-	2,856	670	2,942	1,534	52	1,325
Other assets(2)	-	-	-	-	17,021	4,954	29	4,320
Scaling factor(3)	-	585	-	-	-	585	-	551
Total credit risk	36,385	10,327	62,685	23,591	116,177	39,736	34	35,785
Market risk								
Interest rate position risk	-	-	-	1,979	-	1,979	-	1,428
Currency risk	-	-	-	188	-	188	-	262
Additional requirements for other risks(4)	-	-	-	122	-	122	-	120
Total market risk	-	-	-	2,289	-	2,289	-	1,810
Operational risk	-	-	-	8,065	-	8,065	-	8,612
Total risk-weighted assets before threshold	36,385	10,327	62,685	33,945	116,177	50,090	-	46,207
Risk-weighted assets after the transitional provisions for the CVA charge(5)								
RWA for Tier 1A capital	-	-	-	-	-	49,847	-	45,916
RWA for Tier 1 capital	-	-	-	-	-	49,891	-	45,972
RWA for total capital	-	-	-	-	-	49,925	-	46,021
Total risk-weighted assets	$ 36,385	$ 10,327	$ 62,685	$ 33,945	$ 116,177	$ 49,847	- %	$ 45,916

(1) Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach in accordance with the AMF guideline).

(2) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets below a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class includes the credit valuation adjustment (CVA) charge and additional requirements related to the banking and trading portfolio, which are disclosed in the counterparty credit risk section.

(3) The scaling factor is a 6% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.

(4) Other risks include equities risk, commodities risk and options risk.

(5) 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.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse 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 the Federation's 2016 MD&A.

Assets under management and under administration

As at September 30, 2017, the Federation administered, for the account of caisse members and its clients, assets worth $401.1 billion, for a decrease of $27.0 billion, or 6.3%, since December 31, 2016. The financial assets entrusted to the Federation as wealth manager totalled $66.1 billion as at September 30, 2017, up $6.6 billion, or 11.0%, since December 31, 2016.

Structured entities

In the normal course of operations, the Federation 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 the Federation's Consolidated Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities not included in the Federation's Consolidated Balance Sheets is provided below. Note 13, "Interests in other entities", to the Annual Consolidated Financial Statements provides more information on structured entities.

Master Asset Vehicle (MAV) trusts

The Federation holds financial interests in MAV trusts, which are structured entities not included in its Consolidated 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. Substantially all of the ABTN have been settled during the first quarter of 2017. Furthermore, the Federation ended its commitment to contribute to the margin funding facility during the year ended December 31, 2016.

Securitization of the Federation's financial assets

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

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

Risk management is a function covering all Desjardins Group operations, including those of the Federation. As a result, the description of risk management that follows is a description for Desjardins Group. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial stability as well as its sustained and profitable growth, while complying with regulatory requirements. Desjardins Group considers risk an inextricable part of its development, and consequently strives to promote a culture in which each of its business segments, employees and managers is responsible for risk management.

In the first nine months of fiscal 2017, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which the Federation is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 47 to 72 of the Federation's 2016 MD&A. In addition to these types of risk, other risk factors, which are not under Desjardins Group's control (including the Federation'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 44 to 46 of the Federation's 2016 MD&A.

CREDIT RISK

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

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

Quality of loan portfolio

As at September 30, 2017, gross impaired loans outstanding stood at $74 million, down $21 million since December 31, 2016. The ratio of gross impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.13% for the third quarter of 2017, down from 0.18% as at December 31, 2016. The Federation's loan portfolio continues to be of high quality.

Individual allowances for credit losses, which totalled $5 million as at September 30, 2017, made it possible to obtain a total coverage ratio of 6.8% of the gross impaired loans portfolio, compared to a ratio of 5.3% as at December 31, 2016.

The collective allowance stood at $188 million as at September 30, 2017, up slightly compared to $187 million recorded at the end of 2016. In addition, an allowance for risk related to off-balance sheet arrangements of $39 million was recognized under "Other liabilities – Other" on the Consolidated Balance Sheets as at September 30, 2017, for a decrease of $7 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 borrower category at the Federation 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 September 30, 2017**				As at December 31, 2016	
	Gross loans and acceptances	**Gross impaired loans**	**Individual allowances for credit losses**	**Net impaired loans**	Gross impaired loans	Net impaired loans
Residential mortgages	**$ 4,129**	**$ 2**	**$ -**	**$ 2**	$ 2	$ 2
Consumer, credit card and other personal loans	**16,986**	**67**	**-**	**67**	82	82
Business and government	**35,381**	**5**	**5**	**-**	11	6
Total	**$ 56,496**	**$ 74**	**$ 5**	**$ 69**	$ 95	$ 90
As a percentage of gross loans and acceptances		**0.13%**		**0.12%**	0.18%	0.17%

CHANGE IN GROSS IMPAIRED LOAN BALANCE

(in millions of dollars)	**For the three-month periods ended**			**For the nine-month periods ended**	
	September 30, 2017	June 30, 2017	September 30, 2016	**September 30, 2017**	September 30, 2016
Gross impaired loans at the beginning of the period	**$ 76**	$ 94	$ 84	**$ 95**	$ 85
Gross impaired loans since the last period	**108**	106	109	**332**	344
Loans returned to unimpaired status	**(48)**	(65)	(44)	**(168)**	(151)
Write-offs and recoveries	**(67)**	(73)	(66)	**(210)**	(208)
Other changes	**5**	14	7	**25**	20
Gross impaired loans at the end of the period	**$ 74**	$ 76	$ 90	**$ 74**	$ 90

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.

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 the Federation is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

VaR BY RISK CATEGORY (TRADING PORTFOLIO)

(in millions of dollars)	**For the quarter ended September 30, 2017**				For the quarters ended June 30, 2017		September 30, 2016	
	As at September 30, 2017	**Average**	**High**	**Low**	As at June 30, 2017	Average	As at September 30, 2016	Average
Equities	**$ 0.4**	**$ 0.4**	**$ 0.5**	**$ 0.4**	$ 0.5	$ 0.3	$ 0.2	$ 0.2
Foreign exchange	**0.1**	**0.4**	**0.6**	**0.1**	0.3	0.4	0.3	0.3
Interest rate	**2.0**	**2.5**	**3.2**	**1.8**	2.8	3.4	3.1	3.3
Specific interest rate risk(1)	**4.7**	**5.1**	**7.0**	**3.1**	5.7	6.2	4.4	4.5
Diversification effect(2)	**(5.1)**	**(5.8)**	**N/A(3)**	**N/A(3)**	(6.4)	(6.8)	(4.9)	(5.0)
Aggregate VaR	**$ 2.1**	**$ 2.6**	**$ 3.4**	**$ 2.0**	$ 2.9	$ 3.5	$ 3.1	$ 3.3
Aggregate SVaR	**$ 12.3**	**$ 11.3**	**$ 15.2**	**$ 8.3**	$ 9.6	$ 12.4	$ 6.3	$ 8.8

(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 $2.6 million for the quarter ended September 30, 2017, down $0.9 million compared to the quarter ended June 30, 2017, primarily as a result of a decrease in the average of the interest-rate VaR and specific interest rate risk. The average of the aggregate SVaR was $11.3 million for the quarter ended September 30, 2017, down $1.1 million compared to the quarter ended June 30, 2017. 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.

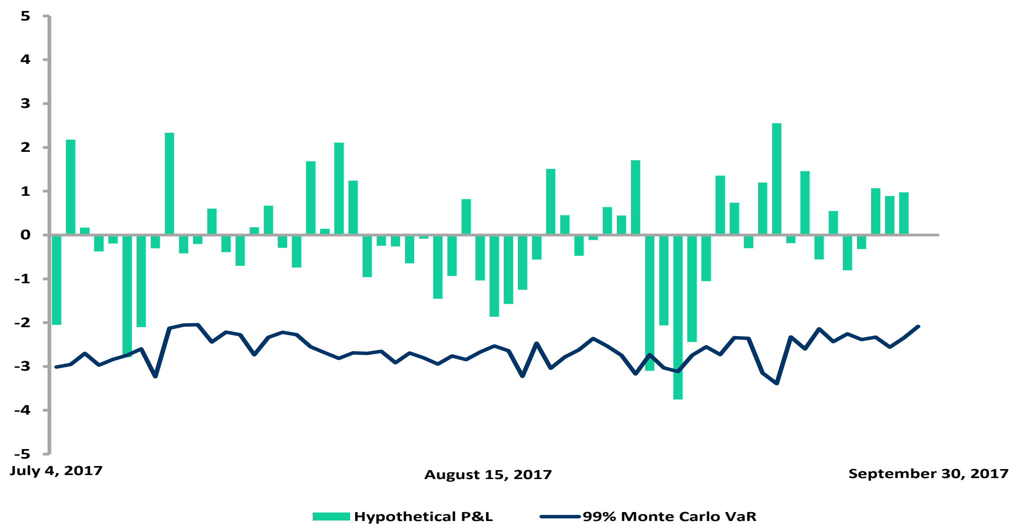
Back testing

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 third quarter of 2017, hypothetical P&L was exceeded three times, by $0.04 million, $0.4 million and $0.6 million, on July 11, September 1 and September 6, respectively, due in particular to exposure to a drop in the Government of Canada 30-year interest rate.

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 Consolidated 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 the Federation. The impact on insurance activities is presented in Note 1 to this table.

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)[1]

(in millions of dollars)	**As at September 30, 2017**		As at June 30, 2017		As at September 30, 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	**$ (1)**	**$ (9)**	$ 38	$ (2)	$ (24)	$ (78)
Impact of a 100-basis-point decrease in interest rates[4]	**9**	**9**	(65)	4	(21)	97

[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 $217 million decrease in the economic value of equity before taxes as at September 30, 2017, and in a $222 million and $208 million decrease as at June 30, 2017 and as September 30, 2016, respectively. A 100-basis-point decrease in interest rates would result in a $196 million increase in the economic value of equity before taxes as at September 30, 2017, and in a $199 million and $230 million increase as at June 30, 2017 and September 30, 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 foreign exchange forward 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 Consolidated 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. It should be noted that the enactment date of the regulatory requirements concerning the NSFR has been postponed until January 1, 2019, and Desjardins Group intends to comply with this ratio once it has 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 119.9% for the quarter ended September 30, 2017, compared to 121.9% 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**.**

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation’s liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows it to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $53.3 billion as at September 30, 2017, up $6.4 billion since December 31, 2016. Additional information on deposits is presented in the “Balance sheet management” 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 nine 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 September 30, 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 represents remaining terms to maturity of wholesale funding.

REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	**As at September 30, 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	**$ 1,965**	**$ 939**	**$ 27**	**$ 18**	**$ 2,949**	**$ -**	**$ -**	**$ 2,949**	$ 1,908
Commercial paper	**7,041**	**3,050**	**322**	**1,200**	**11,613**	**-**	**-**	**11,613**	5,842
Medium-term notes	**598**	**-**	**2,722**	**-**	**3,320**	**1,927**	**4,432**	**9,679**	10,938
Mortgage loan securitization	**-**	**570**	**383**	**887**	**1,840**	**1,588**	**5,721**	**9,149**	8,009
Covered bonds	**-**	**-**	**-**	**-**	**-**	**1,474**	**2,943**	**4,417**	6,255
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**1,357**	**1,357**	1,378
Total	**$ 9,604**	**$ 4,559**	**$ 3,454**	**$ 2,105**	**$ 19,722**	**$ 4,989**	**$ 14,453**	**$ 39,164**	$ 34,330
Including:									
Secured	**$ -**	**$ 570**	**$ 383**	**$ 887**	**$ 1,840**	**$ 3,062**	**$ 10,021**	**$ 14,923**	$ 15,642
Unsecured	**9,604**	**3,989**	**3,071**	**1,218**	**17,882**	**1,927**	**4,432**	**24,241**	18,688

The 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 $4.8 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, the Federation 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 September 30, 2017**		As at December 31, 2016	
Canadian dollars	**$ 19,038**	**48.6%**	$ 14,902	43.4%
U.S. dollars	**12,294**	**31.4**	11,670	34.0
Other	**7,832**	**20.0**	7,758	22.6
	$ 39,164	**100.0%**	$ 34,330	100.0%

The Federation also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $1.8 billion in the first nine months of 2017. During the same period, it also completed two issues under its Canadian medium-term note program for a total amount of $1.9 billion and an issue of US$300 million under its multi-currency medium-term note program. Also note that on October 31, 2017, the Federation launched a new issue of US$1.5 billion in the U.S. under its multi-currency medium-term note program.

Outstanding notes issued under the Federation’s medium-term financing programs amounted to $23.2 billion as at September 30, 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 Consolidated Balance Sheets. *Capital Desjardins inc.’s* senior notes outstanding totalled $1.4 billion as at September 30, 2017, unchanged from December 31, 2016. Furthermore, to round out its financing and increase its capital base, in the first nine months of 2017, the Federation issued F capital shares for proceeds of $228 million, net of issuance expenses, as well as F capital shares having a value of $125 million for the payment of interest when the holder has elected to receive remuneration in F capital shares.

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 nine months 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 and were affirmed.

The ratings outlooks for Desjardins Group from S&P and Fitch are stable, but DBRS's and Moody's outlooks for Desjardins Group and a number of major Canadian banks have remained negative since May 20, 2015 and June 11, 2014, respectively. 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 a number of 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.

In addition, on May 10, 2017, Moody's lowered the long-term debt ratings of the six major Canadian banks by a notch 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 nevertheless affirmed the credit ratings of Desjardins Group since it considers the Group's activities less exposed to the risks it has mentioned.

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 required 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 details about more complex financial instruments that have a higher risk.

ASSET-BACKED SECURITIES

	As at September 30, 2017		As at December 31, 2016	
(in millions of dollars)	**Notional amounts**	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities(1)	**$ -**	**$ -**	$ 15	$ 15
Financial asset-backed and mortgage-backed securities(2)	**146**	**148**	170	174

(1) These securities are presented in the Consolidated 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 Consolidated Balance Sheets under "Securities at fair value through profit or loss" and "Available-for-sale securities".

DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)	**As at September 30, 2017**			As at December 31, 2016		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps(1)	**$ 611**	**$ 12**	**$ 2**	$ 644	$ 10	$ -
Total return swaps(2)	**76**	**-**	**-**	66	-	-

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

LEVERAGED FINANCE LOANS AND SUBPRIME LOANS

(in millions of dollars)	**As at September 30, 2017**	As at December 31, 2016
Leveraged finance loans(1)	**$ 236**	$ 179
Alt-A mortgage loans(2)	**20**	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 mortgages loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated 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 Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended September 30, 2017, the Federation 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 73 and 74 of the 2016 MD&A.

RELATED PARTY DISCLOSURES

In the normal course of business, the Federation 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. The Federation carries out transactions with other Desjardins Group entities, which are primarily caisses.

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

The Federation 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 related party transactions, including transactions with other Desjardins Group entities, is provided in Note 32, “Related party disclosures”, to the Annual Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by the Federation is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, “Basis of presentation and significant accounting policies”, to the Federation’s Annual Consolidated Financial Statements on pages 94 to 109 of the 2016 Annual Report.

Some of these policies are of particular importance in presenting the Federation’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 74 to 78 of the 2016 MD&A.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first nine 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 the Federation's Annual Consolidated Financial Statements, on pages 109 to 110 of the 2016 Annual Report. Additional information is also presented under “Future accounting changes” on pages 78 to 82 of the 2016 MD&A. Since then, the IASB has issued the following standard:

IFRS 17, “Insurance Contracts”

In May 2017, the IASB issued IFRS 17, “Insurance Contracts”, which will replace the current standard, IFRS 4, “Insurance Contracts”. IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on present value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as a separate liability and recognized in profit or loss over the contract term as services are provided.

The Federation will have to apply IFRS 17 effective January 1, 2021 and is currently assessing the impact of adopting this standard.

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CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	**As at September 30, 2017**	As at December 31, 2016
ASSETS			
Cash and deposits with financial institutions		**$ 1,523**	$ 1,212
Securities			
Securities at fair value through profit and loss		**33,846**	31,005
Available-for-sale securities	5	**14,823**	13,932
		48,669	44,937
Securities borrowed or purchased under reverse repurchase agreements		**10,757**	7,713
Loans	6		
Residential mortgages		**4,129**	3,486
Consumer, credit card and other personal loans		**16,986**	15,720
Business and government		**35,240**	33,416
		56,355	52,622
Allowance for credit losses	6	**(193)**	(192)
		56,162	52,430
Segregated fund net assets		**12,679**	11,965
Other assets			
Clients' liability under acceptances		**141**	11
Premiums receivable		**2,140**	1,961
Derivative financial instruments		**3,516**	3,706
Amounts receivable from clients, brokers and financial institutions		**4,530**	2,541
Reinsurance assets		**2,197**	2,582
Investment property		**811**	806
Property, plant and equipment		**794**	769
Goodwill		**153**	471
Intangible assets		**528**	690
Deferred tax assets		**684**	724
Other		**2,736**	2,140
		18,230	16,401
TOTAL ASSETS		**$ 148,020**	$ 134,658
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	8		
Individuals		**$ 4,309**	$ 3,817
Business and government		**41,854**	36,780
Deposit-taking institutions		**7,099**	6,305
		53,262	46,902
Other liabilities			
Acceptances		**141**	11
Commitments related to securities sold short		**10,249**	8,196
Commitments related to securities lent or sold under repurchase agreements		**9,422**	9,870
Derivative financial instruments		**3,488**	2,540
Amounts payable to clients, brokers and financial institutions		**7,264**	4,659
Insurance contract liabilities		**27,782**	27,493
Segregated fund net liabilities		**12,658**	11,957
Net defined benefit plan liabilities		**1,361**	1,478
Deferred tax liabilities		**232**	247
Other		**4,690**	5,247
		77,287	71,698
Subordinated notes		**1,357**	1,378
TOTAL LIABILITIES		**131,906**	119,978
EQUITY			
Capital stock	10	**8,516**	8,066
Undistributed surplus earnings		**5,793**	4,781
Accumulated other comprehensive income	11	**352**	393
Reserves		**639**	524
Equity - Group's share		**15,300**	13,764
Non-controlling interests		**814**	916
TOTAL EQUITY		**16,114**	14,680
TOTAL LIABILITIES AND EQUITY		**$ 148,020**	$ 134,658

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended September 30 2017	2016	For the nine-month periods ended September 30 2017	2016
INTEREST INCOME					
Loans		**$ 537**	$ 471	**$ 1,511**	$ 1,388
Securities		**46**	46	**144**	141
		583	517	**1,655**	1,529
INTEREST EXPENSE					
Deposits		**199**	167	**551**	490
Subordinated notes and other		**20**	18	**57**	67
		219	185	**608**	557
NET INTEREST INCOME		**364**	332	**1,047**	972
NET PREMIUMS		**2,007**	1,897	**6,112**	5,406
OTHER INCOME					
Assessments		**93**	99	**283**	295
Service agreements		**187**	175	**548**	525
Lending fees and credit card service revenues		**154**	138	**478**	424
Brokerage and investment fund services		**241**	279	**826**	825
Management and custodial service fees		**109**	99	**326**	289
Net income (loss) on securities at fair value through profit or loss	13	**(440)**	396	**352**	1,776
Net income on available-for-sale securities		**66**	91	**325**	242
Net other investment income		**58**	51	**166**	152
Foreign exchange income		**16**	21	**55**	50
Other		**330**	(17)	**440**	153
		814	1,332	**3,799**	4,731
TOTAL INCOME		**3,185**	3,561	**10,958**	11,109
PROVISION FOR CREDIT LOSSES	6	**72**	70	**204**	200
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**1,000**	1,727	**4,675**	5,550
NON-INTEREST EXPENSE					
Remuneration and other payments		**135**	128	**403**	367
Salaries and fringe benefits		**511**	562	**1,707**	1,746
Premises, equipment and furniture, including depreciation		**127**	108	**365**	319
Service agreements and outsourcing		**64**	75	**207**	236
Communications		**51**	56	**176**	187
Other		**545**	529	**1,730**	1,607
		1,433	1,458	**4,588**	4,462
OPERATING SURPLUS EARNINGS		**680**	306	**1,491**	897
Income taxes on surplus earnings		**89**	32	**256**	120
NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS TO MEMBER CAISSES		**$ 591**	$ 274	**$ 1,235**	$ 777
of which:					
Group's share		**$ 576**	$ 261	**$ 1,201**	$ 718
Non-controlling interests' share		**15**	13	**34**	59

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended September 30 2017	2016	For the nine-month periods ended September 30 2017	2016
Net surplus earnings for the period after dividends to member caisses	**$ 591**	$ 274	**$ 1,235**	$ 777
Other comprehensive income, net of income taxes				
Items that will not be reclassified subsequently to the Consolidated Statements of Income				
Remeasurement of net defined benefit plan liabilities	**221**	(130)	**86**	(433)
Share of associates and joint ventures accounted for using the equity method	**2**	(1)	**1**	(3)
	223	(131)	**87**	(436)
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**(35)**	146	**113**	290
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(17)**	(38)	**(148)**	(79)
	(52)	108	**(35)**	211
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**-**	1	**2**	(2)
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(1)**	(1)	**(4)**	(5)
	(1)	-	**(2)**	(7)
Net unrealized exchange losses on the translation of a net investment in a foreign operation, net of hedging transactions	**(1)**	-	**(1)**	(1)
	(54)	108	**(38)**	203
Total other comprehensive income, net of income taxes	**169**	(23)	**49**	(233)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 760**	$ 251	**$ 1,284**	$ 544
of which:				
Group's share	**$ 741**	$ 235	**$ 1,246**	$ 487
Non-controlling interests' share	**19**	16	**38**	57

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

(in millions of Canadian dollars)	For the three-month periods ended September 30 2017	2016	For the nine-month periods ended September 30 2017	2016
Item that will not be reclassified subsequently to the Consolidated Statements of Income				
Remeasurement of net defined benefit plan liabilities	**$ 80**	$ (48)	**$ 32**	$ (159)
	80	(48)	**32**	(159)
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net change in unrealized gains and losses on available-for-sale securities				
Net unrealized gains (losses) on available-for-sale securities	**(16)**	37	**18**	101
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(4)**	(4)	**(29)**	(13)
	(20)	33	**(11)**	88
Net change in cash flow hedges				
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**-**	-	**1**	(1)
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(1)**	(1)	**(2)**	(2)
	(1)	(1)	**(1)**	(3)
	(21)	32	**(12)**	85
Total income tax expense (recovery)	**$ 59**	$ (16)	**$ 20**	$ (74)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the nine-month periods ended September 30 (in millions of Canadian dollars)	Capital stock (Note 10)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 11)	Reserves: Stabilization reserve	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2016	**$ 8,066**	**$ 4,781**	**$ 393**	**$ 436**	**$ 88**	**$ 524**	**$ 13,764**	**$ 916**	**$ 14,680**
Net surplus earnings for the period after dividends to member caisses	**-**	**1,201**	**-**	**-**	**-**	**-**	**1,201**	**34**	**1,235**
Other comprehensive income for the period	**-**	**86**	**(41)**	**-**	**-**	**-**	**45**	**4**	**49**
Comprehensive income for the period	**-**	**1,287**	**(41)**	**-**	**-**	**-**	**1,246**	**38**	**1,284**
Issuance of F capital shares	**354**	**-**	**-**	**-**	**-**	**-**	**354**	**-**	**354**
F capital share issuance costs	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Other net change in capital stock	**97**	**-**	**-**	**-**	**-**	**-**	**97**	**(97)**	**-**
Remuneration on F capital shares	**-**	**(167)**	**-**	**-**	**-**	**-**	**(167)**	**-**	**(167)**
Redemption of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(30)**	**(30)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**(115)**	**-**	**31**	**84**	**115**	**-**	**-**	**-**
Transactions related to put options	**-**	**6**	**-**	**-**	**-**	**-**	**6**	**(3)**	**3**
Other	**-**	**1**	**-**	**-**	**-**	**-**	**1**	**(2)**	**(1)**
BALANCE AS AT SEPTEMBER 30, 2017	**$ 8,516**	**$ 5,793**	**$ 352**	**$ 467**	**$ 172**	**$ 639**	**$ 15,300**	**$ 814**	**$ 16,114**
BALANCE AS AT DECEMBER 31, 2015	$ 7,505	$ 3,977	$ 265	$ 436	$ 71	$ 507	$ 12,254	$ 1,333	$ 13,587
Net surplus earnings for the period after dividends to member caisses	-	718	-	-	-	-	718	59	777
Other comprehensive income for the period	-	(422)	191	-	-	-	(231)	(2)	(233)
Comprehensive income for the period	-	296	191	-	-	-	487	57	544
Issuance of F capital shares	527	-	-	-	-	-	527	-	527
F capital share issuance costs	(2)	-	-	-	-	-	(2)	-	(2)
Remuneration on F capital shares	-	(135)	-	-	-	-	(135)	-	(135)
Issuance of share capital	-	-	-	-	-	-	-	3	3
Redemption of share capital	-	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	-	-	-	(26)	(26)
Transfer from participating contract holders	-	362	34	-	-	-	396	(396)	-
Transfer from undistributed surplus earnings (to reserves)	-	119	-	-	(119)	(119)	-	-	-
Transactions related to put options	-	1	-	-	-	-	1	(6)	(5)
Other	-	4	(2)	-	-	-	2	(15)	(13)
BALANCE AS AT SEPTEMBER 30, 2016	$ 8,030	$ 4,624	$ 488	$ 436	$ (48)	$ 388	$ 13,530	$ 947	$ 14,477

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions of Canadian dollars)	For the nine-month periods ended September 30 2017	2016
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 1,491**	$ 897
Non-cash adjustments:		
Depreciation of property, plant and equipment, and investment property and amortization of intangible assets	**143**	147
Net change in insurance contract liabilities	**455**	2,254
Provision for credit losses	**204**	200
Impairment on available-for-sale securities recognized in net income	**5**	22
Net realized gains on available-for-sale securities	**(182)**	(108)
Other	**137**	16
Change in operating assets and liabilities:		
Securities at fair value through profit and loss	**(2,964)**	(3,397)
Securities borrowed or purchased under reverse repurchase agreements	**(3,044)**	197
Loans	**(3,936)**	(647)
Derivative financial instruments, net amount	**1,151**	745
Net amounts receivable from and payable to clients, brokers and financial institutions	**599**	(385)
Deposits	**6,360**	(115)
Commitments related to securities sold short	**2,053**	2,210
Commitments related to securities lent or sold under repurchase agreements	**(448)**	(130)
Other	**(833)**	(1,056)
Payment of the contingent consideration	**(243)**	(121)
Income taxes paid on surplus earnings	**(229)**	(223)
	719	506
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Redemption of subordinated notes	**-**	(500)
Purchase of debt securities and subordinated notes from third parties on the market	**(21)**	-
Issuance of F capital shares	**229**	426
F capital share issuance costs	**(1)**	(2)
Remuneration on F capital shares	**(42)**	(34)
Issuance of share capital	**-**	3
Redemption of share capital	**(8)**	(3)
Dividends paid	**(30)**	(26)
Exercise of put options written on non-controlling interests	**(14)**	(17)
	113	(153)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	**(37,210)**	(30,618)
Proceeds from disposals of available-for-sale securities	**13,968**	7,760
Proceeds from maturities of available-for-sale securities	**22,253**	23,067
Disposals of subsidiaries, net of cash and cash equivalents sold	**684**	-
Payment of the contingent consideration recognized at acquisition date	**(23)**	(34)
Acquisitions of property, plant and equipment, intangible assets and investment property	**(193)**	(288)
	(521)	(113)
Net increase in cash and cash equivalents	**311**	240
Cash and cash equivalents at beginning of period	**1,212**	1,006
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,523**	$ 1,246
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 821**	$ 577
Interest and dividends received	**2,358**	2,458

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – INFORMATION ON THE *FÉDÉRATION DES CAISSES DESJARDINS DU QUÉBEC*

NATURE OF OPERATIONS

The *Fédération des caisses Desjardins du Québec* (the Federation) 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. It provides its member caisses with a variety of services, including certain technical, financial, and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence on the Federation.

In addition, the Federation is the parent company of several financial services subsidiaries. The address of its head office is 100 Des Commandeurs Street, Lévis, Quebec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

Pursuant to the *Act Respecting Financial Services Cooperatives,* these unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) have been prepared by the Federation'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 Consolidated Financial Statements for the current period. These reclassifications had no impact on the Federation's profit or loss or total assets and liabilities.

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 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 Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Federation on November 10, 2017.

PRESENTATION AND FUNCTIONAL CURRENCY

These Interim Consolidated Financial Statements are expressed in Canadian dollars, which is also the functional currency of the Federation. Dollar amounts presented in the tables of the Notes to the Interim Consolidated 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 Consolidated Financial Statements. The IASB since issued the following accounting standard.

IFRS 17, "Insurance Contracts"

In May 2017, the IASB issued IFRS 17, "Insurance Contracts", which will replace the current standard, IFRS 4, "Insurance Contracts". IFRS 17 sets out the recognition, measurement, presentation and disclosure requirements applicable to all insurance contracts.

IFRS 17 requires that insurance contract liabilities be measured using a general model based on present value. This general model uses assumptions as at the reporting date to estimate the amount, timing and uncertainty of future cash flows and takes into account market interest rates and the impact of insurance contract holder options and guarantees.

In addition, under IFRS 17, profits on the sale of insurance policies will no longer be recognized upon initial recognition, but will instead be deferred as a separate liability and recognized in profit or loss over the contract term as services are provided.

The Federation will have to apply IFRS 17 effective January 1, 2021 and is currently assessing the impact of adopting this standard.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss					
As at September 30, 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	$ 22	$ 487	$ 455	$ 559	$ -	$ 1,523
Securities						
Securities at fair value through profit or loss	15,138	18,708	-	-	-	33,846
Available-for-sale securities	-	-	14,823	-	-	14,823
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	10,757	-	10,757
Loans(1)	-	-	-	56,162	-	56,162
Other financial assets						
Clients' liability under acceptances	-	-	-	141	-	141
Premiums receivable	-	-	-	2,140	-	2,140
Derivative financial instruments	3,331	-	-	-	185	3,516
Amounts receivable from clients, brokers and financial institutions	-	-	-	4,530	-	4,530
Other	-	-	-	1,406	-	1,406
Total financial assets	$ 18,491	$ 19,195	$ 15,278	$ 75,695	$ 185	$ 128,844
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 53,262	$ -	$ 53,262
Other financial liabilities						
Acceptances	-	-	-	141	-	141
Commitments related to securities sold short	10,249	-	-	-	-	10,249
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,422	-	9,422
Derivative financial instruments	3,117	-	-	-	371	3,488
Amounts payable to clients, brokers and financial institutions	-	-	-	7,264	-	7,264
Other	291	-	-	2,618	-	2,909
Subordinated notes	-	-	-	1,357	-	1,357
Total financial liabilities	$ 13,657	$ -	$ -	$ 74,064	$ 371	$ 88,092

(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	$ 874	$ -	$ 1,212
Securities						
Securities at fair value through profit or loss	12,363	18,642	-	-	-	31,005
Available-for-sale securities	-	-	13,932	-	-	13,932
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,713	-	7,713
Loans(1)	-	-	-	52,430	-	52,430
Other financial assets						
Clients' liability under acceptances	-	-	-	11	-	11
Premiums receivable	-	-	-	1,961	-	1,961
Derivative financial instruments	2,628	-	-	-	1,078	3,706
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,541	-	2,541
Other	-	-	-	998	-	998
Total financial assets	$ 15,012	$ 18,764	$ 14,127	$ 66,528	$ 1,078	$ 115,509
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 46,902	$ -	$ 46,902
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	-	-	-	9,870	-	9,870
Derivative financial instruments	2,197	-	-	-	343	2,540
Amounts payable to clients, brokers and financial institutions	-	-	-	4,659	-	4,659
Other	432	-	-	3,116	-	3,548
Subordinated notes	-	-	-	1,378	-	1,378
Total financial liabilities	$ 10,825	$ -	$ -	$ 65,936	$ 343	$ 77,104

(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 Consolidated Financial Statements.

Financial instruments whose fair value equals carrying amount

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at September 30, 2017		As at December 31, 2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Loans	**$ 56,162**	**$ 56,334**	$ 52,430	$ 52,748
Financial liabilities				
Deposits	**53,262**	**53,348**	46,902	46,918
Subordinated notes	**1,357**	**1,465**	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 Consolidated Balance Sheets.

As at September 30, 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	$ 311	$ 198	$ -	$ 509
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	7,518	1,191	-	8,709
Provincial governmental entities and municipal corporations in Canada	16,573	1,507	-	18,080
School or public corporations in Canada	13	93	-	106
Foreign public administrations	437	-	-	437
Other securities				
Financial institutions	29	1,388	58	1,475
Other issuers	-	2,469	921	3,390
Equity securities	1,222	230	197	1,649
	26,103	7,076	1,176	34,355
Derivative financial instruments				
Interest rate contracts	-	1,539	-	1,539
Foreign exchange contracts	-	423	-	423
Other contracts	-	1,554	-	1,554
	-	3,516	-	3,516
Total financial assets at fair value through profit or loss	26,103	10,592	1,176	37,871
Available-for-sale financial assets				
Cash and deposits with financial institutions	175	280	-	455
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,865	582	-	2,447
Provincial governmental entities and municipal corporations in Canada	4,490	847	-	5,337
Foreign public administrations	9	21	-	30
Other securities				
Financial institutions	-	3,184	-	3,184
Other issuers	5	603	96	704
Equity securities	2,239	619	263	3,121
Total available-for-sale financial assets	8,783	6,136	359	15,278
Financial instruments of segregated funds	5,602	7,041	28	12,671
Total financial assets	$ 40,488	$ 23,769	$ 1,563	$ 65,820
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 10,150	$ 99	$ -	$ 10,249
Other	-	-	291	291
	10,150	99	291	10,540
Derivative financial instruments				
Interest rate contracts	-	1,553	-	1,553
Foreign exchange contracts	-	444	-	444
Other contracts	-	1,491	-	1,491
	-	3,488	-	3,488
Total financial liabilities	$ 10,150	$ 3,587	$ 291	$ 14,028

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	-	1,177	-	1,177
Foreign exchange contracts	-	1,189	-	1,189
Other contracts	-	1,340	-	1,340
	-	3,706	-	3,706
Total financial assets at fair value through profit or loss	23,711	9,990	1,153	34,854
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	1,415	603	-	2,018
Provincial governmental entities and municipal corporations in Canada	6,221	1,050	-	7,271
Foreign public administrations	10	23	-	33
Other securities				
Financial institutions	-	911	-	911
Other issuers	5	492	101	598
Equity securities	2,384	587	130	3,101
Total available-for-sale financial assets	10,054	3,842	231	14,127
Financial instruments of segregated funds	5,331	6,627	20	11,978
Total financial assets	$ 39,096	$ 20,459	$ 1,404	$ 60,959
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	-	891	-	891
Foreign exchange contracts	-	365	-	365
Other contracts	-	1,284	-	1,284
	-	2,540	-	2,540
Total financial liabilities	$ 8,069	$ 2,667	$ 432	$ 11,168

During the nine-month period ended September 30, 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 first quarter of 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 material 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

The Federation 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 nine-month period ended September 30, 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 Consolidated Financial Statements.

Sensitivity of financial instruments categorized within Level 3

The Federation 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 nine-month period ended September 30, 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 nine-month period ended September 30, 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	$ -	$ (2)	$ -	$ -	$ -	$ -	$ 58
Other issuers								
Hedge funds	7	-	4	-	-	-	-	11
Asset-backed term notes	8	-	2	-	-	-	(3)	7
Mortgage bonds	981	-	(23)	-	-	-	(55)	903
Equity securities	97	(1)	8	-	-	130	(37)	197
Total financial assets at fair value through profit or loss	1,153	(1)	(11)	-	-	130	(95)	1,176
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	101	-	-	(3)	-	-	(2)	96
Equity securities	130	-	2	19	-	116	(4)	263
Total available-for-sale financial assets	231	-	2	16	-	116	(6)	359
Financial instruments of segregated funds	20	-	2	-	(4)	13	(3)	28
Total financial assets	$ 1,404	$ (1)	$ (7)	$ 16	$ (4)	$ 259	$ (104)	$ 1,563
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 68	$ -	$ 6	$ -	$ -	$ -	$ (12)	$ 62
Financial liability related to the contingent consideration	364	-	131	-	-	-	(266)	229
Total financial liabilities	$ 432	$ -	$ 137	$ -	$ -	$ -	$ (278)	$ 291

(1) Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income (loss) on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.
(2) Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income (loss) on securities at fair value through profit or loss”.
(3) Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains (losses) on available-for-sale securities” in the Consolidated Statements of Comprehensive Income.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3 *(continued)*

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

For the nine-month period ended September 30, 2016	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ (1)	$ -	$ -	$ -	$ (10)	$ 61
Other issuers								
Hedge funds	8	-	(1)	-	-	-	-	7
Asset-backed term notes	801	-	11	-	-	-	(3)	809
Mortgage bonds	1,043	-	11	-	-	13	(43)	1,024
Financial asset-backed securities	27	-	1	-	-	-	(28)	-
Equity securities	68	-	1	-	-	48	(16)	101
Total financial assets at fair value through profit or loss	2,019	-	22	-	-	61	(100)	2,002
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	1	-	-	(2)	105
Equity securities	131	1	(1)	25	(38)	24	(9)	133
Total available-for-sale financial assets	237	1	(1)	26	(38)	24	(11)	238
Financial instruments of segregated funds	8	-	-	-	-	5	-	13
Total financial assets	$ 2,264	$ 1	$ 21	$ 26	$ (38)	$ 90	$ (111)	$ 2,253
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 7	$ -	$ -	$ -	$ (12)	$ 74
Financial liability related to the contingent consideration	258	-	129	-	-	-	(155)	232
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ 136	$ -	$ (38)	$ -	$ (167)	$ 306

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

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

(3) Unrealized gains or losses on available-for-sale financial assets are recognized under "Net unrealized gains (losses) on available-for-sale securities" in the Consolidated 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 September 30, 2017	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 2,471**	**$ 2**	**$ 26**	**$ 2,447**
Provincial governmental entities and municipal corporations in Canada	**5,316**	**71**	**50**	**5,337**
Foreign public administrations	**31**	**-**	**1**	**30**
Other securities				
Financial institutions	**3,188**	**1**	**5**	**3,184**
Other issuers	**700**	**10**	**6**	**704**
Equity securities	**2,674**	**486**	**39**	**3,121**
	$ 14,380	**$ 570**	**$ 127**	**$ 14,823**

As at December 31, 2016	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 2,015	$ 8	$ 5	$ 2,018
Provincial governmental entities and municipal corporations in Canada	7,175	112	16	7,271
Foreign public administrations	33	-	-	33
Other securities				
Financial institutions	909	4	2	911
Other issuers	582	17	1	598
Equity securities	2,711	436	46	3,101
	$ 13,425	$ 577	$ 70	$ 13,932

Impairment losses recognized

During the three-month and nine-month periods ended September 30, 2017 and 2016, the Federation concluded that there was no objective evidence of material impairment.

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

The Federation holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $7 million and $35 million, respectively, as at September 30, 2017 ($807 million and $839 million as at December 31, 2016). In January 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

An immaterial loss related to the fair value of ABTNs was recognized in the Federation's Consolidated Statement of Income for the three-month period ended September 30, 2017 (gain of $4 million for the three-month period ended September 30, 2016) and a gain of $2 million was recognized for the nine-month period ended September 30, 2017 (gain of $11 million for the nine-month period ended September 30, 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 September 30, 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	**$ 4,073**	**$ 54**	**$ 2**	**$ -**	**$ 3**	**$ 4,126**
Consumer, credit card and other personal loans	**16,314**	**605**	**67**	**-**	**134**	**16,852**
Business and government	**35,174**	**61**	**5**	**5**	**51**	**35,184**
	$ 55,561	**$ 720**	**$ 74**	**$ 5**	**$ 188**	**$ 56,162**

[1] Includes the collective allowance on impaired loans of $23 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	$ 3,442	$ 42	$ 2	$ -	$ 3	$ 3,483
Consumer, credit card and other personal loans	14,989	649	82	-	135	15,585
Business and government	33,249	156	11	5	49	33,362
	$ 51,680	$ 847	$ 95	$ 5	$ 187	$ 52,430

[1] Includes the collective allowance on impaired loans of $22 million.

As at September 30, 2017, the balance of “Business and government” loans included an amount of $25 billion ($24 billion as at December 31, 2016) corresponding to loans to member caisses that are neither past due nor impaired. No collective allowance has been recognized for these loans.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

As at September 30, 2017	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Residential mortgages	**$ 40**	**$ 5**	**$ 2**	**$ 7**	**$ 54**
Consumer, credit card and other personal loans	**467**	**96**	**42**	**-**	**605**
Business and government	**61**	**-**	**-**	**-**	**61**
	$ 568	**$ 101**	**$ 44**	**$ 7**	**$ 720**

As at December 31, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 35	$ 5	$ 1	$ 1	$ 42
Consumer, credit card and other personal loans	488	109	52	-	649
Business and government	155	1	-	-	156
	$ 678	$ 115	$ 53	$ 1	$ 847

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 nine-month periods ended September 30	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance at beginning of period	**$ 3**	$ 2	**$ 148**	$ 144	**$ 87**	$ 125	**$ 238**	$ 271
Provision for credit losses	**-**	1	**210**	216	**(6)**	(17)	**204**	200
Write-offs and recoveries	**-**	-	**(210)**	(208)	**-**	-	**(210)**	(208)
Balance at end of period	**$ 3**	$ 3	**$ 148**	$ 152	**$ 81**	$ 108	**$ 232**	$ 263
Composed of:								
Allowance for credit losses	**$ 3**	$ 3	**$ 134**	$ 117	**$ 56**	$ 64	**$ 193**	$ 184
Allowance for off-balance sheet items[1]	**-**	-	**14**	35	**25**	44	**39**	79

[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. The A capital shares issued by *Caisse centrale Desjardins* and held by the Federation were cancelled without any repayment of capital, while those held by the *Fédération des caisses populaires de l'Ontario* were converted into A capital shares and G capital shares of the Federation.

This transaction had no significant impact on the Consolidated Balance Sheet of the Federation other than a $98 million decrease in the non-controlling interest related to *Caisse centrale Desjardins*, and a $97 million increase in capital stock related to the issuance of capital shares by the Federation to the *Fédération des caisses populaires de l'Ontario* upon conversion.

COVERED BONDS

Under its covered bond program, the Federation 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 the Federation. This entity is controlled by the Federation, and therefore included in its Consolidated Financial Statements. The Federation granted financing to this entity in order to facilitate the acquisition of these assets. The financing granted by the Federation 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, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $4,417 million as at September 30, 2017 ($6,255 million as at December 31, 2016), are presented under "Deposits – Business and government" in the Consolidated 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 the Federation does not have the right to require notice prior to withdrawal. Notice deposits are interest-bearing deposits, primarily savings accounts, for which the Federation has the legal right to require notice prior to withdrawal. Term deposits are interest-bearing deposits, primarily fixed-term deposit accounts, guaranteed investment certificates or other similar instruments, with a term that generally varies from 1 day to 10 years and mature on a predetermined date.

The following table presents the breakdown of deposits.

	As at September 30, 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	**$ 3,052**	**$ 50**	**$ 1,207**	**$ 4,309**	$ 2,623	$ 51	$ 1,143	$ 3,817
Business and government	**3,346**	**-**	**38,508**	**41,854**	2,642	-	34,138	36,780
Deposit-taking institutions	**2,900**	**-**	**4,199**	**7,099**	2,664	-	3,641	6,305
	$ 9,298	**$ 50**	**$ 43,914**	**$ 53,262**	$ 7,929	$ 51	$ 38,922	$ 46,902

NOTE 9 – SIGNIFICANT DISPOSALS

DISPOSALS

Nine-month period ended September 30, 2017

On July 1, 2017, the Federation completed the sale of 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.

The assets and the liabilities of the two subsidiaries sold were as follows as at the date of disposal.

		As at July 1, 2017
Net assets sold		
Cash and deposits with financial institutions	$	82
Securities at fair value throught profit or loss		123
Available-for-sale securities		59
Amounts receivable from clients, brokers and financial institutions		17
Reinsurance assets		55
Property, plant and equipment		17
Goodwill		293
Intangible assets		155
Deferred tax assets		3
Other assets		110
Insurance contract liabilities		(161)
Deferred tax liabilities		(40)
Other liabilities		(288)
	$	425
Proceeds from disposal		
Cash	$	722
Less: Costs directly attributable to the disposal		19
Net proceeds from disposal	$	703

A gain of $278 million on the disposal of these subsidiaries was recognized under “Other income – Other”, in the Consolidated Statement of Income for the nine-month period ended September 30, 2017.

The operations of these two subsidiaries were presented in the Property and Casualty Insurance Segment.

NOTE 10 – CAPITAL STOCK

ISSUANCE OF CAPITAL SHARES

During the nine-month period ended September 30, 2017, the Federation issued 22,835,848 F capital shares for a cash consideration of $228 million, which represents the gross proceeds of this issuance of $229 million less issue costs of $1 million. In addition, the Federation issued 12,535,746 F capital shares having a value of $125 million as interest payments when the holders elected to receive their remuneration in F capital shares.

The Federation also issued, during the nine-month period ended September 30, 2017, 4,925,420 A capital shares for a cash consideration of $25 million, and 14,459,580 G capital shares for a cash consideration of $72 million.

SHARE CONVERSION

During the nine-month period ended September 30, 2017, the Federation converted 598,296,746 CCD capital shares into 586,073,351 G capital shares. This conversion had no impact on the value of capital stock.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at September 30, 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 Consolidated Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 343**	**$ 19**	$ 382	$ 15
Net gains on derivative financial instruments designated as cash flow hedges	**8**	**-**	10	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**1**	**-**	1	1
Accumulated other comprehensive income	**$ 352**	**$ 19**	$ 393	$ 16

NOTE 12 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation’s capital management and the manner in which it meets its capital management objectives are derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained 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.

Since January 1, 2017, the Federation’s capital ratios have been calculated according to the guideline on adequacy of capital base standards applicable to financial services cooperatives (the guideline) issued by the AMF.

The minimum Tier 1A capital ratio that the Federation must maintain is 8.0%. In addition, Tier 1 capital ratio and total capital ratio must be above 9.5% and 11.5%, respectively. The minimum requirement for the leverage ratio is 3.0%.

As mentioned in Note 10, “Capital stock”, the Federation issued F capital shares in 2017 for gross proceeds of $354 million, of which $125 million was as interest payments to holders who elected to receive their remuneration in shares.

As at September 30, 2017, the Federation was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

(in millions of dollars and as a percentage)	**As at September 30, 2017**	As at December 31, 2016
Capital		
Tier 1A capital	**$ 8,801**	$ 7,317
Tier 1 capital	**8,801**	7,317
Total capital	**8,801**	7,317
Risk-weighted assets for capital ratio calculation purposes(1)		
For Tier 1A capital	**49,847**	45,916
For Tier 1 capital	**49,891**	45,972
For total capital	**49,925**	46,021
Risk-weighted assets for total capital calculation purposes(1)		
Credit risk	**39,571**	35,599
Market risk	**2,289**	1,810
Operational risk	**8,065**	8,612
Total risk-weighted assets	**$ 49,925**	$ 46,021
Ratios and leverage ratio exposure		
Tier 1A capital	**17.7%**	15.9%
Tier 1 capital	**17.6**	15.9
Total capital	**17.6**	15.9
Leverage	**7.5**	7.4
Leverage ratio exposure	**$ 117,568**	$ 98,892

(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 (LOSS) ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL INSTRUMENTS HELD FOR TRADING

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

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2017	2016	**2017**	2016
Income				
Net interest income	**$ 9**	$ 8	**$ 30**	$ 31
Net income (loss) on securities at fair value through profit or loss	**17**	3	**24**	327
	$ 26	$ 11	**$ 54**	$ 358

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 Consolidated Statements of Income.

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2017	2016	**2017**	2016
Income				
Net interest income	**$ 4**	$ -	**$ 10**	$ 1
Net income (loss) on securities at fair value through profit or loss	**(457)**	393	**328**	1,449
	$ (453)	$ 393	**$ 338**	$ 1,450

NOTE 14 – SEGMENTED INFORMATION

The Federation is made up of the three following segments: Personal and Business Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. These segments have been structured according to the needs of the members of the Desjardins caisse network and clients and the markets in which the Federation operates, and they reflect the Federation'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. Prior period comparative amounts have been restated to reflect these reclassifications. Financial information related to activities that are not specific to a business segment is presented under the Treasury and Other Support to Desjardins Group Entities category.

The Personal and Business Services segment is responsible for upgrading and marketing 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. The line of products and services includes 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. The Personal and Business Services segment supports the caisses and their service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks through the introduction and management of complementary access networks, by phone, online and via applications for mobile devices, as well as ATMs. Certain support activities provided by the Federation to this segment, which were previously presented in the Treasury and Other Support to Desjardins Group Entities 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 and health 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. until its disposal by the Federation on July, 1 2017. 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 Treasury and Other Support to Desjardins Group Entities 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, as well as orientation and organizational activities for Desjardins Group. This category also includes the operations of *Capital Desjardins inc.* as well as Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments necessary to prepare the Consolidated 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 Consolidated Financial Statements of the Federation.

NOTE 14 – SEGMENTED INFORMATION *(continued)*

RESULTS BY BUSINESS SEGMENT

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

For the three-month periods ended September 30	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income	**$ 278**	$ 262	**$ 1**	$ -	**$ -**	$ -	**$ 85**	$ 70	**$ 364**	$ 332
Net premiums	**-**	-	**1,078**	1,123	**967**	811	**(38)**	(37)	**2,007**	1,897
Other income	**398**	373	**(17)**	778	**239**	12	**194**	169	**814**	1,332
Total income	**676**	635	**1,062**	1,901	**1,206**	823	**241**	202	**3,185**	3,561
Provision for credit losses	**72**	70	**-**	-	**-**	-	**-**	-	**72**	70
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**357**	1,216	**643**	510	**-**	1	**1,000**	1,727
Non-interest expense	**487**	456	**564**	531	**205**	278	**177**	193	**1,433**	1,458
Operating surplus earnings	**117**	109	**141**	154	**358**	35	**64**	8	**680**	306
Income taxes on surplus earnings	**31**	21	**20**	28	**40**	9	**(2)**	(26)	**89**	32
Net surplus earnings for the period after dividends to member caisses	**$ 86**	$ 88	**$ 121**	$ 126	**$ 318**	$ 26	**$ 66**	$ 34	**$ 591**	$ 274
of which:										
Group's share	**$ 86**	$ 86	**$ 121**	$ 125	**$ 303**	$ 19	**$ 66**	$ 31	**$ 576**	$ 261
Non-controlling interests' share	**-**	2	**-**	1	**15**	7	**-**	3	**15**	13

For the nine-month periods ended September 30	Personal and Business Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Net interest income	**$ 808**	$ 767	**$ 1**	$ -	**$ 1**	$ 1	**$ 237**	$ 204	**$ 1,047**	$ 972
Net premiums	**-**	-	**3,318**	3,126	**2,913**	2,391	**(119)**	(111)	**6,112**	5,406
Other income	**1,245**	1,129	**1,680**	2,827	**365**	297	**509**	478	**3,799**	4,731
Total income	**2,053**	1,896	**4,999**	5,953	**3,279**	2,689	**627**	571	**10,958**	11,109
Provision for credit losses	**204**	200	**-**	-	**-**	-	**-**	-	**204**	200
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**2,720**	3,887	**1,956**	1,663	**(1)**	-	**4,675**	5,550
Non-interest expense	**1,502**	1,386	**1,721**	1,630	**850**	873	**515**	573	**4,588**	4,462
Operating surplus earnings	**347**	310	**558**	436	**473**	153	**113**	(2)	**1,491**	897
Income taxes on surplus earnings	**92**	58	**105**	89	**75**	39	**(16)**	(66)	**256**	120
Net surplus earnings for the period after dividends to member caisses	**$ 255**	$ 252	**$ 453**	$ 347	**$ 398**	$ 114	**$ 129**	$ 64	**$ 1,235**	$ 777
of which:										
Group's share	**$ 255**	$ 247	**$ 452**	$ 326	**$ 365**	$ 88	**$ 129**	$ 57	**$ 1,201**	$ 718
Non-controlling interests' share	**-**	5	**1**	21	**33**	26	**-**	7	**34**	59

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at September 30, 2017	**$ 52,370**	**$ 41,789**	**$ 13,107**	**$ 40,754**	**$ 148,020**
As at December 31, 2016	$ 43,163	$ 38,616	$ 14,568	$ 38,311	$ 134,658

GENERAL INFORMATION

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