Desjardins

Cooperating in building the future

Fédération des caisses Desjardins du Québec

Financial Report

First quarter of 2016

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.*), *Caisse centrale Desjardins*, 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		
	March 31, 2016	December 31, 2015	March 31, 2015
Net interest income	**$ 314**	$ 320	$ 271
Net premiums	**1,745**	1,665	1,900
Other operating income[1]	**835**	767	823
Operating income[1]	**2,894**	2,752	2,994
Investment income[1]	**705**	428	1,295
Total income	**3,599**	3,180	4,289
Provision for credit losses	**72**	79	67
Claims, benefits, annuities and changes in insurance contract liabilities	**1,758**	1,350	2,503
Non-interest expense	**1,492**	1,481	1,441
Income taxes on surplus earnings	**45**	33	36
Surplus earnings before dividends to member caisses	**$ 232**	$ 237	$ 242
Return on equity[1]	**6.8%**	5.8%	8.0%
Provisioning rate[1]	**0.60**	0.66	0.61

[1] See "Basis of presentation of financial information".

BALANCE SHEET

(in millions of dollars)	**As at March 31, 2016**	As at December 31, 2015
Assets	**$ 135,481**	$ 128,657
Net loans and acceptances	**48,232**	48,307
Deposits	**48,868**	47,922
Equity	**13,767**	13,587

MESSAGE FROM SENIOR MANAGEMENT

Lévis, May 12, 2016 — For the first quarter ended March 31, 2016, the Federation recorded surplus earnings after dividends to member caisses of $232 million, a reduction of $10 million, or 4.1%, compared to $242 million for the corresponding quarter of 2015. This reduction was mainly due to the gain realized as at the acquisition date of State Farm's Canadian operations.

This result reflects the contribution of $78 million, or 33.6% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $97 million and $39 million, respectively, representing 41.8% and 16.8% of surplus earnings. The operations grouped under the Treasury and Other Support to Desjardins Group Entities category made a contribution of $18 million, or 7.8% of surplus earnings.

"Our performance is what allows us to fulfil our cooperative mission for our members and communities," said Guy Cormier, the newly elected Chair of the Board, President and CEO of Desjardins Group. "Desjardins manages to perform in an increasingly fierce competitive environment while the entire industry adapts to new processes. I am proud and above all honoured to lead Desjardins into this new era. During my mandate I intend to realize three major ambitions to make us first in people's hearts again. They are: reconnecting Desjardins with its purpose, harnessing its full potential for the benefit of members and clients alike, and to invest in people first."

Desjardins Group complies with Basel III rules and still has very good capitalization. As at March 31, 2016, Desjardins Group's Tier 1A and total capital ratios were 15.8% and 16.9%, respectively, compared to 16.0% and 17.2%, respectively, as at December 31, 2015.

Guy Cormier
President and Chief Executive Officer
Desjardins Group

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated May 12, 2016 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended March 31, 2016, in comparison to previous periods. The Federation reports financial information in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). 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 March 31, 2016, including the notes thereto, and the Federation's 2015 Annual Report (the 2015 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 also be found. Further information is also available on the Desjardins website at **www.desjardins.com/en/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 2015 Annual Report, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include regulatory and legal environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance and liquidity regulatory guidance, or interpretations thereof, and amendments to and new interpretations of capital guidelines; and environmental risk, which is the risk of financial, operational or reputational loss for 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 primarily from interest rate, price, foreign exchange and longevity risks.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to the economic and business conditions in regions in which 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; competition; changes in standards, laws and regulations; the accuracy and completeness of information concerning clients and counterparties; the accounting policies used 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; business infrastructure; geographic concentration; acquisitions and joint arrangements; social media and credit ratings.

Other factors that could influence the accuracy of the forward-looking statements in this MD&A include amendments to tax laws, unexpected changes in consumer spending and savings habits, technological developments, the ability to implement the Federation's disaster recovery plan within a reasonable time, the potential impact on operations 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 2015 Annual Report. 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 and development activities for Desjardins Group. 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.

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

MATERIAL EVENTS

Change in senior management at Desjardins Group

On March 19, 2016, an electoral college comprised of Desjardins caisse officers from all regions of Quebec as well as from Ontario elected Guy Cormier as President and Chief Executive Officer of Desjardins Group for a first four-year term of office beginning on April 9, 2016. He succeeds Monique F. Leroux, who had held this position since March 29, 2008.

Wildfire in Alberta

Like its peers in the insurance industry, Desjardins Group is following closely the developments in Alberta. Based on the information gathered to date, the estimated impact on its earnings is not considered significant.

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 marchés 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 do not have a standardized definition and are not directly comparable to similar measures used by other companies, and may not be directly comparable to any IFRS measures. Investors, among others, may find these non-IFRS measures useful in analyzing financial performance. The measures currently used are defined as follows:

Adjusted net surplus earnings − Property and Casualty Insurance segment

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

The following table presents a reconciliation of the net surplus earnings of the Property and Casualty Insurance segment as presented in the 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		
	March 31, 2016	December 31, 2015	March 31, 2015
Presentation of the net surplus earnings of the Property and Casualty Insurance segment in the Consolidated Financial Statements	**$ 39**	$ 113	$ 76
Gain as at the acquisition date of State Farm's Canadian operations	**-**	-	(55)
Expenses related to the acquisition of State Farm's Canadian operations, net of income taxes	**7**	8	7
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment in the MD&A	**$ 46**	$ 121	$ 28

Gross impaired loans/gross loans and acceptances ratio

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

Average loans and acceptances – Average deposits

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

Combined ratio

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

Expense ratio

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

Loss ratio

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

Return on equity

Return on equity is used to measure profitability. Expressed as a percentage, it is equal to surplus earnings before 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.

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding investment income. The analysis therefore breaks down 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, net premiums and other operating income such as assessments from member caisses, other income from member caisses, 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. Investment income also includes income from the insurance subsidiaries' matching activities and from derivative financial instruments not designated as part of a hedging relationship.

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

(in millions of dollars)	For the three-month periods ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Presentation of income in the Consolidated Financial Statements			
Net interest income	**$ 314**	$ 320	$ 271
Net premiums	**1,745**	1,665	1,900
Other income			
Assessments from member caisses	**82**	94	70
Other income from member caisses	**152**	137	150
Lending fees and credit card service revenues	**170**	157	152
Brokerage and investment fund services	**260**	263	252
Management and custodial service fees	**98**	72	93
Net income on securities at fair value through profit or loss	**588**	311	1,163
Net income on available-for-sale securities	**67**	69	86
Net other investment income	**50**	48	46
Foreign exchange income	**12**	17	23
Other	**61**	27	83
Total income	**$ 3,599**	$ 3,180	$ 4,289
Presentation of income in Management's Discussion and Analysis			
Net interest income	**$ 314**	$ 320	$ 271
Net premiums	**1,745**	1,665	1,900
Other operating income			
Assessments from member caisses	**82**	94	70
Other income from member caisses	**152**	137	150
Lending fees and credit card service revenues	**170**	157	152
Brokerage and investment fund services	**260**	263	252
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Foreign exchange income	**12**	17	23
Other	**61**	27	83
Operating income	**2,894**	2,752	2,994
Investment income			
Net income on securities at fair value through profit or loss	**588**	311	1,163
Net income on available-for-sale securities	**67**	69	86
Net other investment income	**50**	48	46
	705	428	1,295
Total income	**$ 3,599**	$ 3,180	$ 4,289

Provisioning rate

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

CHANGES IN THE REGULATORY ENVIRONMENT

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, protection of personal information, money laundering and terrorist financing in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard.

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

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

On November 26, 2015, the Quebec government passed Bill 57, the *Act to amend the Supplemental Pension Plans Act mainly with respect to the funding of defined benefit pension plans*. This legislation came into force on January 1, 2016 and is chiefly aimed at changing the funding rules applicable to private sector pension plans registered in Quebec. The changes to the funding rules are intended to promote the sustainability of defined benefit 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 will no longer be required. On April 6, 2016, the Quebec government issued a draft regulation under the Act that outlines the rules for determining the stabilization provision.

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

On March 28, 2014, to strengthen the Canadian regime to fight money laundering and terrorist financing as well as improve the effectiveness of its targeted financial sanctions and lighten the burden of compliance on the private sector, the Government of Canada tabled the *Economic Action Plan 2014 Act, No. 1*, which was part of the budget implementation bill. The Act includes amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and the *Income Tax Act*. These amendments should come into effect in 2016. Desjardins Group is preparing to implement these legislative changes and is closely monitoring developments to know the date on which they will come into force.

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

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

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

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

Further to obtaining financial holding company (FHC) status, Desjardins Group must comply as of July 2016 with obligations related to the new "Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations". Implementation activities are underway to ensure compliance with this regulation according to the timetable imposed by the Fed.

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

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

ECONOMIC ENVIRONMENT AND OUTLOOK

The start of 2016 struck a negative note, as oil prices declined further and new fears over China generated uncertainty in financial markets. Stock market indices plummeted in January and credit spreads widened. Government bond markets and gold prices were the beneficiaries of this uncertain environment, a situation that peaked in mid-February when investors began worrying about the consequences of negative interest rates on Europe's financial sector. But confidence returned in the wake of positive indicators and a commitment by the European Central Bank to support its banking sector. The price of oil, which had reached a 12-year low at the start of the year, climbed back to trade at just over US$40/barrel as the stock markets erased losses incurred in the first few weeks of 2016. The Canadian stock market performed well in the first quarter, profiting from a rebound in the Materials sector.

Bond rates have remained low. Monetary policies, particularly in Japan and the Eurozone, could be even more expansionist than expected. In the U.S., the Federal Reserve has hesitated to continue tightening monetary policy and its leaders now expect the federal funds rate to be 0.5% higher by the end of 2016. No changes are expected in Canada's key interest rate, since encouraging economic data and an expansionary fiscal policy suggest that additional cuts will not be needed. The low interest rate environment should last several more quarters.

In most of the industrialized countries, economic growth is not expected to gain significant momentum in 2016 compared to 2015. Unstable financial markets and the most recent monetary easing measures taken by some central banks reflect ongoing concerns over the strength of the global economy. Euroland growth in 2016 should be 1.5%, or the same as in 2015. In Japan, poor results for the fourth quarter of 2015 suggest that the country still faces some challenges. The emerging economies are expected to continue growing slowly, even though China surprised market observers when it announced higher-than-expected targets. Real GDP in the emerging economies is expected to grow 3.9% in 2016, or the same as in 2015. Real global GDP should grow 3.1% in 2016, or the same as in 2015, and another 3.6% in 2017.

The U.S. economy grew 1.4% in the fourth quarter of 2015. A similar result is expected for the start of 2016 since the main indicators have been giving mixed signals. There have nevertheless been signs suggesting a turnaround in manufacturing and a certain easing of the uncertainties that had been a concern for financial markets in the first few weeks of the year. The U.S. labour market has been performing well. Real GDP in the U.S. should grow 2.0% in 2016 and 2.5% in 2017.

In Canada real GDP grew 0.8%, on an annualized quarterly basis, in the fourth quarter of 2015. Domestic demand faced some challenges, mainly due to a new contraction in non-residential investment. Energy prices continued to fall during the period, which led to investment cutbacks in the oil and gas sector. Canada's foreign trade balance improved, which made a positive contribution to economic growth. This gain was due to weak domestic demand, seen in reduced imports. Economic conditions have nevertheless appeared to improve in the last few months, and the outlook for growth in the first quarter of 2016 is good. Real GDP by industry rose 0.3% in November, 0.2% in December and 0.6% in January, but however fell 0.1% in February. Carry-over growth for the first quarter of 2016 was approximately 3.0%. Real GDP cannot be expected to continue growing at this pace for the rest of the year, since the drop in commodity prices may continue to drive adjustments in the Canadian economy, in particular in the energy-producing provinces. This would exacerbate regional disparities across the country. Canada's real GDP should therefore grow around 1.6% in 2016. There may be more sources of growth in 2017, including a potentially larger contribution from public spending. This would lead to accelerated growth and a 2.3% gain.

In Quebec, households have continued to spend cautiously, given the erratic shifts in retail sales figures over the last few months. Following excellent job creation in 2015, the indicators were up slightly in the first quarter. As a result, the unemployment rate remained close to 7.5%. Consumer confidence improved slightly in the same period. The rebound in equity markets since mid-February and the federal government's announcement of certain tax relief measures have probably lifted household confidence. Sales of existing homes and condominiums rebounded in early 2016. Due to these improvements, the total annual change in prices accelerated slightly, by 1.5% in 2015 and over 2,0% in the first quarter of 2016. However, new construction was still experiencing an adjustment period, in particular the market for condominiums, which remains oversupplied. The business outlook is good as SMEs have become more confident since the beginning of the year. A turnaround is expected in business investment in 2016. The federal government's infrastructure program may lead to renewed growth in public investment this year. Quebec's real GDP should grow 1.3% in 2016 compared to 1.1% in 2015.

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS AND INDICATOR

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Results			
Net interest income	**$ 314**	$ 320	$ 271
Net premiums	**1,745**	1,665	1,900
Other operating income			
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Claims, benefits, annuities and changes in insurance contract liabilities	**1,758**	1,350	2,503
Non-interest expense	**1,492**	1,481	1,441
Income taxes on surplus earnings	**45**	33	36
Surplus earnings before dividends to member caisses	**$ 232**	$ 237	$ 242
Contribution to consolidated surplus earnings by business segment[2]			
Personal Services and Business and Institutional Services	**$ 78**	$ 67	$ 59
Wealth Management and Life and Health Insurance	**97**	127	98
Property and Casualty Insurance	**39**	113	76
Treasury and Other Support to Desjardins Group Entities	**18**	(70)	9
	$ 232	$ 237	$ 242
Indicator			
Return on equity[1]	**6.8%**	5.8%	8.0%

[1] See “Basis of presentation of financial information”.
[2] The breakdown by line item is presented in Note 14, "Segmented information", to the Interim Consolidated Financial Statements.

ANALYSIS OF RESULTS

Comparison of the first quarters of 2016 and 2015

Surplus earnings

For the first quarter ended March 31, 2016, the Federation recorded surplus earnings before dividends to member caisses of $232 million, a reduction of $10 million, or 4.1%, compared to $242 million for the corresponding quarter of 2015. This reduction was mainly due to the gain realized as at the acquisition date of State Farm’s Canadian operations.

This result reflects the contribution of $78 million, or 33.6% of surplus earnings, made by the Personal Services and Business and Institutional Services segment. The Wealth Management and Life and Health Insurance segment and the Property and Casualty Insurance segment contributed $97 million and $39 million, respectively, representing 41.8% and 16.8% of surplus earnings. The operations grouped under the Treasury and Other Support to Desjardins Group Entities category made a contribution of $18 million, or 7.8% of surplus earnings.

Return on equity was 6.8%, compared to 8.0% as at March 31, 2015. This decrease was mainly due to the contribution of the acquisition gain to first quarter results in 2015.

Operating income

Operating income stood at $2,894 million, down $100 million, or 3.3%, compared to the first quarter of 2015.

Net interest income increased by $43 million, or 15.9%, to stand at $314 million, compared to $271 million for the same period in the previous year, as a result of $629 million growth in the portfolio of consumer, credit card and other personal loans and $442 million growth in business and government loans during the year.

Net premiums were down $155 million, or 8.2%, to total $1,745 million as at March 31, 2016. This decrease was mainly due to Property and Casualty Insurance segment operations, as described below.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted net insurance and annuity premium income of $1,003 million for the first quarter of 2016, which is comparable to the amount for the same period in 2015. Insurance premiums, essentially from individual insurance, increased by $9 million, while annuity premiums were down $10 million.

The Property and Casualty Insurance segment's operations generated net premium income of $783 million for the first quarter of 2016, compared to $938 million for the same period in 2015, a reduction of $155 million, or 16.5%, mainly on account of a decrease in net premiums after unearned premiums transferred at the acquisition of State Farm's Canadian operations (which had generated significant income in the first quarter of 2015) were taken over as at January 1, 2015. This impact is also reflected in the cost of claims. The reduction in net premium income was offset by business growth and the effect 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.

Other operating income totalled $835 million, up $12 million, or 1.5%, compared to the corresponding quarter in 2015 mainly as a result of growth in income from credit card and point-of-sale financing activities, a transfer of operations from member caisses and higher income from assets under management from the sale of various products. The reduction in the contingent consideration payable for the acquisition of State Farm's Canadian operations and arising from unfavourable developments in the claims taken over also contributed to the increase, which was mitigated by the gain realized on the acquisition in the first quarter of 2015.

Investment income

Investment income was down $590 million compared to the first quarter of 2015, primarily due to changes in the fair value of assets backing liabilities related to insurance operations. This decrease was partly offset by lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were for the most part due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates.

Total income

Total income amounted to $3,599 million, down $690 million, or 16.1%, compared to the same period in 2015, mainly because of the reduction in investment income, as explained earlier.

Provision for credit losses

The provision for credit losses totalled $72 million for the first quarter of 2016, up $5 million, or 7.5%, compared to the corresponding quarter in 2015, mainly due to loan portfolio growth at Card and Payment Services. Despite this increase, the Federation's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptance portfolio, was 0.16% as at March 31, 2016, down from 0.19% in the first quarter of 2015.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $1,758 million, down $745 million, or 29.8%, compared to the corresponding quarter in 2015.

The Wealth Management and Life and Health Insurance segment recorded expenses of $1,179 million related to claims, benefits, annuities and changes in insurance contract liabilities, a decrease of $471 million compared to 2015. This change mainly resulted from a $458 million reduction in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the effect of a decrease of $461 million in the fair value of investments, as well as a decrease in net group insurance benefits.

The cost of claims for the Property and Casualty Insurance segment was $584 million for the first quarter, for a decrease of $272 million, or 31.8%, compared to the first quarter of 2015. The decrease was mainly due to claims related to unearned premiums transferred at the acquisition of State Farm's Canadian operations, on January 1, 2015, which had a significant impact on the cost of claims in the first quarter of 2015. In addition, the lower discount rates used to measure the provision for claims had less impact than in the corresponding quarter of 2015, which also helped to reduce the cost of claims. However, the scale-down specified in the reinsurance treaty for the percentage of claims ceded arising from new business and renewals after the acquisition date mitigated this reduction. The loss ratio of the P&C insurers was 74.1% for the first quarter of 2016, compared to 79.4% in the corresponding quarter of 2015. This decrease was due to a more favourable claims experience in automobile insurance claims as well as in home insurance claims, mainly because of milder weather conditions compared to the first quarter of 2015.

Non-interest expense

Non-interest expense totalled $1,492 million, up $51 million, or 3.5%, compared to the first quarter of 2015, chiefly due to business growth, particularly in credit card and point-of-sale financing activities. It was also affected by the increase in salaries and employee benefits.

Remuneration and other payments to member caisses included in non-interest expense totalled $139 million, which is stable compared to the corresponding period in 2015.

Income taxes

Income taxes on surplus earnings before dividends to member caisses totalled $45 million for the first quarter of 2016, an increase of $9 million, or 25.0%, compared to the corresponding period in 2015. The effective tax rate was 16.2% compared to 12.9% for the same quarter in 2015. The recognition of the acquisition gain in other operating income in the first quarter of 2015 explains the increase, which corresponds to the excess of the fair value of identifiable assets acquired over the consideration given as well as the liabilities taken over that already included deferred income as at the acquisition date.

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. The Federation's financial results are therefore divided into the following three business segments: Personal Services and Business and Institutional Services; Wealth Management and Life and Health Insurance; and Property and Casualty Insurance. In addition to these three segments, there is also the Treasury and Other Support to Desjardins Group Entities category. This section presents an analysis of results for each of these segments.

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

Additional information about each business segment, particularly its profile, activities, industry and 2016 strategies and priorities, can be found on pages 22 to 32 of the 2015 Annual Report.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The Personal Services and Business and Institutional Services segment is responsible for upgrading and marketing a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, Desjardins Business centres as well as specialized teams. It 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, via applications for mobile devices, as well as at ATMs.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2016	December 31, 2015[1]	March 31, 2015[1]
Net interest income	**$ 248**	$ 254	$ 221
Other operating income	**358**	360	335
Operating income	**606**	614	556
Investment income (loss)	**11**	(2)	(11)
Total income	**617**	612	545
Provision for credit losses	**72**	79	67
Non-interest expense	**449**	451	408
Income taxes on surplus earnings	**18**	15	11
Net surplus earnings for the period after dividends to member caisses	**$ 78**	$ 67	$ 59
Of which:			
Group's share	**$ 77**	$ 66	$ 57
Non-controlling interests' share	**1**	1	2
Indicators			
Average gross loans and acceptances[2]	**$ 23,108**	$ 22,996	$ 20,953
Average deposits[2]	**13,534**	12,659	12,400
Provisioning rate[2]	**1.25%**	1.36%	1.30%
Gross impaired loans/gross loans and acceptances[2]	**0.33**	0.35	0.38

[1] Data for 2015 have been reclassified to reflect the current period's presentation.
[2] See "Basis of presentation of financial information".

Comparison of the first quarters of 2016 and 2015

For the first quarter of 2016, the Personal Services and Business and Institutional Services segment's surplus earnings after dividends to member caisses totalled $78 million, an increase of $19 million, or 32.2%, compared to the same period in 2015. Growth in credit card and point-of-sale financing activities and higher trading income on capital markets mainly accounted for this result.

Operating income totalled $606 million, up $50 million, or 9.0%. Net interest income increased by $27 million, or 12.2%, mainly as a result of growth of $695 million in the portfolio of consumer, credit card and other personal loans outstanding and of $407 million in business and government loans over the year.

Other operating income was up $23 million, or 6.9%, compared to the same period in 2015, primarily because of income from growth in operations, including credit card and point-of-sale financing activities. However, it was partially offset by lower income from share issuances.

Investment income was $11 million, an increase of $22 million for the first quarter of 2016, due to higher trading income on capital markets.

Total income for the segment was $617 million, an increase of $72 million, or 13.2%, compared to the first quarter of 2015.

The provision for credit losses was $72 million for the first quarter of 2016, up $5 million, or 7.5%, compared to 2015, chiefly as a result of loan portfolio growth at Card and Payment Services. The Personal Services and Business and Institutional Services segment's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptance portfolio, was 0.33% as at March 31, 2016, down compared to the ratio of 0.38% for the first quarter in 2015.

Non-interest expense was $449 million, for an increase of $41 million, or 10.0%, compared to the same period in 2015, primarily because of business growth, including growth in credit card and point-of-sale financing activities, as well as because of investments aimed, in particular, at enhancing the service offer to caisse members and clients. In addition, expenses increased due to higher trading income on capital markets that performed well.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

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

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE – SEGMENT RESULTS

(in millions of dollars)	For the three-month periods ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Net premiums	**$ 1,003**	$ 1,019	$ 1,004
Other operating income	**351**	302	319
Operating income	**1,354**	1,321	1,323
Investment income	**512**	303	993
Total income	**1,866**	1,624	2,316
Claims, benefits, annuities and changes in insurance contract liabilities	**1,179**	960	1,650
Non-interest expense	**561**	520	538
Income taxes on surplus earnings	**29**	17	30
Net surplus earnings for the period	**$ 97**	$ 127	$ 98
Of which:			
Group's share	**$ 86**	$ 85	$ 88
Non-controlling interests' share	**11**	42	10
Indicators			
Net sales of savings products[1]	**$ 2,147**	$ 1,278	$ 2,603
Insurance sales[1]	**141**	109	117
Group insurance premiums	**754**	741	754
Individual insurance premiums	**193**	195	184
Annuity premiums	**56**	83	66
Segregated fund receipts [2]	**560**	338	1,092

[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 offered, which are comprised of investment funds whose capital is guaranteed upon death or at maturity.

Comparison of the first quarters of 2016 and 2015

For the first quarter of 2016, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of $97 million, which were stable compared to the corresponding period in 2015.

Operating income stood at $1,354 million, up $31 million, or 2.3%, compared to the same period in 2015. Insurance premiums were up $9 million essentially as a result of growth in individual insurance premiums while annuity premiums fell by $10 million.

Other operating income grew by $32 million, or 10.0%, to total $351 million for the first quarter of 2016, chiefly because of income related to growth in assets under management arising from the sale of various products.

Investment income was down $481 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 offset by the change in actuarial liabilities, leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to fluctuations in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. In addition, lower gains on the disposal of securities in the first quarter of 2016, compared to the corresponding quarter a year earlier, contributed to the lower investment income.

The segment's total income was $1,866 million, for a decrease of $450 million, or 19.4%, compared to the corresponding quarter in 2015.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at $1,179 million, down $471 million compared to 2015. This change primarily resulted from a $458 million decrease in the actuarial liabilities recognized under “Insurance contract liabilities”, which includes the effect of a $461 million decrease in the fair value of investments, as well as from a decline in net group insurance benefits.

Non-interest expense was $561 million for the first quarter of 2016, up $23 million, or 4.3%, compared to the same period in 2015. This increase was mainly the result of the higher fees arising from growth in average outstanding Desjardins Funds and Market-Linked Guaranteed Investments.

PROPERTY AND CASUALTY INSURANCE SEGMENT

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

PROPERTY AND CASUALTY INSURANCE – SEGMENT RESULTS

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Net premiums	**$ 783**	$ 688	$ 938
Other operating income	**43**	24	76
Operating income	**826**	712	1,014
Investment income	**79**	75	186
Total income	**905**	787	1,200
Claims, benefits, annuities and changes in insurance contract liabilities	**584**	394	856
Non-interest expense	**269**	252	260
Income taxes on surplus earnings	**13**	28	8
Net surplus earnings for the period	**$ 39**	$ 113	$ 76
Gain as at the acquisition date of State Farm’s Canadian operations[(1)]	**-**	-	(55)
Expenses related to the acquisition of State Farm’s Canadian operations, net of income taxes[(1)]	**7**	8	7
Adjusted net surplus earnings for the period[(1)]	**$ 46**	$ 121	$ 28
According to net surplus earnings for the period:			
Group’s share	**$ 30**	$ 98	$ 63
Non-controlling interests’ share	**9**	15	13
Indicators			
Gross written premiums[(1)(2)]	**$ 1,100**	$ 1,044	$ 951
Loss ratio[(1)]	**74.1%**	59.5%	79.4%
Expense ratio[(1)]	**27.6**	28.3	21.7
Adjusted expense ratio[(1)]	**26.2**	26.7	20.7
Combined ratio[(1)]	**101.7**	87.8	101.1
Adjusted combined ratio[(1)]	**100.3**	86.2	100.1

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

Comparison of the first quarters of 2016 and 2015

For the first quarter of 2016, the Property and Casualty Insurance segment posted net surplus earnings of $39 million, down $37 million, or 48.7%, compared to the first quarter of 2015. The adjusted net surplus earnings stood at $46 million, up $18 million, or 64.3%. This increase in surplus earnings was due to a more favourable claims experience in automobile insurance and to the organic growth in business compared to the first quarter of 2015.

Operating income totalled $826 million, down $188 million, or 18.5%, primarily due to a decrease in net premiums mainly resulting after unearned premiums transferred at the acquisition of State Farm’s Canadian operations (which had generated significant income in the first quarter of 2015) were taken over as at January 1, 2015. This impact was also reflected in the cost of claims. The drop in net premium income was offset by business growth and the effect 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 on new business and renewals after the acquisition date.

Other operating income was down $33 million, or 43.4%, chiefly as a result of the gain recognized on the acquisition date of State Farm’s Canadian operations in the first quarter of 2015. This drop was partially offset by the decrease in the contingent consideration payable for this acquisition and arising from unfavourable developments in the claims taken over.

Investment income was down $107 million, or 57.5% compared to the same period in 2015, mainly due to a lower increase in the fair value of bonds than in the first quarter of 2015, when interest rates had dropped on the markets. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy. However, an increase in the fair value of derivative instruments made it possible to mitigate the drop in investment income.

The segment’s total income rose to $905 million for the first quarter of 2016, down $295 million, or 24.6%, compared to the first quarter of 2015.

The Property and Casualty Insurance segment's cost of claims totalled $584 million for the first quarter, down $272 million, or 31.8%, compared to the first quarter of 2015. This decrease was mainly due to claims related to unearned premiums transferred at the acquisition of State Farm's Canadian operations, on January 1, 2015, which had a significant impact on the cost of claims in the first quarter of 2015. In addition, the lower discount rates used to measure the provision for claims had less impact than in the corresponding quarter of 2015, which also helped to reduce the cost of claims. However, the scale-down specified in the reinsurance treaty for the percentage of claims ceded arising from new business and renewals after the acquisition date mitigated this decrease. The loss ratio of the P&C insurers was 74.1% for the first quarter of 2016, compared to 79.4% in the corresponding quarter of 2015. This decrease was due to a more favourable claims experience in automobile insurance claims as well as in home insurance claims, mainly because of milder weather conditions compared to the first quarter of 2015.

Non-interest expense was $269 million for the first quarter of 2016, up $9 million, or 3.5%, compared to the same quarter a year earlier. If expenses related to the acquisition of State Farm's Canadian operations are excluded, non-interest expense was $259 million, up $8 million, or 3.2%. This last increase is primarily due to organic business growth.

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 related to *Caisse centrale Desjardins's* operations 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.* as well as the activities related to asset-backed term notes (ABTN) held by the Federation. 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 Consolidated Financial Statements, this category also contains intersegment balance eliminations.

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 before dividends to member caisses.

TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES

(in millions of dollars)	For the three-month periods ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Treasury activities	**$ 42**	$ 16	$ 64
Activities related to asset-backed term notes	**3**	3	22
Activities related to derivatives associated with hedging activities	**6**	-	(24)
Other[(1)]	**(33)**	(89)	(53)
Net surplus earnings for the period after dividends to member caisses	**$ 18**	$ (70)	$ 9
Of which:			
Group's share	**$ 16**	$ (70)	$ 6
Non-controlling interests' share	**2**	-	3

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

Contribution to surplus earnings

Comparison of the first quarters of 2016 and 2015

Net surplus earnings for the period after dividends to member caisses arising from operations grouped under the Treasury and Other Support to Desjardins Group Entities category totalled $18 million for the first quarter of 2016, compared to $9 million for the corresponding period in 2015.

Treasury activities contributed $42 million to surplus earnings, down $22 million, mainly due to the less favourable effect of significant fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative financial instruments used to hedge foreign currency deposits that do not qualify for hedge accounting, as well as lower gains realized on the disposal of investments compared to 2015.

Surplus earnings arising from ABTN activities totalled $3 million, down $19 million compared to the corresponding period in 2015 as a result of the increase in the fair value of the ABTN portfolio, net of hedging positions, which was lower in 2016 than in 2015. The Federation's exposure with regard to these activities is decreasing.

Activities related to derivatives associated with hedging activities recorded surplus earnings of $6 million, compared to a deficit of $24 million for the corresponding period in 2015. This resulted mainly from an increase in the fair value of swaps in the first quarter of 2016.

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

SUMMARY OF INTERIM RESULTS

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

RESULTS OF THE MOST RECENT EIGHT QUARTERS

(in millions of dollars)	**2016**	2015				2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net interest income	**$ 314**	$ 320	$ 302	$ 284	$ 271	$ 269	$ 269	$ 246
Net premiums	**1,745**	1,665	1,717	1,724	1,900	1,505	1,521	1,526
Other operating income								
Assessments from member caisses	**82**	94	91	84	70	95	72	68
Other income from member caisses	**152**	137	155	155	150	140	135	140
Lending fees and credit card service revenues	**170**	157	149	157	152	158	147	146
Brokerage and investment fund services	**260**	263	255	267	252	240	251	250
Management and custodial service fees	**98**	72	94	106	93	95	88	85
Foreign exchange income	**12**	17	17	17	23	18	21	10
Other	**61**	27	-	(9)	83	66	36	34
Operating income	**2,894**	2,752	2,780	2,785	2,994	2,586	2,540	2,505
Investment income (loss)								
Net income (loss) on securities at fair value through profit or loss	**588**	311	75	(524)	1,163	738	357	536
Net income on available-for-sale securities	**67**	69	32	94	86	62	33	108
Net other investment income	**50**	48	52	92	46	35	71	71
	705	428	159	(338)	1,295	835	461	715
Total income	**3,599**	3,180	2,939	2,447	4,289	3,421	3,001	3,220
Provision for credit losses	**72**	79	68	88	67	61	75	67
Claims, benefits, annuities and changes in insurance contract liabilities	**1,758**	1,350	1,246	332	2,503	1,760	1,369	1,573
Non-interest expense	**1,492**	1,481	1,387	1,468	1,441	1,395	1,264	1,255
Income taxes on surplus earnings	**45**	33	34	105	36	37	61	55
Surplus earnings before dividends to member caisses	**232**	237	204	454	242	168	232	270
Dividends to member caisses, net of income tax recovery	**-**	-	-	-	-	7	-	-
Surplus earnings for the period after dividends to member caisses	**$ 232**	$ 237	$ 204	$ 454	$ 242	$ 161	$ 232	$ 270
Of which:								
Group's share	**$ 209**	$ 179	$ 186	$ 378	$ 214	$ 137	$ 218	$ 254
Non-controlling interests' share	**23**	58	18	76	28	24	14	16

Quarterly income, expenses and surplus earnings before dividends to member caisses fluctuate based on certain trends, including seasonal variations and changes in general economic and market conditions. For more information about quarterly trends, see page 35 of the 2015 Annual Report.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

CONSOLIDATED BALANCE SHEETS

(in millions of dollars and as a percentage)	As at March 31, 2016		As at December 31, 2015	
Assets				
Cash and deposits with financial institutions	**$ 1,114**	**0.8%**	$ 1,006	0.8%
Securities	**52,140**	**38.5**	45,892	35.7
Securities borrowed or purchased under reverse repurchase agreements	**7,369**	**5.4**	8,046	6.3
Net loans and acceptances	**48,232**	**35.6**	48,307	37.5
Segregated fund net assets	**9,992**	**7.4**	9,781	7.6
Derivative financial instruments	**4,010**	**3.0**	4,879	3.8
Other assets	**12,624**	**9.3**	10,746	8.3
Total assets	**$ 135,481**	**100.0%**	$ 128,657	100.0%
Liabilities and equity				
Deposits	**$ 48,868**	**36.1%**	$ 47,922	37.2%
Commitments related to securities sold short	**7,033**	**5.2**	5,464	4.2
Commitments related to securities lent or sold under repurchase agreements	**11,825**	**8.7**	9,283	7.2
Derivative financial instruments	**2,755**	**2.0**	2,478	1.9
Insurance contract liabilities	**27,308**	**20.2**	26,734	20.8
Segregated fund net liabilities	**9,983**	**7.4**	9,776	7.6
Other liabilities	**12,067**	**8.8**	11,529	9.0
Subordinated notes	**1,875**	**1.4**	1,884	1.5
Equity	**13,767**	**10.2**	13,587	10.6
Total liabilities and equity	**$ 135,481**	**100.0%**	$ 128,657	100.0%

TOTAL ASSETS

As at March 31, 2016, the Federation's total assets stood at $135.5 billion, up $6.8 billion, or 5.3%, since December 31, 2015. This growth was mainly attributable to a $6.2 billion increase in securities as a result of growth in market activities and deposits.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at March 31, 2016, the Federation's cash and deposits with financial institutions amounted to $1.1 billion, an increase of $108 million, or 10.7%, since December 31, 2015. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled $59.5 billion, compared to $53.9 billion at the end of 2015, for an increase of $5.6 billion, or 10.3%.

LOANS AND ACCEPTANCES

(in millions of dollars and as a percentage)	As at March 31, 2016		As at December 31, 2015	
Member caisses	**$ 21,755**	**44.9%**	$ 21,217	43.8%
Residential mortgages	**2,985**	**6.2**	2,861	5.9
Consumer, credit card and other personal loans	**14,550**	**30.1**	14,697	30.3
Business and government	**9,122**	**18.8**	9,712	20.0
	48,412	**100.0%**	48,487	100.0%
Allowance for credit losses	**(180)**		(180)	
Total loans and acceptances by borrower category	**$ 48,232**		$ 48,307	
Loans guaranteed or insured[1]	**$ 4,510**		$ 5,553	

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

As at March 31, 2016, the Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, was $48.2 billion, a decrease of $75 million, or 0.2%, since December 31, 2015. Loans to member caisses for their liquidity needs, which accounted for 44.9% of the Federation's loan portfolio, posted growth of $538 million, or 2.5%, since the end of 2015, to total $21.8 billion as at March 31, 2016.

Consumer, credit card and other personal loans, which made up 30.1% of the Federation's total loan portfolio, amounted to $14.5 billion as at March 31, 2016, a decrease of $147 million, or 1.0%, since December 31, 2015. Business and government loans, including acceptances, were down $590 million, or 6.1%, during the same period, to total $9.1 billion as at March 31, 2016. Finally, residential mortgage loans totalled $3.0 billion as at March 31, 2016, up $124 million, or 4.3%, since December 31, 2015.

Credit quality

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

DEPOSITS

(in millions of dollars and as a percentage)	**As at March 31, 2016**		As at December 31, 2015	
Member caisses	**$ 4,985**	**10.2%**	$ 4,981	10.4%
Individuals	**2,777**	**5.7**	2,518	5.3
Business and government	**39,336**	**80.5**	38,925	81.2
Deposit-taking institutions and other	**1,770**	**3.6**	1,498	3.1
Total deposits	**$ 48,868**	**100.0%**	$ 47,922	100.0%

As at March 31, 2016, the Federation's outstanding deposits totalled $48.9 billion, up by $946 million, or 2.0%, since December 31, 2015. Deposits from businesses and governments, the Federation's main source of funding, which comprised 80.5% of the deposit portfolio as at March 31, 2016, were the source of most of this growth. They totalled $39.3 billion as at March 31, 2016, for an increase of $411 million, or 1.1%, since December 31, 2015. The increase was the result, in particular, of the various issuances made on the U.S., Canadian and European markets, which supported the growth in Desjardins Group's funding requirements.

Deposits from member caisses, representing 10.2% of the Federation's deposit portfolio as at March 31, 2016, totalled $5.0 billion on that date, up by $4 million, or 0.1%, since December 31, 2015. Deposits from individuals were up $259 million, or 10.3%, since December 31, 2015, to stand at $2.8 billion as at March 31, 2016. Lastly, savings from deposit-taking institutions and other sources totalled $1.8 billion, up by $272 million, or 18.2%, since the end of 2015.

OTHER LIABILITIES

Other liabilities amounted to $72.8 billion as at March 31, 2016, for an increase of $5.7 billion, or 8.5%, since December 31, 2015. The increase was largely due to commitments related to securities sold short and commitments related to securities lent or sold under repurchase agreements, which were up $4.1 billion or 27.9% for the same period.

EQUITY

As at March 31, 2016, equity totalled $13.8 billion, an increase of $180 million, or 1.3%, since December 31, 2015. The main sources of this growth were net surplus earnings for the period after dividends to member caisses, which totalled $232 million, and the capital shares issued by the Federation. The growth was partially offset, however, by the remeasurement of net defined benefit plan liabilities.

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.

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

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

Desjardins Group's Integrated Capital Management Framework

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

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

Regulatory framework and internal policies

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

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

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

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

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

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

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

Basel III

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

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

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

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

	Minimum ratio	Capital conservation buffer	Minimum ratio including capital conservation buffer	Supplement applying to D-SIFIs[(3)]	Minimum ratio including capital conservation buffer and supplement applying to D-SIFIs	Capital and leverage ratio as at March 31, 2016
Tier IA capital	> 4.5%	2.5%	> 7.0%	1.0%	> 8.0%	**15.8%**
Tier I capital	> 6.0	2.5	> 8.5	1.0	> 9.5	**15.8**
Total capital	> 8.0	2.5	> 10.5	1.0	> 11.5	**16.9**
Leverage ratio	> 3.0	N/A	> 3.0	N/A	> 3.0	**7.5**

(1) The capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets in the guideline.
(2) The leverage ratio is calculated according to the general instructions on Leverage Ratio Disclosure Requirements issued by the AMF and is defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet exposures.
(3) In effect since January 1, 2016.

Future regulatory developments

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

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

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

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

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

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

Compliance with requirements

As at March 31, 2016, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 15.8%, 15.8% and 16.9%, respectively. The leverage ratio was 7.5%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components, including the Federation and its subsidiaries, which are subject to minimum regulatory requirements with respect to capitalization, were in compliance with said requirements as at March 31, 2016.

Regulatory capital

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

MAIN CAPITAL COMPONENTS

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A	Tier 1B	
Eligible items	> Reserves and undistributed surplus earnings > Eligible accumulated other comprehensive income > Federation's capital shares > Permanent shares and surplus shares subject to phase-out > Non-controlling interests[1]	> Non-controlling interests[1]	> Eligible collective allowance > Subordinated notes subject to phase-out > Eligible qualifying shares > Non-controlling interests[1]
Regulatory adjustments	> Goodwill > Software > Other intangible assets > Deferred tax assets essentially resulting from loss carryforwards > Shortfall in allowance		
Deductions	> Mainly significant investments in financial entities[2]		> Investment in preferred shares of a component deconsolidated for regulatory capital purposes > Subordinated financial instrument

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

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

CAPITAL, RISK-WEIGHTED ASSETS AND CAPITAL RATIOS

(in millions of dollars, as a percentage and as a coefficient)	**As at March 31, 2016**	As at December 31, 2015
Capital		
Tier 1A capital	**$ 17,263**	$ 17,354
Tier 1 capital	**17,280**	17,371
Total capital	**18,420**	18,700
Risk-weighted assets		
Credit risk	**$ 76,081**	$ 74,845
Market risk	**2,201**	2,157
Operational risk	**13,112**	13,032
Total risk-weighted assets before the threshold	**$ 91,394**	$ 90,034
Risk-weighted assets (RWA) after transitional provisions for the credit valuation adjustment (CVA) charge[(1)]		
RWA for Tier 1A capital	**$ 91,102**	$ 89,706
RWA for Tier 1 capital	**91,159**	89,769
RWA for total capital	**91,207**	89,824
Transitional threshold adjustment[(1)(2)]	**$ 18,124**	18,778
Total risk-weighted assets	**$ 109,226**	$ 108,484
Ratios and leverage ratio exposure		
Tier 1A capital	**15.8%**	16.0%
Tier 1 capital	**15.8**	16.0
Total capital	**16.9**	17.2
Leverage	**7.5**	7.8
Leverage ratio exposure	**$ 228,944**	$ 222,825

(1) As prescribed in Section 1.6 of the AMF guideline. The threshold was presented to account for RWA after the transitional provisions for the CVA charge for capital.
(2) The scaling factors used since January 1, 2014 to account for the requirements for the CVA charge are being phased in to calculate the Tier 1A, Tier 1 and total capital ratios, which are 64%, 71% and 77%, respectively, as in 2015. They will reach 100% for each capital category by 2019.

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

In addition, the subordinated notes issued by *Capital Desjardins inc.* are also subject to the 10% amortization. In order to be fully eligible for Tier 2 capital, such notes must meet Non-Viability Contingent Capital (NVCC) requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any financial instruments of this type until these requirements have been further clarified.

On December 18, 2015, the Federation filed a prospectus to issue additional capital shares totalling $500 million. This new issue started on January 25, 2016. During the first quarter of 2016, the Federation issued capital shares totalling $145 million, net of issuance expenses, compared to $386 million for the same period in 2015.

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

During the first three months of 2016, regulatory capital decreased because of the phasing-out of capital instruments that no longer met eligibility criteria, as described earlier, and the increase in significant investments in financial entities.

CHANGE IN REGULATORY CAPITAL

For the three-month period ended

(in millions of dollars)	March 31, 2016
Tier 1A capital	
Balance at beginning of period	$ 17,354
Increase in reserves and undistributed surplus earnings[1]	57
Eligible accumulated other comprehensive income	16
Federation's capital shares	146
Permanent shares and surplus shares subject to phase-out	(210)
Non-controlling interests	-
Deductions	(100)
Balance at end of period	17,263
Tier 1B capital	
Balance at beginning of period	17
Non-controlling interests	-
Balance at end of period	17
Total Tier 1 capital	17,280
Tier 2 capital	
Balance at beginning of period	1,329
Eligible qualifying shares	-
Non-controlling interests	-
Senior notes subject to phase-out	(188)
Eligible collective allowance	(1)
Deductions	-
Balance at end of period	1,140
Total capital	$ 18,420

[1] Including the change in defined benefit pension plan liabilities.

Risk-weighted assets (RWA)

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

For credit risk, movements in RWA during the first quarter of 2016 are presented as two separate items, namely credit risk, and then counterparty and issuer risk. In credit risk, the main fluctuations were due to changes in the portfolio's size, resulting in a $1.0 billion increase. A deterioration in portfolio quality caused an increase of $0.3 billion. Finally, fluctuations in the exchange rate led to a drop of $0.1 billion. In counterparty and issuer risk, the quality improvement in the various portfolios subject to counterparty and issuer risk resulted in a $0.2 billion decline, while the higher volume produced an increase of $0.4 billion.

In market risk, RWA remained stable compared to the previous quarter. A small change was noted in operational risk, due to fluctuations in income generated, which caused a $0.1 billion increase.

The threshold adjustment as previously defined has decreased by $0.7 billion since December 31, 2015, essentially as a result of changes in the portfolio and calculation refinements, which caused a $0.2 billion reduction in the threshold as well as an amelioration in portfolio quality, resulting in a $0.4 billion decrease.

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 its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization.

Assets under management and under administration

As at March 31, 2016, the Federation administered and managed, for the account of its members and clients, assets worth $409.0 billion, for an increase of $5.7 billion, or 1.4%, since December 31, 2015. The financial assets entrusted to the Federation as wealth manager totalled $54.2 billion as at March 31, 2016, up $633 million, or 1.2%, since December 31, 2015.

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. Often the structured entities have insufficient equity to permit them to finance their activities without subordinated financial support, or they often use financing in the form of multiple contractually linked instruments issued to investors. These entities may be included in 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 Federation's 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 carry out transactions involving synthetic assets, ineligible assets and traditional assets associated with the asset-backed term notes (ABTN) portfolio. The Federation entered into several different types of transactions to reduce the risk associated with the ABTN portfolio, the margin funding facility (MFF) related to the ABTN portfolio and other restructured securities. The implementation of credit index hedges on a significant portion of MAV portfolios, the acquisition of protection for the Federation's commitments under the MFF, and the disposal of various restructured portfolios reduced the risk related to these portfolios very significantly.

These trusts had assets of approximately $6,366 million as at March 31, 2016, compared to $6,392 million as at December 31, 2015, and they had no equity. As at March 31, 2016, the Federation had an MFF of $1,193 million and held notes with a fair value of $803 million, compared to the respective amounts of $1,193 million and $801 million as at December 31, 2015. The aggregate of these amounts represents the maximum risk of loss with respect to the MAVs, excluding the effect of the economic hedging strategy. Note 5, "Securities", to the Federation's Interim Consolidated Financial Statements provides more information on this subject.

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 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 financial assets transferred by the Federation under securitization transactions.

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 and control strategies, frameworks, practices and procedures to all its operations. To this end, Desjardins developed an Integrated Risk Management Framework aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.

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 three months of fiscal 2016, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which the Federation is exposed (including insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 44 to 68 of the Federation's 2015 Annual Report.

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

CREDIT RISK

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

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

Quality of loan portfolio

The Federation's loan portfolio continues to be of high quality. As at March 31, 2016, gross impaired loans outstanding stood at $76 million, down $9 million since December 31, 2015. The ratio of gross impaired loans, as a percentage of the total gross loan and acceptation portfolio, was 0.16% for the first quarter of 2016, down from 0.18% as at December 31, 2015.

Individual allowances for credit losses, which totalled $3 million as at March 31, 2016, made it possible to obtain a total coverage ratio of 3.9% of the gross impaired loans portfolio, compared to a ratio of 3.5% as at December 31, 2015.

The collective allowance stood at $177 million as at March 31, 2016, identical to the amount recorded for 2015. In addition, an allowance for risk related to off-balance sheet arrangements of $88 million was recognized under "Other liabilities – Other" on the Consolidated Balance Sheets as at March 31, 2016, down $3 million compared to the amount recorded as at December 31, 2015. The collective allowance reflects the best estimate of the allowance for credit losses that have not yet been designated as impaired loans individually.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)	**As at March 31, 2016**				As at December 31, 2015
	Gross loans and acceptances	**Gross impaired loans**	**Individual allowances for credit losses**	**Net impaired loans**	Net impaired loans
Member caisses	**$ 21,755**	**$ -**	**$ -**	**$ -**	$ -
Residential mortgages	**2,985**	**2**	**-**	**2**	3
Consumer, credit card and other personal loans	**14,550**	**64**	**-**	**64**	73
Business and government	**9,122**	**10**	**3**	**7**	6
Total	**$ 48,412**	**$ 76**	**$ 3**	**$ 73**	$ 82
As a percentage of gross loans and acceptances		**0.16%**		**0.15%**	0.17%

SPECIFIC COVERAGE RATIO

(as a percentage)	**As at March 31, 2016**	As at December 31, 2015
Residential mortgages	**-%**	-%
Consumer, credit card and other personal loans	**-**	-
Business and government	**30.0**	33.3
Impaired loan portfolio coverage ratio	**3.9**	3.5

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

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

Structural Interest rate risk management

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

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

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

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

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

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

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

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

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)[1]

(in millions of dollars)	**As at March 31, 2016**		As at December 31, 2015		As at March 31, 2015	
	Net interest income[2]	**Economic value of equity[3]**	Net interest income[2]	Economic value of equity[3]	Net interest income[2]	Economic value of equity[3]
Impact of a 100-basis-point increase in interest rates	**$ -**	**$ (87)**	$ 2	$ (46)	$ (35)	$ (63)
Impact of a 100-basis-point decrease in interest rates[4]	**(40)**	**94**	(34)	76	13	64

(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 $206 million decrease in the economic value of equity before taxes as at March 31, 2016, and in a $242 million and $260 million decrease as at December 31. 2015 and March 31, 2015, respectively. A 100-basis-point decrease in interest rates would result in an increase of $205 million in the economic value of equity before taxes as at March 31, 2016, and in a $247 million and $282 million increase as at December 31. 2015 and as at March 31, 2015, respectively.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

Foreign exchange risk management

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

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

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

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

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

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

The table below presents the aggregate VaR and the aggregate VaR under stress conditions of trading activities by risk category, as well as the diversification effect. Equity price risk, interest rate risk, specific interest rate risk and foreign exchange risk are the four risk categories to which 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 March 31, 2016**				For the quarter ended December 31, 2015		For the quarter ended March 31, 2015	
	As at March 31, 2016	**Average**	**High**	**Low**	As at December 31, 2015	Average	As at March 31, 2015	Average
Equities	**$ 0.1**	**$ 0.2**	**$ 0.9**	**$ 0.1**	$ 0.2	$ 0.2	$ 0.2	$ 0.3
Foreign exchange	**0.7**	**0.2**	**0.7**	**0.1**	0.2	0.3	0.3	0.5
Interest rate	**3.2**	**2.9**	**4.4**	**1.7**	2.6	3.1	4.2	4.1
Interest-rate-specific risk[1]	**4.9**	**4.7**	**6.9**	**2.9**	6.1	7.0	10.9	7.0
Diversification effect[2]	**(5.5)**	**(5.1)**	**N/A[3]**	**N/A[3]**	(6.5)	(7.5)	(11.3)	(7.8)
Aggregate VaR	**$ 3.4**	**$ 2.9**	**$ 4.4**	**$ 1.7**	$ 2.6	$ 3.1	$ 4.3	$ 4.1
Aggregate VaR under stress conditions	**$ 9.9**	**$ 8.5**	**$ 12.3**	**$ 4.2**	$ 6.5	$ 9.4	$ 17.2	$ 11.2

(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 issuer risk such as provinces, municipalities and companies, and a sub-portfolio that contains positions considered to be without issuer risk such as governments in the local currency.
(2) Represents the risk reduction related to diversification, namely the difference between the sum of the VaRs of the various market risks and the aggregate VaR.
(3) The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $2.9 million for the quarter ended March 31, 2016, down $0.2 million from the quarter ended December 31, 2015, mainly as a result of the $0.2 million decrease in the average of the interest rate VaR. The average of the aggregate VaR under stress conditions was $8.5 million for the quarter ended March 31, 2016, down $0.9 million compared to the quarter ended December 31, 2015. It should be noted that there has been no change in the model or assumptions over the periods presented.

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

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

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

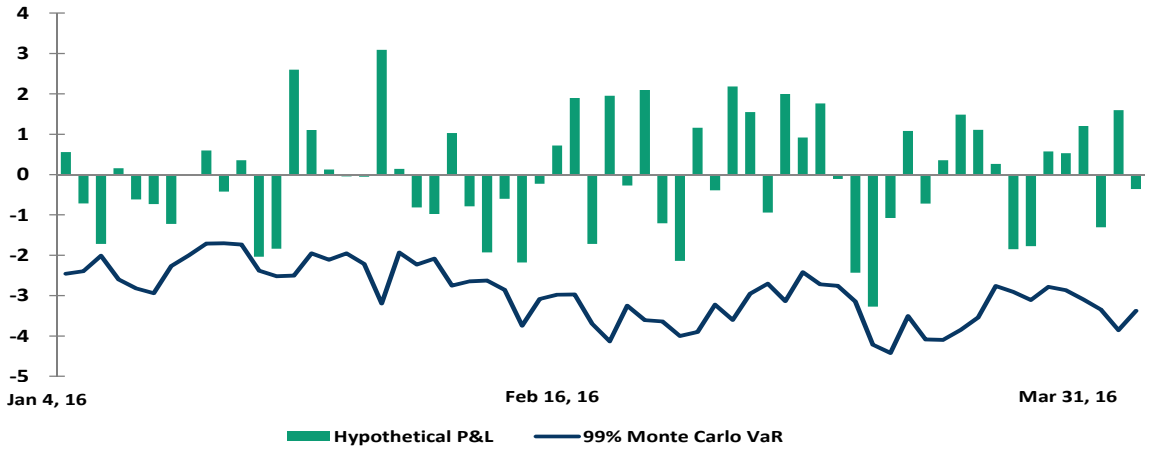
Back testing

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

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

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

VaR COMPARED TO HYPOTHETICAL P&L FOR TRADING ACTIVITIES
(in millions of dollars)



Stress testing

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

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

LIQUIDITY RISK

Liquidity risk refers to Desjardins Group's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the 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 and its components have established policies describing the principles, limits, risk appetite and tolerance thresholds as well as the procedures that apply to liquidity risk management. These policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to reflect regulatory requirements and sound liquidity risk management practices.

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

Applying the calculation rules established by the Basel Committee on Banking Supervision and incorporated in the AMF's Liquidity Adequacy Guideline, Desjardins Group's average LCR was 121.6% for the quarter ended March 31, 2016, compared to 119.4% for the previous quarter. The AMF requires that the ratio be greater than or equal to 100% in the absence of stressed conditions. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

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

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

Liquidity risk measurement and monitoring

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

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

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

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

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

Sources of refinancing

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 the Federation to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits presented on the Consolidated Balance Sheets amounted to $48.9 billion as at March 31, 2016, up $0.9 billion since December 31, 2015. Additional information on deposits is presented in the "Balance sheet review" section of this MD&A.

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

REMAINING CONTRACTUAL TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	As at March 31, 2016								As at December 31, 2015
	Less than 1 month	**From 1 month to 3 months**	**Over 3 months to 6 months**	**Over 6 months to 12 months**	**Total-Less than 1 year**	**From 1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 1,678**	**$ 392**	**$ 14**	**$ 29**	**$ 2,113**	**$ -**	**$ -**	**$ 2,113**	$ 2,162
Commercial paper	**4,662**	**3,276**	**32**	**-**	**7,970**	**-**	**-**	**7,970**	7,069
Medium-term notes	**-**	**-**	**-**	**1,157**	**1,157**	**6,100**	**4,169**	**11,426**	10,188
Mortgage securitization	**-**	**809**	**-**	**673**	**1,482**	**1,603**	**4,950**	**8,035**	7,619
Covered bonds	**-**	**-**	**-**	**1,947**	**1,947**	**-**	**4,421**	**6,368**	7,955
Subordinated notes	**-**	**-**	**-**	**-**	**-**	**-**	**1,875**	**1,875**	1,884
Total	**$ 6,340**	**$ 4,477**	**$ 46**	**$ 3,806**	**$ 14,669**	**$ 7,703**	**$ 15,415**	**$ 37,787**	$ 36,877
Including:									
Secured	**$ -**	**$ 809**	**$ -**	**$ 2,620**	**$ 3,429**	**$ 1,603**	**$ 11,246**	**$ 16,278**	$ 17,458
Unsecured	**6,340**	**3,668**	**46**	**1,186**	**11,240**	**6,100**	**4,169**	**21,509**	19,419

The Federation's total wholesale funding presented in the table above was carried out by *Caisse centrale Desjardins* except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding was up $0.9 billion compared to December 31, 2015 mainly because of growth in medium-term notes and commercial paper, partially offset by a drop in covered bonds.

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

WHOLESALE FUNDING BY CURRENCY

(in millions of dollars and as a percentage)	As at March 31, 2016		As at December 31, 2015	
Canadian dollars	**$ 16,369**	**43.3%**	$ 15,940	43.2%
U.S. dollars	**12,457**	**33.0**	13,499	36.6
Other	**8,961**	**23.7**	7,438	20.2
	$ 37,787	**100.0%**	$ 36,877	100.0%

Refinancing programs and strategies

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

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

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

MAIN REFINANCING PROGRAMS
As at March 31, 2016

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

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

Caisse centrale Desjardins also participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $415 million in the first quarter of 2016. During the same period, *Caisse centrale Desjardins* also completed one issue under its multi-currency medium-term note program for a total amount of €1.0 billion on the European market.

Outstanding notes issued under medium-term refinancing programs of *Caisse centrale Desjardins* amounted to $25.8 billion as at March 31, 2016, unchanged from December 31, 2015. 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 $1.9 billion as at March 31, 2016, namely the same amount as at December 31, 2015. It should be pointed out that on June 1, 2016, *Capital Desjardins inc.* plans to call all Series F senior notes for early redemption, in the amount of $500 million. Furthermore, to round out its refinancing and increase its capital base, Desjardins Group, through the Federation, issued capital shares totalling $145 million, net of issuance expenses, in the first quarter of 2016.

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

Credit ratings of securities issued

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

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

During 2015, the rating agencies Fitch, DBRS, Moody's and Standard & Poor's (S&P) all confirmed the credit ratings of the securities issued by Desjardins Group. On January 25, 2016, Fitch again confirmed the ratings, with a stable outlook.

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

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

CREDIT RATINGS OF SECURITIES ISSUED

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

OPERATIONAL RISK

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

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

Operational risk management framework

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

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

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

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

ASSET-BACKED SECURITIES

	As at March 31, 2016		As at December 31, 2015	
(in millions of dollars)	**Notional amounts**	**Fair value**	Notional amounts	Fair value
Commercial mortgage-backed securities[1]	**$ 41**	**$ 42**	$ 49	$ 50
Financial asset-backed and mortgage-backed securities[2]	**291**	**301**	307	316

[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 March 31, 2016**			As at December 31, 2015		
	Notional amounts	**Positive value**	**Negative value**	Notional amounts	Positive value	Negative value
Credit default swaps[1]	**$ 653**	**$ 7**	**$ -**	$ 706	$ 4	$ -
Total return swaps[2]	**70**	**1**	**-**	69	1	-

[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 March 31, 2016**	As at December 31, 2015
Leveraged finance loans[1]	**$ 258**	$ 203
Alt-A mortgage loans[2]	**26**	35
Subprime residential mortgage loans[3]	**2**	2

[1] Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
[2] Alt-A 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 March 31, 2016, 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 69 and 70 of the 2015 Annual Report.

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.

Related party transactions, including transactions with other Desjardins Group entities, are explained in Note 32, "Related party disclosures", to the Federation's Annual Consolidated Financial Statements, on pages 154 and 155 of the 2015 Annual Report.

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 87 to 102 of the 2015 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 70 to 74 of the 2015 Annual Report.

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

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2015 are discussed in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements on page 102 in the 2015 Annual Report. Since then, the IASB has issued the following standard:

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", to replace the current standard IAS 17, "Leases". IFRS 16 sets out lease recognition, measurement, presentation and disclosure principles. It introduces a single accounting model for lessees, requiring on-balance sheet recognition of lease assets and liabilities for most leases and eliminating the current distinction between operating and finance leases. For lessors, however, the distinction between operating and finance leases is retained. The Federation is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at March 31, 2016	As at December 31, 2015
ASSETS			
Cash and deposits with financial institutions		**$ 1,114**	$ 1,006
Securities			
Member caisses		**2,910**	2,783
Securities at fair value through profit and loss		**34,800**	28,715
Available-for-sale securities	5	**14,430**	14,394
		52,140	45,892
Securities borrowed or purchased under reverse repurchase agreements		**7,369**	8,046
Loans	6		
Member caisses		**21,755**	21,217
Residential mortgages		**2,985**	2,861
Consumer, credit card and other personal loans		**14,550**	14,697
Business and government		**9,037**	9,336
		48,327	48,111
Allowance for credit losses	6	**(180)**	(180)
		48,147	47,931
Segregated fund net assets		**9,992**	9,781
Other assets			
Clients' liability under acceptances		**85**	376
Premiums receivable		**1,672**	1,665
Derivative financial instruments	9	**4,010**	4,879
Amounts receivable from clients, brokers and financial institutions		**3,083**	2,041
Reinsurance assets		**2,013**	1,964
Investment property		**728**	669
Property, plant and equipment		**732**	745
Goodwill		**472**	472
Intangible assets		**668**	660
Deferred tax assets		**738**	678
Other		**2,518**	1,852
		16,719	16,001
TOTAL ASSETS		**$ 135,481**	$ 128,657
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	8		
Member caisses		**$ 4,985**	$ 4,981
Individuals		**2,777**	2,518
Business and government		**39,336**	38,925
Deposit-taking institutions		**1,770**	1,498
		48,868	47,922
Other liabilities			
Acceptances		**85**	376
Commitments related to securities sold short		**7,033**	5,464
Commitments related to securities lent or sold under repurchase agreements		**11,825**	9,283
Derivative financial instruments	9	**2,755**	2,478
Amounts payable to clients, brokers and financial institutions		**5,160**	4,713
Insurance contract liabilities		**27,308**	26,734
Segregated fund net liabilities		**9,983**	9,776
Net defined benefit plan liabilities		**1,796**	1,548
Deferred tax liabilities		**221**	218
Other		**4,805**	4,674
		70,971	65,264
Subordinated notes		**1,875**	1,884
TOTAL LIABILITIES		**121,714**	115,070
EQUITY			
Capital stock	10	**7,650**	7,505
Undistributed surplus earnings		**4,058**	3,977
Accumulated other comprehensive income	11	**271**	265
Reserves		**452**	507
Equity - Group's share		**12,431**	12,254
Non-controlling interests		**1,336**	1,333
TOTAL EQUITY		**13,767**	13,587
TOTAL LIABILITIES AND EQUITY		**$ 135,481**	$ 128,657

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

Denis Paré, 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 March 31 2016	2015
INTEREST INCOME			
Loans to member caisses		**$ 78**	$ 82
Other loans		**340**	298
Securities		**81**	77
		499	457
INTEREST EXPENSE			
Deposits of member caisses		**36**	39
Other deposits		**123**	115
Subordinated notes and other		**26**	32
		185	186
NET INTEREST INCOME		**314**	271
NET PREMIUMS		**1,745**	1,900
OTHER INCOME			
Assessments from member caisses		**82**	70
Other income from member caisses		**152**	150
Lending fees and credit card service revenues		**170**	152
Brokerage and investment fund services		**260**	252
Management and custodial service fees		**98**	93
Net income on securities at fair value through profit or loss	13	**588**	1,163
Net income on available-for-sale securities		**67**	86
Net other investment income		**50**	46
Foreign exchange income		**12**	23
Other		**61**	83
		1,540	2,118
TOTAL INCOME		**3,599**	4,289
PROVISION FOR CREDIT LOSSES	6	**72**	67
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**1,758**	2,503
NON-INTEREST EXPENSE			
Remuneration and other payments to member caisses		**139**	143
Salaries and fringe benefits		**592**	555
Premises, equipment and furniture, including depreciation		**100**	92
Service agreements and outsourcing		**83**	82
Communications		**61**	61
Other		**517**	508
		1,492	1,441
OPERATING SURPLUS EARNINGS		**277**	278
Income taxes on surplus earnings		**45**	36
NET SURPLUS EARNINGS FOR THE PERIOD AFTER DIVIDENDS TO MEMBER CAISSES		**$ 232**	$ 242
of which:			
Group's share		**$ 209**	$ 214
Non-controlling interests' share		**23**	28

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 March 31 2016	2015
Net surplus earnings for the period after dividends to member caisses	**$ 232**	$ 242
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	**(182)**	(52)
Share of associates and joint ventures accounted for using the equity method	**(2)**	-
	(184)	(52)
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 on available-for-sale securities	**30**	211
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(16)**	(33)
	14	178
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(4)**	8
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(3)**	(1)
	(7)	7
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**-**	1
	7	186
Total other comprehensive income	**(177)**	134
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 55**	$ 376
of which:		
Group's share	**$ 37**	$ 321
Non-controlling interests' share	**18**	55

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 March 31 2016	2015
Item that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ (67)**	$ (19)
	(67)	(19)
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 on available-for-sale securities	**22**	55
Reclassification to the Consolidated Statements of Income of gains on available-for-sale securities	**(6)**	(9)
	16	46
Net change in cash flow hedges		
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**(1)**	2
Reclassification to the Consolidated Statements of Income of gains on derivative financial instruments designated as cash flow hedges	**(1)**	-
	(2)	2
	14	48
Total income tax expense (recovery)	**$ (53)**	$ 29

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the three-month periods ended March 31 (in millions of Canadian dollars)	Capital stock (Note 10)	Undistributed surplus earnings	Accumulated other comprehensive income (Note 11)	Reserves			Equity - Group's share	Non-controlling interests	Total equity
				Stabilization reserve	General and other reserves	Total reserves			
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	**-**	**209**	**-**	**-**	**-**	**-**	**209**	**23**	**232**
Other comprehensive income for the period	**-**	**(178)**	**6**	**-**	**-**	**-**	**(172)**	**(5)**	**(177)**
Comprehensive income for the period	**-**	**31**	**6**	**-**	**-**	**-**	**37**	**18**	**55**
Issuance of F capital shares	**146**	**-**	**-**	**-**	**-**	**-**	**146**	**-**	**146**
F capital share issuance costs	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Issuance of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Redemption of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**	**(8)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**55**	**-**	**-**	**(55)**	**(55)**	**-**	**-**	**-**
Other	**-**	**(5)**	**-**	**-**	**-**	**-**	**(5)**	**(5)**	**(10)**
BALANCE AS AT MARCH 31, 2016	**$ 7,650**	**$ 4,058**	**$ 271**	**$ 436**	**$ 16**	**$ 452**	**$ 12,431**	**$ 1,336**	**$ 13,767**
BALANCE AS AT DECEMBER 31, 2014	$ 7,050	$ 3,290	$ 386	$ 436	$ 4	$ 440	$ 11,166	$ 561	$ 11,727
Net surplus earnings for the period after dividends to member caisses	-	214	-	-	-	-	214	28	242
Other comprehensive income for the period	-	(53)	160	-	-	-	107	27	134
Comprehensive income for the period	-	161	160	-	-	-	321	55	376
Issuance of F capital shares	388	-	-	-	-	-	388	-	388
F capital share issuance costs	(2)	-	-	-	-	-	(2)	-	(2)
Payments to member caisses	-	(6)	-	-	-	-	(6)	-	(6)
Remuneration on F capital shares	-	(85)	-	-	-	-	(85)	-	(85)
Issuance of share capital	-	-	-	-	-	-	-	652	652
Redemption of share capital	-	-	-	-	-	-	-	(21)	(21)
Dividends	-	-	-	-	-	-	-	(14)	(14)
Transfer from undistributed surplus earnings (to reserves)	-	9	-	-	(9)	(9)	-	-	-
Transactions related to put options	-	7	-	-	-	-	7	-	7
Adjustment for related party transactions	-	(42)	-	-	8	8	(34)	-	(34)
Other	-	(3)	-	-	-	-	(3)	(5)	(8)
BALANCE AS AT MARCH 31, 2015	$ 7,436	$ 3,331	$ 546	$ 436	$ 3	$ 439	$ 11,752	$ 1,228	$ 12,980

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 three-month periods ended March 31 2016	2015
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	**$ 277**	$ 278
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	**24**	22
Net change in insurance contract liabilities	**574**	1,048
Provision for credit losses	**72**	67
Net realized gains on available-for-sale securities	**(23)**	(56)
Impairment on available-for-sale securities recognized in net income	**2**	-
Other	**30**	50
Change in operating assets and liabilities:		
Securities at fair value through profit and loss	**(6,085)**	(3,946)
Securities borrowed or purchased under reverse repurchase agreements	**677**	(5,007)
Loans	**(288)**	(796)
Derivative financial instruments, net amount	**1,141**	(760)
Net amounts receivable from and payable to clients, brokers and financial institutions	**(595)**	(307)
Deposits	**946**	3,653
Commitments related to securities sold short	**1,569**	2,830
Commitments related to securities lent or sold under repurchase agreements	**2,542**	3,916
Other	**(487)**	(34)
Income taxes paid on surplus earnings	**(199)**	(6)
	177	952
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Sale (purchase) of debt securities and subordinated notes to (from) third parties on the market	**(9)**	35
Issuance of F capital shares	**146**	388
F capital share issuance costs	**(1)**	(2)
Payments to member caisses	**-**	(6)
Remuneration on F capital shares	**-**	(85)
Issuance of share capital	**1**	652
Redemption of share capital	**(3)**	(21)
Dividends paid	**(8)**	(14)
Exercise of put options written on non-controlling interests	**(2)**	(33)
	124	914
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Net change in member caisse securities	**(127)**	(185)
Purchase of available-for-sale securities	**(8,481)**	(11,098)
Proceeds from disposals of available-for-sale securities	**2,384**	4,772
Proceeds from maturities of available-for-sale securities	**6,101**	4,765
Business acquisitions, net of cash and cash equivalents acquired	**-**	(75)
Acquisitions of property, plant and equipment and investment property	**(70)**	(119)
	(193)	(1,940)
Net increase (decrease) in cash and cash equivalents	**108**	(74)
Cash and cash equivalents at beginning of period	**1,006**	1,232
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,114**	$ 1,158
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 187**	$ 56
Interest and dividends received	**745**	346

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.

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, 2015, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual 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 on May 12, 2016.

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, 2015, are described in Note 2 "Basis of presentation and significant accounting policies" to the Annual Consolidated Financial Statements. The IASB since issued the following:

IFRS 16, "Leases"

In January 2016, the IASB issued IFRS 16, "Leases", which will replace the current standard, IAS 17, "Leases". IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single recognition model for the lessee that requires recognizing lease assets and liabilities for most leases, thereby eliminating the current distinction between operating and finance leases. For the lessor, the distinction between operating and finance leases remains similar. The Federation is currently assessing the impact of adopting IFRS 16, which will be effective for annual periods beginning on or after January 1, 2019.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss					
As at March 31, 2016	**Held for trading**	**Designated as at fair value through profit or loss**	**Available for sale**	**Loans and receivables, and financial liabilities at amortized cost**	**Derivatives designated as hedging instruments[2]**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ 16	$ 145	$ 277	$ 676	$ -	$ 1,114
Securities						
Member caisses	-	-	-	2,910	-	2,910
Securities at fair value through profit or loss	16,243	18,557	-	-	-	34,800
Available-for-sale securities	-	-	14,430	-	-	14,430
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	7,369	-	7,369
Loans[1]	-	-	-	48,147	-	48,147
Other financial assets						
Clients' liability under acceptances	-	-	-	85	-	85
Premiums receivable	-	-	-	1,672	-	1,672
Derivative financial instruments	2,729	-	-	-	1,281	4,010
Amounts receivable from clients, brokers and financial institutions	-	-	-	3,083	-	3,083
Other	-	-	-	1,530	-	1,530
Total financial assets	$ 18,988	$ 18,702	$ 14,707	$ 65,472	$ 1,281	$ 119,150
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 48,868	$ -	$ 48,868
Other financial liabilities						
Acceptances	-	-	-	85	-	85
Commitments related to securities sold short	7,033	-	-	-	-	7,033
Commitments related to securities lent or sold under repurchase agreements	-	-	-	11,825	-	11,825
Derivative financial instruments	2,589	-	-	-	166	2,755
Amounts payable to clients, brokers and financial institutions	-	-	-	5,160	-	5,160
Other	337	257	-	2,537	-	3,131
Subordinated notes	-	-	-	1,875	-	1,875
Total financial liabilities	$ 9,959	$ 257	$ -	$ 70,350	$ 166	$ 80,732

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

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

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

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

	At fair value through profit or loss					
As at December 31, 2015	Held for trading	Designated as at fair value through profit or loss	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments[2]	Total
Financial assets						
Cash and deposits with financial institutions	$ 18	$ 59	$ 297	$ 632	$ -	$ 1,006
Securities						
Member caisses	-	-	-	2,783	-	2,783
Securities at fair value through profit or loss	10,262	18,453	-	-	-	28,715
Available-for-sale securities	-	-	14,394	-	-	14,394
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	8,046	-	8,046
Loans[1]	-	-	-	47,931	-	47,931
Other financial assets						
Clients' liability under acceptances	-	-	-	376	-	376
Premiums receivable	-	-	-	1,665	-	1,665
Derivative financial instruments	2,744	-	-	-	2,135	4,879
Amounts receivable from clients, brokers and financial institutions	-	-	-	2,041	-	2,041
Other	-	-	-	911	-	911
Total financial assets	$ 13,024	$ 18,512	$ 14,691	$ 64,385	$ 2,135	$ 112,747
Financial liabilities						
Deposits	$ -	$ -	$ -	$ 47,922	$ -	$ 47,922
Other financial liabilities						
Acceptances	-	-	-	376	-	376
Commitments related to securities sold short	5,464	-	-	-	-	5,464
Commitments related to securities lent or sold under repurchase agreements	-	-	-	9,283	-	9,283
Derivative financial instruments	2,403	-	-	-	75	2,478
Amounts payable to clients, brokers and financial institutions	-	-	-	4,713	-	4,713
Other	337	-	-	2,620	-	2,957
Subordinated notes	-	-	-	1,884	-	1,884
Total financial liabilities	$ 8,204	$ -	$ -	$ 66,798	$ 75	$ 75,077

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

For more information on the valuation techniques used to determine the fair value of the main financial instruments, refer to Note 2, “Basis of presentation and significant accounting policies”, to the Annual 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 March 31, 2016		As at December 31, 2015	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Securities				
Member caisses	**$ 2,910**	**$ 3,074**	$ 2,783	$ 2,955
Loans	**48,147**	**48,271**	47,931	48,013
Financial liabilities				
Deposits	**48,868**	**48,821**	47,922	47,867
Subordinated notes	**1,875**	**2,042**	1,884	2,061

FAIR VALUE HIERARCHY

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

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

Transfers between levels

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

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at March 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	$ 5	$ 156	$ -	$ 161
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	8,679	517	-	9,196
Provincial governmental entities and municipal corporations in Canada	17,939	1,118	-	19,057
School or public corporations in Canada	28	112	-	140
Foreign public administrations	391	-	-	391
Other securities				
Financial institutions	30	1,025	62	1,117
Other issuers	-	1,817	1,872	3,689
Equity securities	945	211	54	1,210
	28,017	4,956	1,988	34,961
Derivative financial instruments				
Interest rate contracts	-	1,770	-	1,770
Foreign exchange contracts	-	1,243	-	1,243
Other contracts	-	997	-	997
	-	4,010	-	4,010
Total financial assets at fair value through profit or loss	28,017	8,966	1,988	38,971
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	277	-	277
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	1,947	653	-	2,600
Provincial governmental entities and municipal corporations in Canada	6,691	947	-	7,638
School or public corporations in Canada	-	2	-	2
Foreign public administrations	13	26	-	39
Other securities				
Financial institutions	-	868	-	868
Other issuers	-	405	105	510
Equity securities	2,122	538	112	2,772
Total available-for-sale financial assets[1]	10,773	3,716	217	14,706
Financial instruments of segregated funds	4,888	5,113	10	10,011
Total financial assets	$ 43,678	$ 17,795	$ 2,215	$ 63,688
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 6,825	$ 208	$ -	$ 7,033
Other	-	-	337	337
	6,825	208	337	7,370
Derivative financial instruments				
Interest rate contracts	-	1,237	-	1,237
Foreign exchange contracts	-	567	-	567
Other contracts	-	951	-	951
	-	2,755	-	2,755
Total financial liabilities	$ 6,825	$ 2,963	$ 337	$ 10,125

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

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

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

As at December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 7	$ 70	$ -	$ 77
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,810	500	-	7,310
Provincial governmental entities and municipal corporations in Canada	13,886	1,090	-	14,976
School or public corporations in Canada	29	111	-	140
Foreign public administrations	311	-	-	311
Other securities				
Financial institutions	29	1,054	72	1,155
Other issuers	-	1,796	1,879	3,675
Equity securities	872	208	68	1,148
	21,944	4,829	2,019	28,792
Derivative financial instruments				
Interest rate contracts	-	1,605	-	1,605
Foreign exchange contracts	-	2,253	-	2,253
Other contracts	-	1,021	-	1,021
	-	4,879	-	4,879
Total financial assets at fair value through profit or loss	21,944	9,708	2,019	33,671
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	297	-	297
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	2,004	683	-	2,687
Provincial governmental entities and municipal corporations in Canada	6,977	843	-	7,820
Foreign public administrations	13	28	-	41
Other securities				
Financial institutions	-	666	-	666
Other issuers	-	396	106	502
Equity securities	1,999	547	131	2,677
Total available-for-sale financial assets[1]	10,993	3,460	237	14,690
Financial instruments of segregated funds	4,961	4,822	8	9,791
Total financial assets	$ 37,898	$ 17,990	$ 2,264	$ 58,152
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	$ 5,297	$ 167	$ -	$ 5,464
Other	-	-	337	337
	5,297	167	337	5,801
Derivative financial instruments				
Interest rate contracts	-	1,204	-	1,204
Foreign exchange contracts	-	252	-	252
Other contracts	-	984	38	1,022
	-	2,440	38	2,478
Total financial liabilities	$ 5,297	$ 2,607	$ 375	$ 8,279

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

During the three-month period ended March 31, 2016 and the year ended December 31, 2015, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

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

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

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

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

The Federation measures the majority of equity securities based on brokers' valuations obtained from independent third parties and it reviews and approved the data obtained.

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

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

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.

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

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

Changes in fair value of financial instruments categorized within Level 3

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

For the three-month period ended March 31, 2016	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ -	$ -	$ -	$ -	$ (10)	$ 62
Other issuers								
Hedge funds	8	-	-	-	-	-	-	8
Asset-backed term notes	801	-	3	-	-	-	(1)	803
Mortgage bonds	1,043	-	-	-	-	5	(15)	1,033
Financial asset-backed securities	27	-	1	-	-	-	-	28
Equity securities	68	-	-	-	-	2	(16)	54
Total financial assets at fair value through profit or loss	2,019	-	4	-	-	7	(42)	1,988
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	106	-	-	-	-	-	(1)	105
Equity securities	131	-	(1)	26	(38)	3	(9)	112
Total available-for-sale financial assets	237	-	(1)	26	(38)	3	(10)	217
Financial instruments of segregated funds	8	-	-	-	-	2	-	10
Total financial assets	$ 2,264	$ -	$ 3	$ 26	$ (38)	$ 12	$ (52)	$ 2,215
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 79	$ -	$ 1	$ -	$ -	$ -	$ -	$ 80
Financial liability related to the contingent consideration	258	-	(1)	-	-	-	-	257
Derivative financial instruments								
Other contracts - Other	38	-	-	-	(38)	-	-	-
Total financial liabilities	$ 375	$ -	$ -	$ -	$ (38)	$ -	$ -	$ 337

[1] Realized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”. Realized gains or losses on available-for-sale financial assets are recognized under “Net income on available-for-sale securities”.
[2] Unrealized gains or losses on financial assets held for trading and designated as at fair value through profit or loss are presented under “Net income on securities at fair value through profit or loss”.
[3] Unrealized gains or losses on available-for-sale financial assets are recognized under “Net unrealized gains on available-for-sale securities” in the 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 three-month period ended March 31, 2015	Balance at beginning of period	Realized gains / losses recognized in profit or loss[1]	Unrealized gains / losses recognized in profit or loss[2]	Unrealized gains / losses recognized in other comprehensive income[3]	Transfers of instruments into (out of) Level 3	Purchases / Issuances	Sales / Settlements	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities at fair value through profit or loss								
Other securities								
Financial institutions								
Mortgage bonds	$ 72	$ -	$ 2	$ -	$ -	$ -	$ -	$ 74
Other issuers								
Hedge funds	10	-	1	-	-	-	-	11
Asset-backed term notes	1,641	-	32	-	-	-	(98)	1,575
Mortgage bonds	850	-	26	-	-	18	(8)	886
Financial asset-backed securities	26	-	1	-	-	-	-	27
Equity securities	21	-	-	-	-	40	-	61
Total financial assets at fair value through profit or loss	2,620	-	62	-	-	58	(106)	2,634
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	107	-	-	3	-	-	(1)	109
Equity securities	43	-	(1)	7	-	33	(1)	81
Total available-for-sale financial assets	150	-	(1)	10	-	33	(2)	190
Financial instruments of segregated funds	-	-	-	-	-	-	-	-
Total financial assets	$ 2,770	$ -	$ 61	$ 10	$ -	$ 91	$ (108)	$ 2,824
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	$ 91	$ -	$ 1	$ -	$ -	$ -	$ (7)	$ 85
Financial liability related to the contingent consideration	-	-	20	-	-	113	-	133
Derivative financial instruments								
Other contracts - Other	17	-	6	-	-	-	-	23
Total financial liabilities	$ 108	$ -	$ 27	$ -	$ -	$ 113	$ (7)	$ 241

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

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

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

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

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

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

As at March 31, 2016	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Asset-backed term notes	**$ 803**	Internal model[1]	Illiquidity premium[B]		**1.54%**		
Mortgage bonds	**1,200**	Discounted cash flows	Credit spread[B,C] Comparable inputs[B,C]	**0 bp** **0 bp**	**to** **to**	**300 bp** **520 bp**	
Equity securities	**166**	Brokers' valuations	Brokers' inputs	**-**		**-**	**(2)**
Other financial assets[3]	**46**						
Total financial assets	**$ 2,215**						
Financial liabilities							
Other liabilities - Other							
Financial liability related to put options	**$ 80**	Discounted cash flows	Enterprise value[A,C] Discount rate[B,C] Put option exercise date[B,C]	**-** **3 month**	**7.5%** **to**	**-** **3.75 years**	(4)
Financial liability related to the contingent consideration	**257**	Actuarial techniques[5]	Provision for claims and adjustment expenses[B]	**-**		**-**	**(6)**
Total financial liabilities	**$ 337**						

As at December 31, 2015	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges			
Financial assets							
Securities							
Asset-backed term notes	$ 801	Internal model[1]	Illiquidity premium[B]		2%		
Mortgage bonds	1,221	Discounted cash flows	Credit spread[B,C] Comparable inputs[B,C]	0 bp 0 bp	to to	300 bp 520 bp	
	38	Option valuation model	Proportion of credit spread[B,C] Increase in exercise price[B,C]		75% 5%		
Equity securities	161	Brokers' valuations	Brokers' inputs	-		-	(2)
Other financial assets[3]	43						
Total financial assets	$ 2,264						
Financial liabilities							
Other liabilities - Other							
Financial liability related to put options	$ 79	Discounted cash flows	Enterprise value[A,C] Discount rate[B,C] Put option exercise date[B,C]	- 6 months	7.5% to	- 4 years	(4)
Financial liability related to the contingent consideration	258	Actuarial techniques[5]	Provision for claims and adjustment expenses[B]	-		-	(6)
Other financial liabilities[7]	38						
Total financial liabilities	$ 375						

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

Fair value sensitivity to changes in unobservable inputs

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

NOTE 5 – SECURITIES

UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES

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

As at March 31, 2016	**Amortized cost**	**Unrealized gross gains**	**Unrealized gross losses**	**Carrying amount**
Debt securities issued or guaranteed by				
Canadian governmental entities	**$ 2,566**	**$ 35**	**$ 1**	**$ 2,600**
Provincial governmental entities and municipal corporations in Canada	**7,474**	**170**	**6**	**7,638**
School or public corporations in Canada	**2**	**-**	**-**	**2**
Foreign public administrations	**40**	**-**	**1**	**39**
Other securities				
Financial institutions	**858**	**11**	**1**	**868**
Other issuers	**490**	**21**	**1**	**510**
Equity securities[1]	**2,581**	**350**	**158**	**2,773**
	$ 14,011	**$ 587**	**$ 168**	**$ 14,430**

As at December 31, 2015	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	$ 2,652	$ 35	$ -	$ 2,687
Provincial governmental entities and municipal corporations in Canada	7,654	175	9	7,820
Foreign public administrations	40	1	-	41
Other securities				
Financial institutions	663	5	2	666
Other issuers	486	18	2	502
Equity securities	2,524	305	151	2,678
	$ 14,019	$ 539	$ 164	$ 14,394

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

Impairment losses recognized

During the three-month period ended March 31, 2016, the Federation concluded that there was objective evidence of impairment. Impairment losses of $2 million ($17 million for the three-month period ended March 31, 2015) on available-for-sale securities were recognized under “Net income on available-for-sale securities” in the Consolidated Statements of Income.

SECURITIES – ASSET-BACKED TERM NOTES (ABTN)

The Federation holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of $803 million and $841 million, respectively, as at March 31, 2016 ($801 million and $844 million as at December 31, 2015) and allocated among MAV 1 and MAV 3, with substantially all of the value attributable to MAV 1.

The credit default swaps serving as an economic hedge for ABTNs had a negative fair value of $2 million as at March 31, 2016 (negative fair value of $3 million as at December 31, 2015). For information on the ABTN measurement methodology, see the “Securities – Asset-backed term notes” section of Note 6, “Securities”, and Note 4, “Fair value of financial instruments”, to the 2015 Annual Consolidated Financial Statements.

The Federation participates, for an amount of $1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to the credit default swaps of MAV 1. As at March 31, 2016, no amount had been drawn on the MFF. In addition, the Federation purchased a $400 million protection for its commitments under the MFF. For more information on the terms of the MFF and acquired protection, see the “Securities – Asset-backed term notes” section of Note 6, “Securities”, to the 2015 Annual Consolidated Financial Statements.

Impact on profit or loss

A gain of $3 million related to the fair value of ABTNs was recognized in the Federation’s Consolidated Statement of Income for the three-month period ended March 31, 2016 (gain of $32 million for the three-month period ended March 31, 2015). In addition, a gain of $1 million related to the derivative financial instruments hedging ABTNs was recognized for the three-month period ended March 31, 2016 (loss of $1 million for the three-month period ended March 31, 2015).

NOTE 6 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOANS, IMPAIRED LOANS AND ALLOWANCES FOR CREDIT LOSSES

The following tables present the credit quality of loans.

As at March 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
Member caisses	**$ 21,755**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 21,755**
Residential mortgages	**2,969**	**14**	**2**	**-**	**2**	**2,983**
Consumer, credit card and other personal loans	**13,928**	**558**	**64**	**-**	**111**	**14,439**
Business and government	**9,027**	**-**	**10**	**3**	**64**	**8,970**
	$ 47,679	**$ 572**	**$ 76**	**$ 3**	**$ 177**	**$ 48,147**

[1] Includes the collective allowance on impaired loans of $20 million.

As at December 31, 2015	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance[1]	Net loans
Member caisses	$ 21,217	$ -	$ -	$ -	$ -	$ 21,217
Residential mortgages	2,845	13	3	-	2	2,859
Consumer, credit card and other personal loans	14,016	608	73	-	109	14,588
Business and government	9,245	82	9	3	66	9,267
	$ 47,323	$ 703	$ 85	$ 3	$ 177	$ 47,931

[1] Includes the collective allowance on impaired loans of $19 million.

GROSS LOANS PAST DUE BUT NOT IMPAIRED

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

As at March 31, 2016	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	**$ 10**	**$ 2**	**$ 1**	**$ 1**	**$ 14**
Consumer, credit card and other personal loans	**414**	**96**	**48**	**-**	**558**
Business and government	**-**	**-**	**-**	**-**	**-**
	$ 424	**$ 98**	**$ 49**	**$ 1**	**$ 572**

As at December 31, 2015	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 9	$ 2	$ -	$ 2	$ 13
Consumer, credit card and other personal loans	462	101	45	-	608
Business and government	82	-	-	-	82
	$ 553	$ 103	$ 45	$ 2	$ 703

ALLOWANCES FOR CREDIT LOSSES

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

	Residential mortgages		Consumer, credit card and other personal loans		Business and government		Total	
For the three-month periods ended March 31	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Balance at beginning of period	**$ 2**	$ 2	**$ 143**	$ 126	**$ 126**	$ 112	**$ 271**	$ 240
Provision for credit losses	**-**	-	**77**	71	**(5)**	(4)	**72**	67
Write-offs and recoveries	**-**	-	**(74)**	(62)	**(1)**	-	**(75)**	(62)
Balance at end of period	**$ 2**	$ 2	**$ 146**	$ 135	**$ 120**	$ 108	**$ 268**	$ 245
Composed of:								
Allowance for credit losses	**$ 2**	$ 2	**$ 111**	$ 104	**$ 67**	$ 65	**$ 180**	$ 171
Allowance for off-balance sheet items[1]	**-**	-	**35**	31	**53**	43	**88**	74

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

NOTE 7 – COVERED BONDS

Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. The operations of each of these entities are included in the Consolidated Financial Statements of the Federation as they are controlled by the Federation. The Federation granted to each of these entities financing to facilitate the acquisition of the assets by one or another of them for purposes of guaranteeing the covered bonds issued. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by these entities. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by one or another of these structured entities. These assets do not meet the recognition criteria neither for the relevant structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $6,368 million as at March 31, 2016 ($7,954 million as at December 31, 2015), 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 March 31, 2016				As at December 31, 2015			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Member caisses	**$ 1,446**	**$ -**	**$ 3,539**	**$ 4,985**	$ 1,231	$ -	$ 3,750	$ 4,981
Individuals	**1,915**	**33**	**829**	**2,777**	1,831	28	659	2,518
Business and government	**2,165**	**1**	**37,170**	**39,336**	2,423	1	36,501	38,925
Deposit-taking institutions	**1,496**	**-**	**274**	**1,770**	1,200	-	298	1,498
	$ 7,022	**$ 34**	**$ 41,812**	**$ 48,868**	$ 6,685	$ 29	$ 41,208	$ 47,922

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

	As at March 31, 2016			As at December 31, 2015		
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges	**$ 29,111**	**$ 1,267**	**$ 163**	$ 29,558	$ 2,115	$ 73
Cash flow hedges	**1,664**	**14**	**3**	1,260	20	2
Total - Designated as hedging instruments	**30,775**	**1,281**	**166**	30,818	2,135	75
Trading purposes	**218,581**	**2,729**	**2,589**	240,623	2,744	2,403
Total derivative financial instruments before impact of master netting agreements	**249,356**	**4,010**	**2,755**	271,441	4,879	2,478
Less:						
Impact of master netting agreements[1]	**-**	**801**	**801**	-	643	643
Total derivative financial instruments after impact of master netting agreements	**$ 249,356**	**$ 3,209**	**$ 1,954**	$ 271,441	$ 4,236	$ 1,835

[1] Impact of offsetting credit exposure when the Federation holds master netting agreements without the intention of settling on a net basis or simultaneously.

HEDGING ACTIVITIES

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

	For the three-month periods ended March 31	
	2016	2015
Fair value hedge ineffectiveness	**$ 12**	$ 23

NOTE 10 – CAPITAL STOCK

ISSUANCE OF CAPITAL SHARES

During the three-month period ended March 31, 2016, the Federation issued 14,554,576 F capital shares for a cash consideration of $145 million, which represents the gross proceeds of this issuance of $146 million less issue costs of $1 million.

NOTE 11 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at March 31, 2016		As at December 31, 2015	
	Group’s share	**Non-controlling interests’ share**	Group’s share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains on available-for-sale securities	**$ 260**	**$ 39**	$ 248	$ 37
Net gains on derivative financial instruments designated as cash flow hedges	**9**	**-**	15	1
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**2**	**1**	2	1
Accumulated other comprehensive income	**$ 271**	**$ 40**	$ 265	$ 39

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 is 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 in order to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

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

The guideline requires that a minimum amount of capital be maintained on a combined basis by all the Desjardins Group components. However, for purposes of its Consolidated Financial Statements, the Federation is not subject to any regulatory capital ratio requirements. However, the AMF reserves the right to require that the Federation be subject to capital adequacy normative requirements in the future.

As indicated in Note 10, “Capital Stock”, the Federation issued F capital shares in 2016 for gross proceeds of $146 million.

As at March 31, 2016, the Federation's subsidiaries that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements.

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

FINANCIAL INSTRUMENTS HELD FOR TRADING

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

	For the three-month periods ended March 31	
	2016	2015
Income		
Net interest income	**$ 10**	$ 5
Net income on securities at fair value through profit or loss	**283**	121
	$ 293	$ 126

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 March 31	
	2016	2015
Income		
Net income on securities at fair value through profit or loss	**$ 305**	$ 1,042

NOTE 14 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

The following table provides a summary of the Federation's financial results by business segment.

	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Treasury and Other Support to Desjardins Group Entities		Consolidated	
For the three-month periods ended March 31	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Net interest income	**$ 248**	$ 221	**$ -**	$ -	**$ -**	$ -	**$ 66**	$ 50	**$ 314**	$ 271
Net premiums	**-**	-	**1,003**	1,004	**783**	938	**(41)**	(42)	**1,745**	1,900
Other income	**369**	324	**863**	1,312	**122**	262	**186**	220	**1,540**	2,118
Total income	**617**	545	**1,866**	2,316	**905**	1,200	**211**	228	**3,599**	4,289
Provision for credit losses	**72**	67	**-**	-	**-**	-	**-**	-	**72**	67
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**1,179**	1,650	**584**	856	**(5)**	(3)	**1,758**	2,503
Non-interest expense	**449**	408	**561**	538	**269**	260	**213**	235	**1,492**	1,441
Operating surplus earnings	**96**	70	**126**	128	**52**	84	**3**	(4)	**277**	278
Income taxes on surplus earnings	**18**	11	**29**	30	**13**	8	**(15)**	(13)	**45**	36
Net surplus earnings for the period after dividends to member caisses	**$ 78**	$ 59	**$ 97**	$ 98	**$ 39**	$ 76	**$ 18**	$ 9	**$ 232**	$ 242
of which:										
Group's share	**$ 77**	$ 57	**$ 86**	$ 88	**$ 30**	$ 63	**$ 16**	$ 6	**$ 209**	$ 214
Non-controlling interests' share	**1**	2	**11**	10	**9**	13	**2**	3	**23**	28

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at March 31, 2016	**$ 42,771**	**$ 36,850**	**$ 14,121**	**$ 41,739**	**$ 135,481**
As at December 31, 2015	$ 38,568	$ 35,393	$ 14,420	$ 40,276	$ 128,657