

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

State Farm's Canadian activities contribute to Desjardins Group results: surplus earnings are up by almost 21%

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)

	For the three-month periods ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Net interest income	\$ 995	\$ 1,021	\$ 961
Net premiums	1,876	1,480	1,441
Other operating income ⁽¹⁾	733	724	670
Operating income ⁽¹⁾	3,604	3,225	3,072
Investment income ⁽¹⁾	1,323	805	716
Total income	4,927	4,030	3,788
Provision for credit losses	89	68	94
Claims, benefits, annuities and changes in insurance contract liabilities	2,503	1,760	1,601
Non-interest expense	1,752	1,745	1,608
Income taxes on surplus earnings	119	103	101
Surplus earnings before member dividends	\$ 464	\$ 354	\$ 384
Return on equity ⁽¹⁾	9.5%	7.2%	9.0%
Productivity index ⁽¹⁾	72.3%	76.9%	73.5%
Provisioning rate ⁽¹⁾	0.24%	0.18%	0.27%

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

BALANCE SHEET AND INDICATORS

(in millions of dollars, as a percentage and as a coefficient)

	As at March 31, 2015	As at December 31, 2014 ⁽¹⁾
Balance sheet		
Assets	\$ 254,089	\$ 229,387
Net loans	152,762	150,454
Deposits	150,437	146,324
Equity	20,380	18,893
Indicators		
Tier 1A capital ratio	15.7 %	15.7 %
Tier 1 capital ratio	15.8 %	15.8 %
Total capital ratio	17.5 %	17.9 %
Assets/capital ⁽¹⁾	N/A	10.8
Leverage ratio ⁽¹⁾	6.6 %	N/A
Gross impaired loans/gross loans ⁽²⁾	0.34 %	0.34 %

⁽¹⁾ See "Capital management".

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

MESSAGE FROM SENIOR MANAGEMENT

Lévis, May 13, 2015 — For the first quarter ended March 31, 2015, Desjardins Group, the leading financial cooperative group in Canada, recorded surplus earnings before member dividends of \$464 million, an increase of \$80 million, or 20.8%, compared to the corresponding quarter of 2014.

This result reflects the contribution of \$196 million, or 42.2% 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 \$98 million and \$76 million, respectively, representing 21.1% and 16.4% of surplus earnings. The operations grouped under the Other category made a contribution of \$94 million, or 20.3% of surplus earnings.

“We are very satisfied with these beginning-of-the-year results. With a performance like this, we can continue investing in innovative projects to better meet the needs of our present and future members and clients,” said Monique F. Leroux, Chair of the Board, President and Chief Executive Officer of Desjardins Group. “Also, in the last few weeks, we presented the new Ajusto smartphone app and we announced that Hop ‘N S@ve and the InstaBalance tool would be available on the Apple Watch. These are just some of the ways we are continuing to innovate and make ourselves stand out in an industry where the competition is fierce.”

Return on equity was 9.5%, compared to 9.0% in the corresponding quarter of 2014. This rise was mainly caused by growth in surplus earnings, which was partly offset by the increase in average equity as a result of issuances of capital shares made by the Federation.

Desjardins Group complies with Basel III rules and still has very good capitalization. As at March 31, 2015, the Tier 1A and total capital ratios of Desjardins Group were 15.7% and 17.5%, respectively, compared to 15.7% and 17.9%, respectively, as at December 31, 2014.

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board, President and Chief Executive Officer
Desjardins Group

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated May 13, 2015 presents the analysis of the results of and main changes to Desjardins Group's balance sheet for the period ended March 31, 2015, in comparison to previous periods. Desjardins Group reports financial information in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Desjardins Group is not a reporting issuer, on a combined basis, under this National Instrument. However, it has chosen to apply the practices provided in this National Instrument to demonstrate its willingness to comply with best practices in financial governance. A section on Desjardins Group's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Combined Financial Statements (the Interim Combined Financial Statements) as at March 31, 2015, including the notes thereto, and the 2014 Desjardins Group Annual Report (the 2014 Annual Report), which contains the MD&A and the audited Annual Combined Financial Statements (the Annual Combined Financial Statements).

Additional information about Desjardins Group is available on the SEDAR website at www.sedar.com (under the *Capital Desjardins inc.* profile), where the Annual Information Forms of *Caisse centrale Desjardins* (under the *Caisse centrale Desjardins* profile) and the Federation (under the *Fédération des caisses Desjardins du Québec* profile) can also be found. Further information is also available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations; however, none of the information presented on these sites is incorporated by reference into this report.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

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

Adjusted net surplus earnings – Property and Casualty Insurance segment

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

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

(in millions of dollars)	For the three-month periods ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Presentation of the net surplus earnings of the Property and Casualty Insurance segment according to the Combined Financial Statements	\$ 76	\$ 31	\$ 21
Gain on the acquisition of State Farm's Canadian businesses	(55)	-	-
Fees related to the acquisition of State Farm's Canadian businesses, net of income taxes	7	15	13
Presentation of the adjusted net surplus earnings of the Property and Casualty Insurance segment according to the MD&A	\$ 28	\$ 46	\$ 34

Productivity index

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

Gross impaired loans/gross loans

The gross impaired loans/gross loans indicator is used to measure the quality of the loan portfolio. It is gross impaired loans expressed as a percentage of total gross loans.

Average loans – Average deposits

The average balance for these items is used to measure growth. It is equal to the average of the amounts at the end of the quarters calculated starting from December 31.

Gross written premiums

Gross written premiums are used to measure growth in insurance operations. They are equal to the premiums stipulated in insurance policies issued during the period.

Loss ratio

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

Return on equity

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

Income

Operating income

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

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

Investment income

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

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

(in millions of dollars)	For the three-month periods ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Presentation of income in the Combined Financial Statements			
Net interest income	\$ 995	\$ 1,021	\$ 961
Net premiums	1,876	1,480	1,441
Other income			
Deposit and payment service charges	118	127	120
Lending fees and credit card service revenues	154	157	147
Brokerage and investment fund services	252	239	229
Management and custodial service fees	93	95	81
Net income on securities at fair value through profit or loss	1,174	686	557
Net income on available-for-sale securities	105	83	105
Net other investment income	44	36	54
Foreign exchange income	26	22	22
Other	90	84	71
Total income	\$ 4,927	\$ 4,030	\$ 3,788
Presentation of income in Management's Discussion and Analysis			
Net interest income	\$ 995	\$ 1,021	\$ 961
Net premiums	1,876	1,480	1,441
Other operating income			
Deposit and payment service charges	118	127	120
Lending fees and credit card service revenues	154	157	147
Brokerage and investment fund services	252	239	229
Management and custodial service fees	93	95	81
Foreign exchange income	26	22	22
Other	90	84	71
Operating income	3,604	3,225	3,072
Investment income			
Net income on securities at fair value through profit or loss	1,174	686	557
Net income on available-for-sale securities	105	83	105
Net other investment income	44	36	54
	1,323	805	716
Total income	\$ 4,927	\$ 4,030	\$ 3,788

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.

Insurance sales

Insurance sales are used to measure growth in Wealth Management and Life and Health Insurance segment operations. They are equal to annualized gross new premiums under group and individual insurance policies.

Net sales of savings products

Net sales of savings products are used to measure growth in Wealth Management and Life and Health Insurance segment operations. They are equal to sales of group and individual savings products manufactured by segment entities, and are comprised of on- or off-balance sheet deposits, less withdrawals.

CHANGES IN THE REGULATORY ENVIRONMENT

Desjardins Group closely monitors changes in the regulatory environment as well as new developments in fraud, corruption, 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 will subject Desjardins Group to additional obligations. As a D-SIFI, beginning on January 1, 2016, Desjardins Group will be subject to an additional capital requirement of 1% on its minimum capital ratios. Other major obligations include that, 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 resolution plan, detailing the actions to be taken to restore its financial position in the event of a crisis. It is noteworthy to mention 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 Quebec Minister of Finance and the Economy submitted his “Report on the application of the *Act respecting financial services cooperatives*” to the National Assembly. The report contains proposals that will serve as criteria for amendments to the current legislative framework and adapt it to the evolution of financial services cooperatives as well as the requirements of the new international standards imposed on financial institutions. A law amending the legislative framework is expected to come into force at the end of 2015.

Since January 1, 2013, the OSFI's Capital Adequacy Requirements (CAR) Guideline, 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, guidelines may be changed to reflect the conclusions of such discussions.

On March 28, 2014, the Government of Canada tabled the *Economic Action Plan 2014 Act, No. 1*, which is 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 2015. 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 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 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 Bank of Canada's framework for financial market operations and its emergency lending assistance policies. Among other things, the Bank of Canada proposes to reserve emergency lending assistance for institutions that have in place credible recovery and resolution frameworks and, under certain conditions, to provide emergency lending assistance to provincial institutions such as caisses or credit unions and their centrals. This emergency lending to provincial institutions would however be limited to cases that have implications for the Canadian financial system. The consultation period initiated by the Bank of Canada will end on July 4, 2015.

The U.S. Federal Reserve (the Fed) has implemented a number of rules and standards that affect non-U.S. financial institutions with activities in the U.S. These measures have various impacts on Desjardins Group. The rules resulting from the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, 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. The date for conforming with this rule is July 21, 2015, and the Fed has extended the conformance period to 2017 for certain complex financial products. Once it has obtained the status of Financial Holding Company (FHC), Desjardins Group must comply with the related obligations; and in July 2016 it will need to comply with new Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations. Plans are now being implemented to ensure compliance with these regulations within the timeframes imposed by the Fed.

The *Foreign Account Tax Compliance Act* (FATCA) is a United States federal law designed to combat tax evasion in the United States by requiring financial institutions to identify and qualify account holders who are U.S. taxpayers and report this information to the competent authorities. An agreement, signed by the Canadian and U.S. governments, came into force on July 1, 2014. Under this agreement, Canadian financial institutions must make a first report to the Canada Revenue Agency before May 2, 2015 of all reportable accounts for 2014. Desjardins Group has set up a reporting process to fulfill its legal obligations and submitted its first declaration, as required.

On February 18, 2014, the Board of Governors of the Federal Reserve System approved the final rules, to take effect in July 2016, strengthening the prudential standards applicable to U.S. bank holding companies and foreign banking organizations. An assessment is underway to determine the impact of these rules on Desjardins Group.

At the end of September 2014, the Organisation for Economic Co-operation and Development presented the “Standard for Automatic Exchange of Financial Information in Tax Matters” to the G20 Finance Ministers, and Canada has issued a press release confirming that it endorses the standard. The obligations stipulated in this international standard are largely based on those of FATCA, and exchanges of information between Canada and the other signatory countries are scheduled to begin no later than the end of 2018, subject to adoption of the necessary regulations. Desjardins Group will continue to closely monitor developments in these future requirements to ensure compliance when they take effect.

In addition, 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 transparency and communication around regulatory capital adequacy and risk exposure. Desjardins Group is currently assessing the impact of adopting this standard.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements in this MD&A include, but are not limited to, comments about Desjardins Group's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include, among others, those appearing in the sections "Economic environment and outlook", "Review of financial results", "Balance sheet review" and "Additional information". 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, inherent risks and uncertainties, both general and specific. It is therefore possible that, due to many factors, these predictions, forecasts or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins Group cautions readers against placing undue reliance on these forward-looking statements since actual results, conditions, actions and future events could differ significantly from the explicit or implicit targets, expectations, estimates or intents in the forward-looking statements.

A number of factors, many of which are beyond Desjardins Group's control and whose impact Desjardins Group would have difficulty predicting, 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 2014 Annual Report, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors that could affect the accuracy of the forward-looking statements in this MD&A include risks related to the regulatory and legal environment, 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. Also note that amendments to and new interpretations of capital guidelines, and environmental risk, which is the risk that Desjardins Group may incur financial, operational or reputational losses as a result of environmental impacts or issues, whether due to Desjardins Group's credit or investment activities or its operations. Lastly, there is the risk related to pension plans, which is the risk of losses resulting from pension plan commitments made by Desjardins Group to 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 contained in this report include factors related to the economic and business conditions in regions in which Desjardins Group operates; changes in the economic and financial environment in Quebec, Canada and globally, including short- and long-term interest rates, inflation, debt market fluctuations, foreign exchange rates, the volatility of financial markets, tighter liquidity conditions in certain markets, the strength of the economy and the volume of business conducted by Desjardins Group in a given region. Additional factors include factors related to monetary policies; competition; changes in standards, laws and regulations; the accuracy and completeness of information concerning clients and counterparties; the accounting policies used by Desjardins Group; new products and services to maintain or increase Desjardins Group's market share; the ability to recruit and retain key management personnel, including senior management; business infrastructure; geographic concentration; acquisitions and joint arrangements; and credit ratings.

Other factors that may affect the accuracy of the forward-looking statements contained in this report include changes in tax laws, unexpected changes in personal spending and saving habits, technological developments, the ability to implement Desjardins Group's disaster recovery plan within a reasonable time, the possible impact on Desjardins Group's business of international conflicts or natural disasters, and Desjardins Group's ability to anticipate and manage the risks associated with these factors properly despite a disciplined risk management environment.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Group's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of the 2014 Annual Report. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it cannot guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions. Readers who rely on Desjardins Group's forward-looking statements must carefully consider these risk factors and other uncertainties and potential events.

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

DESJARDINS GROUP PROFILE

Desjardins Group is the largest cooperative financial institution in Canada, with assets of \$254.1 billion. The organization brings together 335 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada. Desjardins Group's "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services to members and clients, individuals and businesses alike, providing a customized response to their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of more than 45,000 employees and the commitment of more than 4,800 elected officers.

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

ECONOMIC ENVIRONMENT AND OUTLOOK

Low oil prices continue to support global economic growth. The resulting downward pressure on consumer prices has allowed some central banks to ease monetary policy, with the result that many currencies have depreciated against the U.S. dollar. In addition, net exports have increased in many countries. This is true of the eurozone where not only has the trade balance been growing but business and consumer confidence has also improved. Credit demand is also on the rise, a positive outcome of monetary easing by the European Central Bank. In China, most indicators suggest that the relative weakness of the economy will continue. On the other hand, there has also been a net improvement in China's trade balance, which should help offset internal problems. Following a 3.4% gain in 2014, global real GDP should be 3.5% in 2015 and 3.9% in 2016.

In the U.S., economic indicators are pointing to a slowdown. This appears to be largely the result of difficult weather conditions this past winter and the labour dispute in West Coast ports from December 2014 to February 2015. Retail sales fell short of expectations and households appear, at least for now, to be saving the windfall brought by lower gasoline prices. Shrinking investment in the oil sector and the strength of the U.S. dollar also contributed to the economy's weakness in the first quarter of 2015. Despite a sudden slowdown in March, job creation has remained strong, and real GDP is expected to rally in the spring. Annual growth should reach 3.1% in 2015, with 3.0% growth forecast for 2016.

In Canada, real GDP grew 2.4%, year-over-year, in the fourth quarter of 2014. This can be considered a positive result given the drop in oil prices. Furthermore, consumption expenditures continued to show strong growth and residential investment continued to rise. However, non-residential investment declined 2.3% in the quarter, representing one of the first signs of the negative impact of lower energy prices on the Canadian economy. Such negative effects can be expected to intensify over the next few months as consumer spending and the housing market are also affected. Real GDP growth should therefore be significantly curtailed in the first half of 2015. We can nevertheless expect oil prices to gradually increase in the second half of 2015, which would enhance economic growth in Canada. It must be said that strong U.S. demand and a weak Canadian dollar have created conditions favourable to foreign trade, and provinces with manufacturing economies, like Ontario, stand to benefit. Lastly, Canada's real GDP should grow 1.9% in 2015, following a 2.5% gain in 2014.

In Quebec, real GDP grew by a weak 0.4%, year-over-year, in the last quarter of 2014. Business and government investment continued to flag, while household consumption advanced modestly. According to the first-quarter indicators released to date, the Quebec economy also slowed in early 2015. Manufacturing sales decreased, retail sales stagnated, and housing starts dropped sharply.

Quebec consumers have considerably less leeway, given slow income growth and a low savings rate, which fell to a low of 0.8% in the fourth quarter of 2014. Household spending should not be expected to rise, even if consumer confidence improves due to low gasoline prices. The slowdown in the residential sector can be expected to continue, with government spending limited. Hope for more sustained growth in 2015 lies squarely with businesses. Business investment is expected to grow, due to strong exports. The trade deficit should fall and real GDP could then rise moderately, to 1.7% in 2015.

Although 2014 ended on a relatively positive note, early 2015 was marked by renewed concerns in financial markets, as investors appeared to give more weight to the negative impacts of collapsing oil prices than to their positive effects. Many central banks, including the Bank of Canada, appear to share these concerns, and they surprised investors by lowering their key interest rates. The European Central Bank announced a major sovereign bond purchase program, which also contributed to a new, steep drop in bond rates in the developed countries. These developments led to a strong appreciation in the U.S. dollar. Noting this sharp rise in the dollar and signs that the pace of growth in the U.S. economy had faltered, the leaders of the Federal Reserve, at their March meeting, systematically downgraded their outlook for growth and reconsidered the appropriate level for key interest rates. The Fed may begin raising its key interest rates this September, but the approach will be very gradual. The Bank of Canada announced a surprise rate cut in January, and maintained the target overnight rate at 0.75% in March and April 2015. Canadian key interest rates may now be maintained for several quarters. Another cut may nevertheless be made if economic growth falls short of expectations or there is another significant drop in oil prices. Bond rates and oil prices should remain very weak for the next few months, climbing again only in the second half of 2015.

REVIEW OF FINANCIAL RESULTS

FINANCIAL RESULTS AND INDICATORS

(in millions of dollars and as a percentage)

	For the three-month periods ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Results			
Net interest income	\$ 995	\$ 1,021	\$ 961
Net premiums	1,876	1,480	1,441
Other operating income			
Deposit and payment service charges	118	127	120
Lending fees and credit card service revenues	154	157	147
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Net income on securities at fair value through profit or loss	1,174	686	557
Net income on available-for-sale securities	105	83	105
Net other investment income	44	36	54
	1,323	805	716
Total income	4,927	4,030	3,788
Provision for credit losses	89	68	94
Claims, benefits, annuities and changes in insurance contract liabilities	2,503	1,760	1,601
Non-interest expense	1,752	1,745	1,608
Income taxes on surplus earnings	119	103	101
Surplus earnings before member dividends	\$ 464	\$ 354	\$ 384
Contribution to combined surplus earnings by business segment⁽²⁾			
Personal Services and Business and Institutional Services	\$ 196	\$ 251	\$ 194
Wealth Management and Life and Health Insurance	98	94	103
Property and Casualty Insurance	76	31	21
Other	94	(22)	66
	\$ 464	\$ 354	\$ 384
Amount returned to members and the community			
Member dividends	\$ 40	\$ 6	\$ 75
Sponsorships and donations	15	26	17
	\$ 55	\$ 32	\$ 92
Indicators			
Return on equity ⁽¹⁾	9.5%	7.2%	9.0%
Productivity index ⁽¹⁾	72.3	76.9	73.5
Provisioning rate ⁽¹⁾	0.24	0.18	0.27

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

⁽²⁾ The breakdown by line item is presented in Note 15, "Segmented information", to the Interim Combined Financial Statements.

IMPACT OF STATE FARM'S CANADIAN BUSINESSES ACQUISITION

On January 1, 2015, Desjardins Group completed the purchase of all the Canadian property and casualty (P&C) and life and health insurance, mutual fund, loan and living benefits insurance businesses of State Farm Mutual Automobile Insurance Company (State Farm). The purchase of the P&C and life and health insurance businesses was carried out by an asset transfer and assumption of liabilities, while the other businesses were acquired by the purchase of stock in the companies. As a result of this acquisition, Desjardins Group has gained a multi-product distribution network that provides access to new clients and enables it to attain a size that should offer competitive advantages, particularly in P&C insurance.

The table below presents the impact of this acquisition on the combined operating results of Desjardins Group.

IMPACT OF STATE FARM'S CANADIAN BUSINESSES ACQUISITION⁽¹⁾

(in millions of dollars)	For the three-month period ended
	March 31, 2015
Operating income	\$ 364
Investment income	156
Total income	520
Claims, benefits, annuities and changes in insurance contract liabilities	428
Non-interest expense	54
Income taxes on surplus earnings	10
Surplus earnings before member dividends	\$ 28

⁽¹⁾ Excluding fees of \$7 million, net of income taxes, related to the acquisition of State Farm's Canadian businesses and the \$53 million gain on this acquisition.

ANALYSIS OF RESULTS

Comparison of the first quarters of 2015 and 2014

Surplus earnings

For the first quarter ended March 31, 2015, Desjardins Group posted surplus earnings before member dividends of \$464 million, an increase of \$80 million, or 20.8%, compared to the corresponding quarter in 2014. Significant steps have been achieved in the integration of State Farm's Canadian businesses during the quarter, and the results were affected by the acquisition gain, as well as the effect of significant fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative instruments used to hedge foreign currency deposits that do not qualify for hedge accounting.

This result reflects the contribution of \$196 million, or 42.2% 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 \$98 million and \$76 million, respectively, representing 21.1% and 16.4% of surplus earnings. The operations grouped under the Other category made a contribution of \$94 million, or 20.3% of surplus earnings.

Return on equity was 9.5%, compared to 9.0% in the corresponding quarter of 2014. This increase was mainly caused by growth in surplus earnings, which was partly offset by the increase in average equity as a result of issuances of capital shares made by the Federation.

By its very nature as a cooperative financial group, Desjardins Group has set itself the task of improving the economic and social well-being of people and communities, which it continued to strive to achieve in the first quarter of 2015. As such the amount set aside for member dividends totalled \$40 million for the quarter, compared to \$75 million for the same period of the previous year. If we add this amount to the \$15 million given to various organizations in the form of donations and sponsorships, the amount returned to the community totalled \$55 million for the first quarter, compared to \$92 million for the same quarter in 2014.

Operating income

Operating income stood at \$3,604 million, up \$532 million, or 17.3%, compared to the first quarter of 2014.

Net interest income was \$995 million, compared to \$961 million for the same period in the previous year, an increase of \$34 million, or 3.5%, as a result of growth in the entire loan portfolio, amounting to \$10.2 billion, or 7.1%, during the year. However, fierce competition in the market compressed margins and limited the rise in net interest income.

Net premiums were up \$435 million, or 30.2%, to total \$1,876 million as at March 31, 2015. This increase was mainly due to premiums generated by the acquired State Farm's Canadian businesses, for an amount of \$381 million, and to business growth related to insurance operations.

The overall insurance operations of the Wealth Management and Life and Health Insurance segment posted income from net insurance and annuity premiums of \$1,004 million for the first quarter of 2015, compared to \$946 million for the same period in 2014, an increase of \$58 million, or 6.1%. Insurance premiums rose by \$78 million. More specifically, individual insurance premiums totalled \$184 million, for growth of \$43 million, or 30.5%, primarily as a result of the acquisition of State Farm's Canadian portfolio, and group insurance premiums amounted to \$754 million, an increase of \$35 million, or 4.9%, as a result of business growth. Annuity premiums were down \$20 million, mainly because of a \$27 million decrease in group savings premiums as a result of investment choices by client groups.

The Property and Casualty Insurance segment's operations generated net premium income of \$938 million for the first quarter of 2015, compared to \$553 million for the same period in 2014, an increase of \$385 million, or 69.6%, chiefly because of the acquisition of State Farm's Canadian businesses and, to a smaller degree, the growing number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income totalled \$733 million, up \$63 million, or 9.4%, compared to the corresponding quarter in 2014 due to the gain realized on the acquisition of State Farm's Canadian businesses, a higher volume of average assets under management from the sale of various products and an increase in capital market operations.

Investment income

Investment income was up \$607 million compared to the first quarter of 2014, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. This was chiefly due to changes in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates. Changes in the fair value of the investments acquired with State Farm's Canadian businesses as well as derivative financial instruments also contributed to the increase.

Total income

Total income was \$4,927 million, up \$1,139 million, or 30.1%, compared to the same period in 2014.

Provision for credit losses

The provision for credit losses totalled \$89 million for the first quarter of 2015, down \$5 million, or 5.3%, compared to the corresponding quarter in 2014. The provisioning rate was 0.24% as at March 31, 2015, compared to 0.27% in the corresponding quarter of 2014. Desjardins Group's loan portfolio continued to be of high quality. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% as at March 31, 2015, up slightly from the ratio in the corresponding quarter of 2014.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled \$2,503 million, up \$902 million, or 56.3%, compared to the same quarter in 2014.

The Wealth Management and Life and Health Insurance segment recorded expenses related to claims, benefits, annuities and changes in insurance contract liabilities of \$1,650 million, up \$453 million compared to 2014. This change mainly resulted from a \$408 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", which includes the impact of an increase of \$401 million in the fair value of investments. The integration of the businesses recently acquired from State Farm also contributed to the rise in these expenses.

The cost of claims for the Property and Casualty Insurance segment was \$856 million for the first quarter, for an increase of \$450 million, or 110.8%, compared to the first quarter of 2014. The increase was primarily on account of the acquisition of State Farm's Canadian businesses and business growth. The loss ratio of P&C insurers was 79.4% for the first quarter of 2015, compared to 72.0% in the corresponding quarter of 2014. This increase was mainly caused by a more unfavourable trend in automobile insurance claims in previous years compared to the first quarter of 2014 as well as larger business insurance claims.

Non-interest expense and other item

Non-interest expense was \$1,752 million, up \$144 million, or 9.0%, compared to the first quarter of 2014, chiefly due to expenses related to State Farm's Canadian businesses amounting to \$54 million, business growth, particularly in credit card and point-of-sale financing activities and the tax increase on insurance premiums. It was also affected by annual salary indexing and the pension expense.

The productivity index was 72.3% for the first quarter, compared to 73.5% for the same quarter a year earlier. The improvement was chiefly due to the impact of the gain realized on the acquisition of State Farm and tight control of non-interest expense in a business growth environment.

Income taxes

Income taxes on surplus earnings before member dividends totalled \$119 million for the first quarter of 2015, an increase of \$18 million, compared to the corresponding period in 2014. The effective tax rate was 20.4%, compared to 20.8% for the same quarter in 2014.

RESULTS BY BUSINESS SEGMENT

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

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

Additional information about each business segment, particularly its profile, activities, industry and 2015 strategies and priorities, can be found on pages 35 to 45 of the 2014 Annual Report.

PERSONAL SERVICES AND BUSINESS AND INSTITUTIONAL SERVICES

The Personal Services and Business and Institutional Services segment offers Desjardins Group's members and clients a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives, through the Desjardins caisse network, their Desjardins Business centres as well as specialized teams. It also makes its products and services available through complementary distribution networks and mortgage representatives, by phone, online, via applications for mobile devices, as well as 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, 2015	December 31, 2014 ⁽¹⁾	March 31, 2014 ⁽¹⁾
Net interest income	\$ 941	\$ 974	\$ 910
Other operating income	475	505	434
Operating income	1,416	1,479	1,344
Investment income (loss)	11	(13)	41
Total income	1,427	1,466	1,385
Provision for credit losses	89	68	94
Non-interest expense	1,075	1,071	1,034
Income taxes on surplus earnings	67	76	63
Surplus earnings before member dividends	196	251	194
Member dividends, net of income tax recovery	30	5	55
Net surplus earnings for the period after member dividends	\$ 166	\$ 246	\$ 139
Of which:			
Group's share	\$ 165	\$ 246	\$ 138
Non-controlling interests' share	1	-	1
Indicators			
Average gross loans ⁽²⁾	\$ 148,700	\$ 146,590	\$ 138,620
Average deposits ⁽²⁾	122,974	121,087	117,024
Provisioning rate ⁽²⁾	0.24%	0.18%	0.28%
Gross impaired loans/gross loans ⁽²⁾	0.35	0.34	0.34

⁽¹⁾ Data for 2014 have been reclassified to reflect the current period's presentation.

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

Comparison of the first quarters of 2015 and 2014

For the first quarter of 2015, the Personal Services and Business and Institutional Services segment's surplus earnings before member dividends totalled \$196 million, which is comparable to the same period in 2014.

Operating income totalled \$1,416 million, up \$72 million, or 5.4%. It was affected by an increase in net interest income mainly as a result of growth in the overall loan portfolio, amounting to \$10.4 billion, or 7.4% during the year. However, fierce competition in the market compressed margins and limited the rise in net interest income.

Other operating income was up \$41 million, or 9.4%, compared to the same period in 2014, to total \$475 million, primarily because of an increase in caisse network sales of various Desjardins Group products designed by the subsidiaries, such as investment funds, increased capital market operations and growth in credit card and point-of-sale financing activities.

Investment income was \$11 million, down \$30 million compared to March 31, 2014, due to the drop in capital market trading income and gains on the disposal of securities related to caisse network surplus liquidity in the first quarter of 2014.

Total income for the segment was \$1,427 million, an increase of \$42 million, or 3.0%, compared to the first quarter of 2014.

The provision for credit losses was \$89 million in the first quarter of 2015, down \$5 million, or 5.3%, compared to the same period in 2014. The provisioning rate was 0.24% as at March 31, 2015 compared to 0.28% in the corresponding quarter of 2014. 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 portfolio, was 0.35% as at March 31, 2015, up slightly compared to the ratio of 0.34% for the corresponding quarter of 2014.

Non-interest expense was \$1,075 million, for an increase of \$41 million, or 4.0%, compared to the same period in 2014, primarily because of business growth, particularly in credit card and point-of-sale financing activities. Annual salary indexing also contributed to this growth. The increase was partly offset, however, by lower expenses related to certain programs.

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. Since January 1, 2015, it has also included the Canadian life and health insurance businesses of State Farm.

WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE - SEGMENT RESULTS

(in millions of dollars)

	For the three-month periods ended		
	March 31, 2015	December 31, 2014 ⁽¹⁾	March 31, 2014 ⁽¹⁾
Net interest income	\$ -	\$ -	\$ 1
Net premiums	1,004	957	946
Other operating income	319	294	285
Operating income	1,323	1,251	1,232
Investment income	993	736	574
Total income	2,316	1,987	1,806
Claims, benefits, annuities and changes in insurance contract liabilities	1,650	1,380	1,197
Non-interest expense	538	494	475
Income taxes on surplus earnings	30	19	31
Net surplus earnings for the period after member dividends	\$ 98	\$ 94	\$ 103
Of which:			
Group's share	\$ 88	\$ 73	\$ 97
Non-controlling interests' share	10	21	6
Indicators			
Net sales of savings products ⁽²⁾	\$ 2,603	\$ 1,543	\$ 2,219
Insurance sales ⁽²⁾	117	94	138
Group insurance premiums	754	741	718
Individual insurance premiums	184	150	142
Annuity premiums	66	65	86

⁽¹⁾ Data for 2014 have been reclassified to reflect the current period's presentation.

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

Comparison of the first quarters of 2015 and 2014

At the end of the first quarter of 2015, the Wealth Management and Life and Health Insurance segment posted net surplus earnings of \$98 million, down \$5 million, or 4.9%, compared to the corresponding period in 2014. This decrease was largely due to life and health insurance activities, for which the results for the same period in 2014 had been favourably influenced by a change in actuarial liabilities.

Operating income stood at \$1,323 million, up \$91 million, or 7.4%, compared to the same period in 2014. Insurance premiums were up \$78 million. More specifically, individual insurance totalled \$184 million, for an increase of \$43 million, or 30.5%, of which \$33 million resulted from the acquisition of State Farm's Canadian portfolio, while group insurance premiums stood at \$754 million, up \$35 million, or 4.9%, because of business growth. Annuity premiums decreased \$20 million, chiefly because of the \$27 million drop in group savings premiums as a result of investment choices by client groups.

Other operating income grew by \$34 million, or 11.9%, to total \$319 million for the first quarter of 2015, chiefly as a result of the growth in average assets under management arising from the sale of various products and brokerage activities.

Investment income was up \$419 million, primarily as a result of the fluctuation in the fair value of assets backing liabilities related to life and health insurance operations. This increase was offset by the change in actuarial liabilities, leading to higher expenses related to claims, benefits, annuities and changes in insurance contract liabilities. These changes were mostly due to the changes in the fair value of the bond portfolio, stemming largely from fluctuations in medium- and long-term interest rates.

The segment's total income was \$2,316 million, for an increase of \$510 million, or 28.2%, compared to the corresponding quarter in 2014.

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities stood at \$1,650 million, up \$453 million compared to 2014. This change primarily resulted from a \$408 million increase in the actuarial liabilities recognized under "Insurance contract liabilities", including the effect of a \$401 million increase in the fair value of investments. The integration of the recently acquired businesses from State Farm pushed up these expenses by \$53 million.

Non-interest expense was \$538 million for the first quarter of 2015, up \$63 million, or 13.3%, compared to the same period in 2014. This increase was mainly the result of the higher remuneration paid to caisses arising from growth of \$4.2 billion, or 22.3%, in average outstanding Desjardins Funds since the first quarter of 2014; an expense of \$14 million resulting from the acquisition of State Farm's Canadian life and health insurance businesses; and an increase in premium insurance tax. The first quarter of 2015 was also affected by an increase in salaries and fringe benefits.

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. Since January 1, 2015, it has also included the Canadian property and casualty (P&C) businesses of State Farm. The 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 in the field and a brokerage network, as well as online and via applications for mobile devices. Since the State Farm Canadian businesses acquisition, Desjardins Group has been benefiting from an additional network of about 500 new agencies to distribute not only property and casualty insurance, but also several other financial products.

PROPERTY AND CASUALTY INSURANCE - SEGMENT RESULTS

(in millions of dollars and as a percentage)

	For the three-month periods ended		
	March 31, 2015	December 31, 2014	March 31, 2014
Net interest income	\$ -	\$ -	\$ (1)
Net premiums	938	584	553
Other operating income	76	52	40
Operating income	1,014	636	592
Investment income	186	27	48
Total income	1,200	663	640
Claims, benefits, annuities and changes in insurance contract liabilities	856	384	406
Non-interest expense	260	224	206
Income taxes on surplus earnings	8	24	7
Net surplus earnings for the period after member dividends	\$ 76	\$ 31	\$ 21
Gain on the acquisition of State Farm's Canadian businesses ⁽¹⁾	(55)	-	-
Fees related to the acquisition of State Farm's Canadian businesses, net of income taxes ⁽¹⁾	7	15	13
Adjusted net surplus earnings for the period after member dividends⁽¹⁾	\$ 28	\$ 46	\$ 34
According to net surplus earnings for the period after member dividends:			
Group's share	\$ 63	\$ 30	\$ 21
Non-controlling interests' share	13	1	-
Indicators			
Gross written premiums ⁽¹⁾⁽²⁾	\$ 951	\$ 568	\$ 547
Loss ratio ⁽¹⁾	79.4%	63.9%	72.0%
Expense ratio ⁽¹⁾	21.7	28.8	28.9
Adjusted expense ratio ⁽¹⁾	20.7	25.5	25.5
Combined ratio ⁽¹⁾	101.1	92.7	100.9
Adjusted combined ratio ⁽¹⁾	100.1	89.4	97.5

⁽¹⁾ See "Basis of presentation of financial information".⁽²⁾ Includes Western Financial Group Inc.'s life insurance premiums.**Comparison of the first quarters of 2015 and 2014**

For the first quarter of 2015, the Property and Casualty Insurance segment posted net surplus earnings of \$76 million, up \$55 million, or 261.9%, compared to the corresponding quarter in 2014. Adjusted net surplus earnings totalled \$28 million, down \$6 million, or 17.6%, compared to the corresponding quarter in 2014, mainly due to a higher loss ratio in automobile and business insurance than for the corresponding period in 2014.

Operating income totalled \$1,014 million, up \$422 million, or 71.3%, primarily due to growth of \$385 million, or 69.6%, in net premiums. Of this amount, \$345 million are attributable to the acquired State Farm's Canadian businesses, and a smaller amount from the larger number of policies issued as a result of multiple growth initiatives across all market segments and regions.

Other operating income was up \$36 million, or 90.0%, as a result of the gain realized on the purchase of State Farm's Canadian businesses, which was offset in part by an increase in the possible consideration to be paid under this transaction.

Investment income was up \$138 million compared to the same period in 2014, mainly due to the income on investments acquired with State Farm's Canadian businesses in the amount of \$124 million, as well as to the higher value of investments as a result of lower market interest rates. It should be noted that such an increase in the value of investments was essentially offset by a similar increase in the cost of claims due to matching strategies.

The segment's total income rose to \$1,200 million for the first quarter of 2015, up \$560 million, or 87.5%, compared to the first quarter of 2014.

The Property and Casualty Insurance segment's cost of claims totalled \$856 million for the first quarter, up \$450 million, or 110.8%, compared to the first quarter of 2014. This increase, is essentially attributable to the acquired State Farm's Canadian P&C businesses representing \$375 million, and to business growth. The loss ratio of the P&C insurers was 79.4% for the first quarter of 2015, versus 72.0% in the corresponding quarter in 2014. This increase was chiefly due to a more unfavourable trend in automobile insurance claims in previous years, compared to the first quarter of 2014, and a higher loss ratio in business insurance.

Non-interest expense was \$260 million for the first quarter of 2015, up \$54 million, or 26.2%, compared to the same quarter a year earlier. If expenses related to the acquisition of State Farm's Canadian businesses are excluded, non-interest expense was \$251 million, up \$63 million, or 33.5%. This increase is essentially due to the larger business volume resulting, in particular, from the acquired State Farm's Canadian businesses for an amount of \$39 million, and from business growth.

OTHER CATEGORY

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

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

OTHER CATEGORY

(in millions of dollars)	For the three-month periods ended		
	March 31, 2015	December 31, 2014 ⁽¹⁾	March 31, 2014 ⁽¹⁾
Treasury activities	\$ 64	\$ 28	\$ 34
<i>Fonds de sécurité Desjardins</i> operations	17	25	16
Activities related to asset-backed term notes	22	8	12
Activities related to derivatives associated with hedging activities	33	9	15
Other ⁽²⁾	(42)	(92)	(11)
Net surplus earnings for the period	\$ 94	\$ (22)	\$ 66
Of which:			
Group's share	\$ 93	\$ (23)	\$ 65
Non-controlling interests' share	1	1	1

⁽¹⁾ Data for 2014 have been reclassified to reflect the current period's presentation.

⁽²⁾ Includes support function activities, various adjustments required to prepare the Interim Combined Financial Statements, and intersegment balance eliminations.

CONTRIBUTION TO SURPLUS EARNINGSComparison of the first quarters of 2015 and 2014

Net surplus earnings for the period arising from operations grouped under the Other category totalled \$94 million for the first quarter of 2015, compared to \$66 million in 2014.

Treasury activities contributed \$64 million to surplus earnings, up \$30 million, due mainly to the effect of significant fluctuations in spreads between European and Canadian interest rate curves on the portion of derivative instruments used to hedge foreign currency deposits that do not qualify for hedge accounting.

The operations of *Fonds de sécurité Desjardins* contributed surplus earnings of \$17 million, compared to \$16 million in the corresponding period of 2014, which is a stable performance.

Surplus earnings arising from activities related to asset-backed term notes totalled \$22 million, up \$10 million compared to the corresponding quarter in 2014. This increase was attributable to an increase in the fair value of the ABTN portfolio, net of hedging positions, that was higher in 2015 compared to 2014.

Surplus earnings from derivatives associated with hedging activities amounted to \$33 million, up \$18 million compared to \$15 million for the corresponding period in 2014. This resulted mainly from an increase in amortization related to terminations of hedges.

Other activities, which include support function activities, various adjustments required to prepare the Combined Financial Statements, and intersegment balance eliminations, were affected in 2014 and 2015 by expenses related to the implementation of Desjardins-wide strategic projects.

SUMMARY OF INTERIM RESULTS

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

RESULTS OF THE MOST RECENT EIGHT QUARTERS

(in millions of dollars)	2015	2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net interest income	\$ 995	\$ 1,021	\$ 1,013	\$ 981	\$ 961	\$ 978	\$ 981	\$ 958
Net premiums	1,876	1,480	1,496	1,499	1,441	1,515	1,380	1,340
Other operating income								
Deposit and payment service charges	118	127	128	123	120	131	129	122
Lending fees and credit card service revenues	154	157	147	146	147	144	136	135
Brokerage and investment fund services	252	239	252	250	229	220	220	222
Management and custodial service fees	93	95	88	84	81	78	75	75
Foreign exchange income	26	22	24	16	22	15	15	16
Other	90	84	52	58	71	78	58	71
Operating income	3,604	3,225	3,200	3,157	3,072	3,159	2,994	2,939
Investment income								
Net income (loss) on securities at fair value through profit or loss	1,174	686	288	474	557	11	(63)	(619)
Net income on available-for-sale securities	105	83	36	119	105	69	23	66
Net other investment income	44	36	71	72	54	51	49	64
	1,323	805	395	665	716	131	9	(489)
Total income	4,927	4,030	3,595	3,822	3,788	3,290	3,003	2,450
Provision for credit losses	89	68	109	80	94	73	76	68
Claims, benefits, annuities and changes in insurance contract liabilities	2,503	1,760	1,369	1,573	1,601	1,050	893	395
Non-interest expense	1,752	1,745	1,582	1,619	1,608	1,695	1,473	1,533
Income taxes on surplus earnings	119	103	126	104	101	121	147	67
Surplus earnings before member dividends	464	354	409	446	384	351	414	387
Member dividends, net of income tax recovery	30	5	49	51	55	42	37	20
Surplus earnings for the period after member dividends	\$ 434	\$ 349	\$ 360	\$ 395	\$ 329	\$ 309	\$ 377	\$ 367
Of which:								
Group's share	\$ 409	\$ 326	\$ 348	\$ 381	\$ 321	\$ 322	\$ 367	\$ 352
Non-controlling interests' share	25	23	12	14	8	(13)	10	15

Quarterly income, expenses and surplus earnings before member dividends fluctuate based on certain trends, including seasonal variations and changes in general economic and market conditions. For more information about quarterly trends, see page 49 of the 2014 Annual Report.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

COMBINED BALANCE SHEETS

(in millions of dollars and as a percentage)

	As at March 31, 2015		As at December 31, 2014	
Assets				
Cash and deposits with financial institutions	\$ 1,921	0.8 %	\$ 1,781	0.8 %
Securities	57,054	22.5	44,735	19.5
Securities borrowed or purchased under reverse repurchase agreements	14,701	5.8	9,959	4.3
Net loans	152,762	60.1	150,454	65.6
Segregated fund assets	10,027	3.9	8,695	3.8
Other assets	17,624	6.9	13,763	6.0
Total assets	\$ 254,089	100.0 %	\$ 229,387	100.0 %
Liabilities and equity				
Deposits	\$ 150,437	59.3 %	\$ 146,324	63.8 %
Other liabilities	80,672	31.7	61,606	26.9
Subordinated notes	2,600	1.0	2,564	1.1
Equity	20,380	8.0	18,893	8.2
Total liabilities and equity	\$ 254,089	100.0 %	\$ 229,387	100.0 %

TOTAL ASSETS

As at March 31, 2015, Desjardins Group had total assets of \$254.1 billion, up \$24.7 billion, or 10.8%, from December 31, 2014. This growth was largely attributable to the assets acquired with State Farm's Canadian businesses on January 1, 2015 in an amount of \$7.4 billion and securities held for securities lending operations.

CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS, AND SECURITIES

As at March 31, 2015, Desjardins Group's cash and deposits with financial institutions were \$1.9 billion, up \$140 million, or 7.9%, since December 31, 2014. Securities, including securities borrowed or purchased under reverse repurchase agreements, totalled \$71.8 billion, compared to a volume of \$54.7 billion at the end of 2014, for an increase of \$17.1 billion, or 31.2%, mainly due to securities lending operations and securities acquired from State Farm on January 1, 2015.

LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)

	As at March 31, 2015		As at December 31, 2014	
Residential mortgages	\$ 97,936	63.9 %	\$ 97,512	64.6 %
Consumer, credit card and other personal loans	20,627	13.5	20,495	13.6
Business and government	34,662	22.6	32,903	21.8
	153,225	100.0 %	150,910	100.0 %
Allowance for credit losses	(463)		(456)	
Total loans by borrower category	\$ 152,762		\$ 150,454	
Loans guaranteed and/or insured ⁽¹⁾	\$ 44,355		\$ 44,238	

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

As at March 31, 2015, Desjardins Group's outstanding loan portfolio, net of the allowance for credit losses, was \$152.8 billion, up \$2.3 billion, or 1.5%, since December 31, 2014. The increase was mainly due to growth in business and government loans, which represented 22.6% of its portfolio.

Outstanding business and government loans grew by \$1.8 billion, or 5.3%, since year-end 2014, to total \$34.7 billion as at March 31, 2015.

Outstanding residential mortgages represented 63.9% of Desjardins Group's portfolio at the end of the first quarter, and stood at \$97.9 billion, an increase of \$424 million, or 0.4%, since December 31, 2014. More moderate activity in the Quebec and Ontario housing markets during the period created a less favourable climate for business development. Consumer, credit card and other personal loans amounted to \$20.6 billion as at March 31, 2015, an increase of \$132 million, or 0.6%, since December 31, 2014.

Credit quality

Information about the quality of Desjardins Group's credit portfolio is presented in the "Risk management" section on page 25 of this MD&A.

DEPOSITS

(in millions of dollars and as a percentage)

	As at March 31, 2015		As at December 31, 2014	
Individuals	\$ 88,390	58.8 %	\$ 88,463	60.5 %
Business and government	60,652	40.3	56,516	38.6
Deposit-taking institutions and other	1,395	0.9	1,345	0.9
Total deposits	\$ 150,437	100.0 %	\$ 146,324	100.0 %

As at March 31, 2015, Desjardins Group's outstanding deposits totalled \$150.4 billion, up by \$4.1 billion, or 2.8%, since December 31, 2014. Deposits by individuals made up 58.8% of Desjardins Group's deposit portfolio at the end of the first quarter of 2015 to total \$88.4 billion, compared to a volume of \$88.5 billion at year-end 2014, for a decrease of \$73 million.

Deposits from business and government totalled \$60.7 billion as at March 31, 2015, for an increase of \$4.1 billion, or 7.3%, since December 31, 2014. The increase was the result of issuances made on the markets by *Caisse centrale Desjardins* during the first quarter. Lastly, savings from deposit-taking institutions and other sources were up \$50 million, or 3.7%, since the end of 2013, to total \$1.4 billion as at March 31, 2015.

OTHER LIABILITIES

As at March 31, 2015, other liabilities amounted to \$80.7 billion, for an increase of \$19.1 billion, or 30.9%, since December 31, 2014. The increase was primarily due to insurance contract liabilities and segregated fund liabilities related to the businesses acquired from State Farm. Liabilities related to securities lending operations also contributed to the increase.

Other liabilities were primarily comprised of \$27.1 billion in insurance contract liabilities, \$17.7 billion in commitments related to securities lent or sold under repurchase agreements, \$10.0 billion in segregated fund liabilities, as well as \$9.1 billion in commitments related to securities sold short.

EQUITY

As at March 31, 2015, equity totalled \$20.4 billion, an increase of \$1.5 billion, or 7.9%, since December 31, 2014. The sources of this growth were net surplus earnings for the period after member dividends, which totalled \$434 million, and the \$388 million in capital shares issued by the Federation, net of issuance costs. Equity also increased by \$650 million related to non-controlling interests following the acquisition of State Farm's Canadian businesses.

Note 23, "Capital stock", to the Annual Combined Financial Statements provides additional information about Desjardins Group's capital stock.

CAPITAL MANAGEMENT

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

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

The 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 forecast show that Desjardins Group has a solid capital base allowing it to remain one of 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.*, Bank Zag, 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 regulations.

For the purpose of calculating capital, the insurance subsidiaries are deconsolidated and presented as deductions. The life and health insurance subsidiaries are subject to the capital adequacy guideline issued by the AMF as well as the Minimum Continuing Capital and Surplus Requirements (MCCSR) guideline issued by the OSFI for life insurance companies. The property and casualty insurance subsidiaries must comply with the AMF's capital adequacy guideline as well as the Minimum Capital Test (MCT) Guideline for federally regulated property and casualty insurance companies issued by the OSFI.

Certain Desjardins Group subsidiaries 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 assign 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 minimum Tier 1A capital ratio that Desjardins Group must maintain to meet the regulatory requirements of the guideline is 7%. In addition, its Tier 1 capital ratio and its total capital ratio must be above 8.5% and 10.5%, respectively, including a 2.5% capital conservation buffer. The AMF may also set higher targets at its discretion when circumstances warrant. To this end, the use of the Internal Ratings-Based Approach for credit risk related to retail loan portfolios – Personal is conditional on maintaining a total capital ratio of more than 11.5%, instead of 10.5%, as stated in the guideline.

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

Since January 1, 2015, the AMF has also required Desjardins Group to maintain a leverage ratio above 3%. The ratio is defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet (OBS) items, 2) securities financing transaction (SFT) exposures, 3) derivative exposures, and 4) off-balance sheet items. The new leverage ratio has replaced the asset/capital ratio since January 1, 2015.

Compliance with requirements

As at March 31, 2015, the Tier 1A, Tier 1 and total capital ratios of Desjardins Group, calculated in accordance with Basel III requirements, were 15.7%, 15.8% and 17.5%, respectively. The leverage ratio was 6.6%. Desjardins Group therefore has very good capitalization, with a Tier 1A capital ratio above the 15% target.

Desjardins Group and all its components that are subject to minimum regulatory requirements with respect to capitalization were in compliance with said requirements as at March 31, 2015.

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 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	> 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 Security Life Assurance and Desjardins General Insurance Group Inc.) that exceeds 10% of capital net of regulatory adjustments. When the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted regulatory capital, the surplus is also deducted from Tier 1 capital. The 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)

	March 31, 2015	December 31, 2014
Capital		
Tier 1A capital	\$ 15,104	\$ 15,263
Tier 1 capital	15,123	15,287
Total capital	16,790	17,379
Risk-weighted assets		
Credit risk	\$ 72,428	\$ 68,625
Market risk	4,350	5,486
Operational risk	12,821	12,702
Total risk-weighted assets	\$ 89,599	\$ 86,813
Risk-weighted assets (RWA) after transitional provisions for the credit valuation adjustment (CVA) charge⁽¹⁾		
RWA for Tier 1A capital	\$ 89,301	\$ 86,483
RWA for Tier 1 capital	89,359	86,545
RWA for total capital	89,409	86,637
Threshold adjustment⁽¹⁾⁽²⁾		
Tier 1A capital	\$ 6,653	\$ 10,440
Tier 1 capital	6,595	10,378
Total capital	6,545	10,286
Risk-weighted assets (RWA) after transitional provisions for the CVA charge, including the threshold adjustment		
RWA for Tier 1A capital	\$ 95,954	\$ 96,923
RWA for Tier 1 capital	95,954	96,923
RWA for total capital	95,954	96,923
Ratios		
Tier 1A capital	15.7%	15.7%
Tier 1 capital	15.8%	15.8%
Total capital	17.5%	17.9%
Assets/capital ratio ⁽³⁾	N/A	10.8
Leverage ⁽³⁾	6.6%	N/A

⁽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.

⁽³⁾ The assets/capital ratio has been replaced by the new leverage ratio since January 1, 2015 in accordance with the AMF guideline.

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 19, 2014, the Federation filed a new prospectus to issue additional shares totalling \$1.0 billion. This new issue started on January 14, 2015. On March 31, 2015, the amount of capital shares issued by the Federation totalled \$388 million, net of issuance expenses, compared to \$321 million for the same period in 2014.

During the first quarter of 2015, growth in surplus earnings and reserves, as well as an increase in accumulated other comprehensive income and the issuance of capital shares, resulted in a raise of the Tier 1A capital ratio. Conversely, the increase in significant investments in financial entities resulted in a decline in this ratio.

CHANGE IN REGULATORY CAPITAL

(in millions of dollars)

	As at March 31, 2015
Tier 1A capital	
Balance at beginning of period	\$ 15,263
Increase in reserves and undistributed surplus earnings ⁽¹⁾	250
Eligible accumulated other comprehensive income	222
Federation capital shares	388
Permanent shares and surplus shares subject to phase-out	(210)
Non-controlling interests	3
Deductions	(812)
Balance at end of period	15,104
Tier 1B capital	
Balance at beginning of period	24
Non-controlling interests	(5)
Balance at end of period	19
Total Tier 1 capital	15,123
Tier 2 capital	
Balance at beginning of period	2,092
Eligible qualifying shares	(1)
Non-controlling interests	2
Senior notes subject to phase-out	(310)
Eligible collective allowance	4
Deductions	(120)
Balance at end of period	1,667
Total capital	\$ 16,790

⁽¹⁾ Including the change in defined benefit 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 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 \$2.1 billion increase. In counterparty and issuer risk, the total return swap used for hedging the securitization portfolio expired on March 31, 2015, resulting in a \$1.4 billion increase in RWA.

In market risk, changes in the level of risk resulted in a \$1.1 billion decrease, and small changes were also noted for operational risk, mainly due to fluctuations in income generated.

The threshold adjustment as previously defined decreased by \$3.8 billion during the period, primarily as a result of changes in the calculation of regulatory capital portfolio's size, which caused a decrease of \$3.6 billion.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, Desjardins Group enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of its members and clients, credit instruments, contractual commitments, financial assets held as collateral and other, as well as structured entities, including securitization. These types of arrangements are described on pages 60 and 61 of the 2014 Annual Report. There have been no additions or material changes with regard to these off-balance sheet items as at March 31, 2015.

Assets under management and under administration

Desjardins Group is one of Canada's leading trustees and wealth managers. Assets under management and under administration are comprised chiefly of financial assets in the form of investment funds, securities held in custody and assets accumulated by pension funds. They do not belong to Desjardins Group, but to its members and clients, and as a result, they are not recognized in the Combined Balance Sheets.

Stock market activity in Canada showed rather modest growth in the first quarter of 2015. The S&P/TSX index was up 1.8% during this period, after advancing 7.4% in 2014. Despite the lacklustre performance of the Canadian stock market, Desjardins Group remained very active on the market, as evidenced by the results of its off-balance sheet savings products. Investment funds and securities outstanding under administration or management for third parties grew by \$3.9 billion, or 5.7%, since December 31, 2014, to total \$72.9 billion as at March 31, 2015.

Structured entities

In the normal course of operations, Desjardins Group enters into various financial transactions with structured entities to diversify its sources of financing and manage its capital. Structured entities are usually created for a unique and distinct purpose, and they often have limited activities. Often the structured entities have insufficient equity to permit them to finance their activities without subordinated financial support, or they often use financing in the form of multiple contractually linked instruments issued to investors. These entities may be included in Desjardins Group's Combined Balance Sheets if it controls them. Detailed information concerning significant exposure to structured entities is provided below.

Master Asset Vehicle (MAV) trusts

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

These trusts had assets of approximately \$12,597 million as at March 31, 2015, compared to \$13,368 million as at December 31, 2014, and they had no equity. As at March 31, 2015, Desjardins Group had an MFF of \$1,193 million and held notes with a fair value of \$1,575 million, compared to the respective amounts of \$1,193 million and \$1,641 million as at December 31, 2014. The aggregate of these amounts represents the maximum risk of loss with respect to the MAVs, excluding the effect of the economic hedging strategy and the protection of its commitments. Note 5, "Securities", to Desjardins Group's Interim Combined Financial Statements provides more information on this subject.

Securitization

Desjardins Group participates in the *National Housing Act* (NHA) Mortgage-Backed Securities Program to manage its liquidities and capital. Transactions carried out under this Program require the use of a structured entity, the Canada Housing Trust (CHT), set up by Canada Mortgage and Housing Corporation (CMHC) under the Canada Mortgage Bonds (CMB) Program. Note 10, "Derecognition of financial assets", to the Annual Combined Financial Statements provides more information about the financial assets transferred by Desjardins Group through securitization transactions. As at March 31, 2015, outstanding mortgage-backed securities issued by Desjardins Group and sold to the Canada Housing Trust totalled \$6.5 billion compared to \$6.4 billion as at December 31, 2014.

RISK MANAGEMENT

ENHANCED DISCLOSURE TASK FORCE

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

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

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

Information regarding the EDTF recommendations is presented in the 2014 Annual Report, the interim financial report for the first quarter of 2015 and the "Supplemental Financial Information" report, which are available on Desjardins Group's website at www.desjardins.com/en/about_us. The "Supplemental Financial Information" report is not incorporated by reference in this MD&A.

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

SUMMARY OF EDTF RECOMMENDATIONS

Type of risk	Disclosure	Pages		
		2014 Annual Report	Interim Financial Report	Supplemental Financial Information
General	Summary of risk information	62	Current page	
	Risk terminology, risk measures and key parameters	63-84, 200-206		
	Top and emerging risks	54, 55, 63-67		
	New regulatory ratios	54, 55, 75, 76, 168-170	18-21, 27, 28	
Risk governance, risk management and business models	Organizational risk management structure	63-65		
	Risk management culture	63-65		
	Risks from business model and risk appetite	22, 63, 66, 67		
	Stress testing	65		
Capital adequacy and risk-weighted assets	Minimum regulatory capital requirements	54, 55	19	
	Reconciliation of the accounting balance sheet and the regulatory balance sheet	56, 168-170	20, 21	7, 8, 10-12
	Movements in regulatory capital	57	20, 21	9
	Capital management and planning	53, 55-57	18, 19	
	Breakdown of capital requirements by type of risk and by calculation method	57-59, 68	21	13
	Credit risk			15-18
	Movements in risk-weighted assets by type of risk	58, 59	21	14
	Back testing and validation of credit models	68		
Liquidity	Management of liquidity needs and reserve	75-77	27-29	
Funding	Encumbered and unencumbered assets	76, 80	29, 30	
	Residual contractual maturities of assets, liabilities and off-balance sheet commitments	77, 78	29, 30	
	Funding sources and strategies	52, 53, 76-78	18, 27-30	
Market risk	Market risk factors	73-75, 154-158, 176	24-27	
	Assumptions, limitations and validation procedures for market risk models	74, 75	25-27	
	Extreme loss measures	74, 75	25-27	
Credit risk	Credit risk profile	51, 52, 65, 70, 72, 73, 86	17-24	11-13, 15-20
	Policy for identifying gross impaired loans	67, 70, 107-122		
	Reconciliation of gross impaired loans and allowance for credit losses	107-122		
	Counterparty risk related to derivatives	72, 73, 159-164		
	Credit risk mitigation techniques	70, 72, 73		
Other risks	Management of other risks	81-84		
	Publicly known risk events	173-175		

RISK MANAGEMENT

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

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

In the first three months of fiscal 2015, Desjardins Group's governance structure, controls and practices for risk management, and the nature and description of the risks to which it is exposed (including insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental risk and risks related to the regulatory and legal environment) did not change significantly from those described on pages 63 to 87 of the 2014 Annual Report.

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, policies and procedures to all its activities. To this end, Desjardins Group has adopted an Integrated Risk Management Framework to give its senior management and the Federation's Board of Directors an acceptable level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with meeting its objectives.

As previously mentioned, 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, risk data aggregation and risk reporting capabilities, given Desjardins Group's designation as a D-SIFI.

CREDIT RISK

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

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

Quality of loan portfolio

Desjardins Group's loan portfolio continues to be of high quality. As at March 31, 2015, gross impaired loans outstanding stood at \$520 million, up \$9 million since December 31, 2014. The ratio of gross impaired loans, as a percentage of the total gross loan portfolio, was 0.34% for the first quarter of 2015, unchanged from December 31, 2014.

Individual allowances for credit losses, which totalled \$125 million as at March 31, 2015, made it possible to obtain a total coverage ratio of 24.0% of the gross impaired loans portfolio, compared to a ratio of 24.3% as at December 31, 2014.

The collective allowance stood at \$338 million as at March 31, 2015, an increase over the \$332 million recorded for 2014. In addition, an allowance for risk related to off-balance sheet arrangements of \$89 million was recognized under "Other liabilities – Other" on the Combined Balance Sheets as at March 31, 2015, down \$2 million compared to the amount recorded as at December 31, 2014. The collective allowance reflects the best estimate of the allowance for credit losses that have not yet been designated as gross impaired loans individually.

GROSS IMPAIRED LOANS BY BORROWER CATEGORY

(in millions of dollars and as a percentage)	As at March 31, 2015				As at December 31, 2014
	Gross loans	Gross impaired loans	Individual allowances	Net impaired loans	Net impaired loans
Residential mortgages	\$ 97,936	\$ 157	\$ 15	\$ 142	\$ 134
Consumer, credit card and other personal loans	20,627	104	23	81	66
Business and government	34,662	259	87	172	187
Total	\$ 153,225	\$ 520	\$ 125	\$ 395	\$ 387
As a percentage of gross loans		0.34%		0.26%	0.26%

SPECIFIC COVERAGE RATIO

(as a percentage)	As at March 31, 2015	As at December 31, 2014
Residential mortgages	9.6%	9.5%
Consumer, credit card and other personal loans	22.1	24.1
Business and government	33.6	32.2
Impaired loan portfolio coverage ratio	24.0	24.3

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. In addition, Desjardins Group is not directly exposed to the sovereign debt of Argentina, Russia, Greece, Portugal, Italy, Ireland or Spain, and its exposure to U.S. and European financial institutions is low.

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.

Interest rate risk management

Desjardins Group is exposed to 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.

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 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. 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 behaviour, clients and 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 interest rate risk management policies.

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

INTEREST RATE SENSITIVITY (BEFORE INCOME TAXES)⁽¹⁾

(in millions of dollars)	As at March 31, 2015		As at December 31, 2014		As at March 31, 2014 ⁽²⁾	
	Net interest income ⁽³⁾	Economic value of equity ⁽⁴⁾	Net interest income ⁽³⁾	Economic value of equity ⁽⁴⁾	Net interest income ⁽³⁾	Economic value of equity ⁽⁴⁾
Impact of a 100-basis-point increase in interest rates	\$ (47)	\$ (107)	\$ (68)	\$ (130)	\$ (45)	\$ (193)
Impact of a 100-basis-point decrease in interest rates ⁽⁵⁾	(38)	114	59	168	32	214

⁽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 \$260 million decrease in the economic value of equity before taxes as at March 31, 2015, and in a \$227 million and \$218 million decrease as at December 31, 2014 and March 31, 2014, respectively. A 100-basis-point decrease in interest rates would result in an increase of \$282 million in the economic value of equity before taxes as at March 31, 2015, and in a \$226 million and \$198 million increase as at December 31, 2014 and March 31, 2014, respectively.

Note that the amounts reported as at March 31, 2015 take into account the acquisition of State Farm's Canadian businesses as at January 1, 2015.

Following the revision of assumptions, the interest rate sensitivity amounts of insurance activities were restated as at March 31, 2014.

⁽²⁾ The amounts were revised in relation to those previously presented in order to exclude insurance activities.

⁽³⁾ Represents the sensitivity of net interest income for the next 12 months.

⁽⁴⁾ Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.

⁽⁵⁾ The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

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 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's members and clients, and the application of policies on interest rate risk management.

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

Foreign exchange risk management

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

In certain specific situations, Desjardins Group and its components may become exposed to foreign exchange risk, particularly with respect to the U.S. dollar and the euro. This exposure mainly arises from their intermediation activities with members and clients, and their financing and investment activities. A Desjardins Group policy on market risk has set foreign exchange risk exposure limits, which are monitored by the Risk Management Office. Furthermore, Desjardins Group and its components use, among other things, derivative financial instruments such as forward exchange contracts and currency swaps to properly control this risk. Desjardins Group's residual exposure to this risk is low because the majority of its transactions are conducted in Canadian dollars.

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 limits attributable to these factors and to the total. Tolerance limits also apply to the different stress tests. Compliance with these limits is monitored on a daily basis and a market risk dashboard is produced and sent to senior management daily. All breaches of limits are analyzed immediately and 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 in stress periods. This latter indicator is calculated in the same way as aggregate VaR, except different historical data are used. Instead of using data from the last year, aggregate VaR in stress periods is calculated using historical data for the one-year stress period from September 15, 2008 to September 15, 2009.

The table below presents the aggregate VaR and the aggregate VaR in stress periods for trading activities by risk category, as well as the diversification effect. Equity price risk, interest rate risk, interest-rate-specific risk and foreign exchange risk are the four risk categories to which Desjardins Group is exposed. These risk factors are taken into account in measuring market risk for the trading portfolio and are reflected in the following VaR table. 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, 2015				For the quarter ended			
	As at March 31, 2015	Average	High	Low	As at December 31, 2014	Average	As at March 31, 2014	Average
Equities	\$ 0.2	\$ 0.3	\$ 0.8	\$ 0.1	\$ 0.4	\$ 0.3	\$ 0.1	\$ 0.1
Foreign exchange	0.3	0.5	1.1	0.2	0.1	0.4	0.5	0.5
Interest rate	4.2	4.1	5.8	3.1	3.7	3.3	4.6	4.1
Interest-rate-specific risk ⁽¹⁾	10.9	7.0	11.4	3.7	5.2	8.0	11.2	7.4
Diversification effect ⁽²⁾	(11.3)	(7.8)	N/A ⁽³⁾	N/A ⁽³⁾	(5.7)	(8.6)	(11.7)	(7.9)
Aggregate VaR	\$ 4.3	\$ 4.1	\$ 6.1	\$ 3.1	\$ 3.7	\$ 3.4	\$ 4.7	\$ 4.2
Aggregate VaR under stress	\$ 17.2	\$ 11.2	\$ 17.2	\$ 8.2	\$ 10.7	\$ 13.6	\$ 15.9	\$ 11.4

⁽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 with issuer-specific risks (provinces, municipalities, companies, etc.) and a sub-portfolio of positions considered to be free of issuer risk (governments in the local currency).

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

⁽³⁾ Not applicable: The highs and lows of the various market risk categories can refer to different dates.

The average aggregate VaR of the trading portfolio was \$4.1 million for the quarter ended March 31, 2015, up \$0.7 million compared to the quarter ended December 31, 2014. This increase was primarily due to a \$0.8 million rise in the average interest rate VaR. The average aggregate VaR in stress periods was \$11.2 million for the quarter ended March 31, 2015, down \$2.4 million compared to the fourth quarter of 2014. Note that the model and the assumptions did not change over the past five quarters.

Aggregate VaR and aggregate VaR in stress periods are appropriate measures for a trading portfolio but they must be interpreted in light of certain limitations, in particular:

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

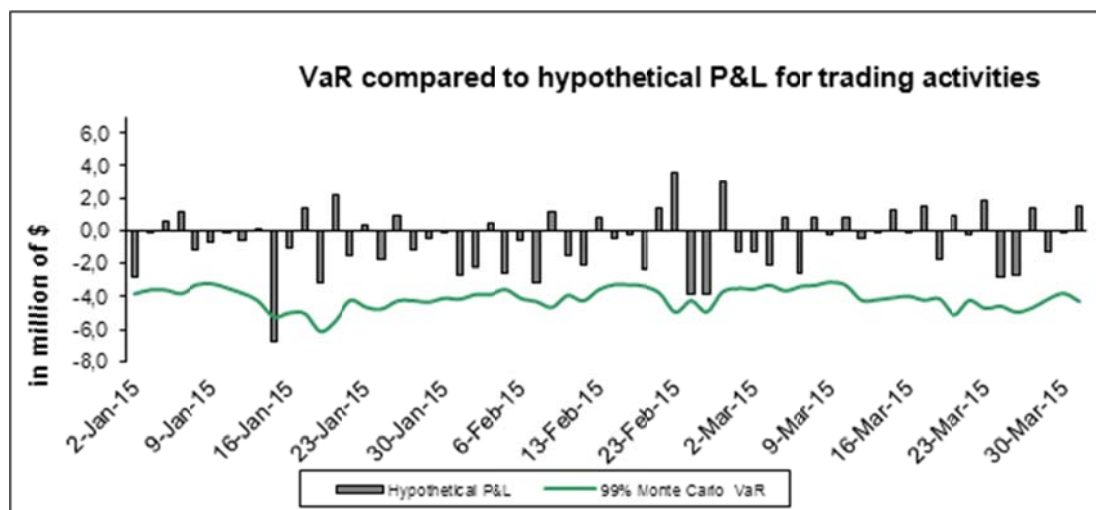
Given these limitations, the process of monitoring trading activities with VaR is supplemented by stress testing and by establishing limits in this regard.

Back testing

Back testing is used to validate the VaR model and ensure that hypothetical results are statistically consistent with results of the VaR model. Back testing consists of a daily comparison of the VaR with the profits and losses (P&L) on portfolios. Moreover, an independent modelling validation unit tests the model on an annual basis.

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 2015, hypothetical P&L was exceeded by \$1.6 million as a result of an increase in Canadian and U.S. interest rates as higher term structure for these rates.



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.

The approach used to measure the risk related to highly unlikely but plausible events involves following a stress-testing program (sensitivity analyses, historical scenarios and hypothetical scenarios) that is implemented at regular intervals. Test results are analyzed together with VaR calculations in order to detect vulnerability to such events. The stress-testing program is reviewed periodically to ensure that it is kept current.

LIQUIDITY RISK

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

Liquidity risk is managed in order to ensure that Desjardins Group 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 adopting a contingency plan to implement 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) and a net stable funding ratio (NSFR). The rules for applying NSFR requirements were finalized in October 2014 and should come into effect on January 1, 2018. Under its liquidity risk management policy, Desjardins Group already produces these two ratios, and they are reported to the AMF on a regular basis. 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 LCR was 122% as at March 31, 2015, which satisfies the regulatory minimum threshold of 100%. 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 potential massive withdrawals of 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, as part of current business operations, Desjardins Group issues covered bonds and securitized CHMC-insured loans. 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 that amends several federal laws to limit access by provincial cooperative credit associations to federal intervention tools. These amendments are not currently in force. See the "Changes in the regulatory environment" section on page 6 of this MD&A for more information.

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 reserves of high-quality liquid 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 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 Desjardins Group's 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 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". These scenarios, based on a downgrade to Desjardins Group combined with a shock on capital markets, make it possible to:

- Measure the extent of potential cash outflows over a one-year period 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.

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

Liquid assets

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

LIQUID ASSETS⁽¹⁾

As at March 31, 2015

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held as collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 283	\$ -	\$ 283	\$ -	\$ 283
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, foreign public administrations	26,159	14,236	40,395	27,673	12,722
Other securities in Canada	1,172	129	1,301	127	1,174
Issued or guaranteed by foreign issuers	29	-	29	-	29
Loans					
Insured residential mortgage - backed securities	2,431	-	2,431	-	2,431
Total	\$ 30,074	\$ 14,365	\$ 44,439	\$ 27,800	\$ 16,639

As at December 31, 2014

(in millions of dollars)	Liquid assets held by Desjardins Group	Securities held a collateral - Securities financing and derivatives trading	Total liquid assets	Encumbered liquid assets	Unencumbered liquid assets
Cash and deposits with financial institutions	\$ 538	\$ -	\$ 538	\$ -	\$ 538
Securities					
Issued or guaranteed by Canada, provinces and municipal corporations in Canada, school or public corporations in Canada, and foreign administrations	23,079	9,532	32,611	20,197	12,414
Other securities in Canada	1,064	45	1,109	335	774
Issued or guaranteed by foreign issuers	28	-	28	-	28
Loans					
Insured residential mortgage-backed securities	1,774	-	1,774	-	1,774
Total	\$ 26,483	\$ 9,577	\$ 36,060	\$ 20,532	\$ 15,528

⁽¹⁾ Excluding assets held by insurance subsidiaries.

UNENCUMBERED LIQUID ASSETS BY ENTITY⁽¹⁾

(in millions of dollars)	As at March 31, 2015	As at 31 décembre 2014
<i>Caisse centrale Desjardins</i>	\$ 8,533	\$ 6,553
Caisse network	5,819	6,166
Other entities	2,287	2,809
Total	\$ 16,639	\$ 15,528

⁽¹⁾ Excluding assets held by insurance subsidiaries. All unencumbered liquid assets presented in this table are issued in Canadian dollars.

Sources of refinancing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which Desjardins Group's liquidity position depends. The solid base of deposits from individuals combined with wholesale funding, diversified in terms of both the programs used and the timing of contractual maturities, maintains high and stable regulatory liquidity ratios. Total deposits presented on the Combined Balance Sheets amounted to \$150.4 billion as at March 31, 2015, up \$4.1 billion since December 31, 2014. Additional information on deposits is presented in the "Balance Sheet Management" section of this MD&A.

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

REMAINING TERMS TO MATURITY OF WHOLESALE FUNDING

(in millions of dollars)	As at March 31, 2015							As at December 31, 2014	
	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	\$ 1,467	\$ 515	\$ 7	\$ -	\$ 1,989	\$ -	\$ -	\$ 1,989	\$ 1,494
Commercial paper	5,262	1,253	32	633	7,180	-	-	7,180	8,313
Medium-term notes	-	499	633	1,029	2,161	1,132	7,545	10,838	7,097
Mortgage securitization	-	-	-	731	731	1,494	5,013	7,238	6,985
Covered bonds	-	-	-	1,265	1,265	1,898	2,714	5,877	5,694
Subordinated notes	-	-	-	-	-	-	2,600	2,600	2,564
Total	\$ 6,729	\$ 2,267	\$ 672	\$ 3,658	\$ 13,326	\$ 4,524	\$ 17,872	\$ 35,722	\$ 32,147
Including:									
Secured	\$ -	\$ -	\$ -	\$ 1,996	\$ 1,996	\$ 3,392	\$ 7,727	\$ 13,115	\$ 12,679
Unsecured	6,729	2,267	672	1,662	11,330	1,132	10,145	22,607	19,468

Desjardins Group's total wholesale funding presented in the table above was carried out by *Caisse centrale Desjardins* except for the subordinated notes, which were issued by *Capital Desjardins inc.* Total wholesale funding increased \$3.6 billion compared to December 31, 2014. This increase was primarily attributable to the growth in medium-term notes.

In addition, Desjardins Group diversifies its refinancing sources in order to limit its dependence on a single currency. The table "Wholesale funding by currency" 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, 2015		As at December 31, 2014	
Canadian dollars	\$ 17,074	47.8 %	\$ 14,857	46.2 %
U.S. dollars	14,785	41.4	14,492	45.1
Other	3,863	10.8	2,798	8.7
	\$ 35,722	100.0 %	\$ 32,147	100.0 %

Refinancing programs and strategies

As Treasurer of Desjardins Group, *Caisse centrale Desjardins* satisfies 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 2015, *Caisse centrale Desjardins* maintained a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional refinancing and the contribution of the caisse network.

In order to secure long-term refinancing at the lowest cost on the market, *Caisse centrale Desjardins* maintains an active presence in the federally-guaranteed mortgage 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 makes use of the financial 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, 2015

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 \$253 million in the first three months of 2015. During the same period, *Caisse centrale Desjardins* completed two issues under its multi-currency medium-term note program — €500 million on the European market and US\$1.0 billion on the U.S. market — and issued \$1.5 billion in medium-term notes on the Canadian market.

Outstanding notes issued under medium-term refinancing programs of *Caisse centrale Desjardins* amounted to \$24.0 billion as at March 31, 2015, compared to \$19.8 billion as at December 31, 2014. *Capital Desjardins inc.*'s senior notes outstanding totalled \$2.6 billion as at March 31, 2015, unchanged from December 31, 2014. Furthermore, to round out its refinancing and increase its capital base, Desjardins Group, through the Federation, issued capital shares totalling \$388 million, net of issuance expenses, in the first three months of 2015.

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

For Desjardins Group, maintaining competitive credit ratings is instrumental to accessing sources of wholesale funding, obtaining low funding costs and boosting Desjardins Group's credibility and recognition among institutional investors and counterparties.

The rating agencies analyze 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 Desjardins Group's solid capitalization, the stability of its operating surplus earnings, its significant market shares in Quebec and the quality of its assets.

On January 23, 2015, Fitch affirmed the ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.*, with a stable outlook due to Desjardins Group's capitalization, the quality of its assets and the stability of its income. This confirmation was announced by Fitch as part of its regular review of Canadian banking institutions.

The credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.* therefore continue to be among the best of the major Canadian and international banking institutions.

CREDIT RATINGS OF SECURITIES ISSUED

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

Desjardins Group regularly monitors the level of additional obligations that its counterparties would require if the credit ratings of *Caisse centrale Desjardins* and *Capital Desjardins inc.* were downgraded. This allows Desjardins Group to assess the impact of such a downgrade on its funding capacity, to perform transactions in the normal course of operations and ensure that it holds additional liquid assets and collateral to honour its obligations. In the event that one or more rating agencies downgrades the credit rating of *Caisse centrale Desjardins* by three levels, *Caisse centrale Desjardins* would be obliged to provide \$1.2 billion in collateral to meet its commitments under the restructured asset-backed term notes (ABTN) program in the Montreal Accord. In such a situation, pledging assets would reduce the liquidity reserves of *Caisse centrale Desjardins* by an amount equal to the value of the securities deposited, which would then become encumbered and, hence, unusable. This amount will remain in force until the expiry of the Montreal Accord 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 particular 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 (cybercrime), or problems or errors in process management. Although this risk cannot be entirely eliminated, measures are in place at Desjardins Group to maintain it at an acceptable level.

Operational risk management framework

The operational risk management framework serves to identify, measure, mitigate and monitor this risk and is used to intervene and ensure accountability for operational risk in accordance with the appetite and tolerance for risk and controls adopted by the Board of Directors. It is supported by guidelines that establish the basis for risk management.

This framework is reviewed annually to ensure that it is adequate and relevant in terms of Desjardins Group's risk profile and changes in industry practices.

In keeping with the global trend, Desjardins Group considers technological risk an important operational risk. A specific management framework has been implemented to better manage technological risk. This framework is consistent 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

(in millions of dollars)	As at March 31, 2015		As at December 31, 2014	
	Notional amounts	Fair value	Notional amounts	Fair value
Commercial mortgage-backed securities ⁽¹⁾	\$ 95	\$ 98	\$ 125	\$ 128
Financial asset-backed securities ⁽²⁾	86	91	39	40

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

(in millions of dollars)	As at March 31, 2015			As at December 31, 2014		
	Notional amounts	Positive value	Negative value	Notional amounts	Positive value	Negative value
Credit default swaps ⁽¹⁾	\$ 614	\$ 11	\$ -	\$ 563	\$ 9	\$ -
Total return swaps ⁽²⁾	47	1	-	32	1	-

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

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

LEVERAGED FINANCE LOANS AND SUBPRIME LOANS

(in millions of dollars)	As at March 31, 2015	As at December 31, 2014
Leveraged finance loans ⁽¹⁾	\$ 262	\$ 227
Alt-A mortgage loans ⁽²⁾	32	29
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 Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

⁽³⁾ Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. None of these loans is currently in default. Subprime residential mortgages are recorded in the Combined Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended March 31, 2015, Desjardins Group did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The parties involved and their responsibilities regarding internal control are described on pages 87 and 88 of the 2014 Annual Report.

RELATED PARTY DISCLOSURES

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

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

Desjardins Group has set up a process to obtain assurance that all transactions with its management personnel and the persons related to them have been carried out at arm's length and in compliance with the legislative framework for its various components.

Related party transactions are explained in Note 35, "Related party disclosures", to Desjardins Group's Annual Combined Financial Statements, on page 179 of the 2014 Annual Report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Group is essential to understanding the Annual and Interim Combined Financial Statements. The significant accounting policies are described in Note 2, "Significant accounting policies", to Desjardins Group's Annual Combined Financial Statements on pages 107 to 122 of the 2014 Annual Report.

Some of these policies are of particular importance in presenting Desjardins Group's financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 89 to 93 of the 2014 Annual Report.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first three months of 2015.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2014 are discussed in Note 4, "Future accounting changes", to Desjardins Group's Annual Combined Financial Statements, in the 2014 Annual Report. The IASB did not issue any new accounting standards in the three-month period ended March 31, 2015.

MATERIAL EVENTS

Acquisitions

On January 1, 2015, Desjardins Group completed the purchase of all the Canadian property and casualty (P&C) and life and health insurance, mutual fund, loan and living benefits insurance businesses of State Farm Mutual Automobile Insurance Company (State Farm).

On April 15, 2015, the Federation purchased the accounts receivable and outstanding balances of Best Buy Canada stores from JP Morgan Chase Bank, National Association, for a cash consideration of approximately \$175 million.

Term of office – President of Desjardins Group

As mentioned in Desjardins Group's 2014 Annual Report, the Federation's Board of Directors submitted for caisse delegate approval at the Annual General Meeting of March 27, 2015, the establishment of a six-month transition period between the election of a new president and the sitting president's departure. Desjardins Group's bodies will make a final decision in this regard after the election date in 2016.

COMBINED BALANCE SHEETS

(unaudited)

(in millions of Canadian dollars)	Notes	As at March 31, 2015	As at December 31, 2014
ASSETS			
Cash and deposits with financial institutions		\$ 1,921	\$ 1,781
Securities			
	5		
Securities at fair value through profit and loss		34,273	24,845
Available-for-sale securities		22,781	19,890
		57,054	44,735
Securities borrowed or purchased under reverse repurchase agreements		14,701	9,959
Loans			
	6		
Residential mortgages		97,936	97,512
Consumer, credit card and other personal loans		20,627	20,495
Business and government		34,662	32,903
		153,225	150,910
Allowance for credit losses	6	(463)	(456)
		152,762	150,454
Segregated fund net assets		10,027	8,695
Other assets			
Clients' liability under acceptances		339	858
Premiums receivable		1,503	1,127
Derivative financial instruments	9	4,706	3,133
Amounts receivable from clients, brokers and financial institutions		3,196	1,742
Reinsurance assets		1,099	785
Investment property		662	571
Property, plant and equipment		1,458	1,374
Goodwill		472	472
Intangible assets		656	569
Deferred tax assets		1,187	1,043
Other		2,346	2,089
		17,624	13,763
TOTAL ASSETS		\$ 254,089	\$ 229,387
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits			
	8		
Individuals		\$ 88,390	\$ 88,463
Business and government		60,652	56,516
Deposit-taking institutions		1,395	1,345
		150,437	146,324
Other liabilities			
Acceptances		339	858
Commitments related to securities sold short		9,134	6,304
Commitments related to securities lent or sold under repurchase agreements		17,737	13,072
Derivative financial instruments	9	2,137	1,675
Amounts payable to clients, brokers and financial institutions		4,959	3,713
Insurance contract liabilities		27,088	19,435
Segregated fund net liabilities		10,023	8,706
Net defined benefit plan liabilities		2,928	2,700
Deferred tax liabilities		444	329
Other		5,883	4,814
		80,672	61,606
Subordinated notes		2,600	2,564
TOTAL LIABILITIES		233,709	210,494
EQUITY			
Capital stock	11	4,968	4,777
Share capital		87	85
Undistributed surplus earnings		1,174	1,468
Accumulated other comprehensive income	13	992	615
Reserves		12,020	11,476
Equity - Group's share		19,241	18,421
Non-controlling interests		1,139	472
TOTAL EQUITY		20,380	18,893
TOTAL LIABILITIES AND EQUITY		\$ 254,089	\$ 229,387

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

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

Monique F. Leroux, C.M., O.Q., FCPA, FCA
Chair of the Board

Denis Paré, LL.L., D.D.N.
Vice-Chair of the Board

COMBINED STATEMENTS OF INCOME

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended March 31	
		2015	2014
INTEREST INCOME			
Loans		\$ 1,385	\$ 1,340
Securities		77	82
		1,462	1,422
INTEREST EXPENSE			
Deposits		435	423
Subordinated notes and other		32	38
		467	461
NET INTEREST INCOME		995	961
NET PREMIUMS		1,876	1,441
OTHER INCOME			
Deposit and payment service charges		118	120
Lending fees and credit card service revenues		154	147
Brokerage and investment fund services		252	229
Management and custodial service fees		93	81
Net income (loss) on securities at fair value through profit or loss	14	1,174	557
Net income on available-for-sale securities		105	105
Net other investment income		44	54
Foreign exchange income		26	22
Other		90	71
		2,056	1,386
TOTAL INCOME		4,927	3,788
PROVISION FOR CREDIT LOSSES	6	89	94
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE			
CONTRACT LIABILITIES		2,503	1,601
NON-INTEREST EXPENSE			
Salaries and fringe benefits		885	801
Premises, equipment and furniture, including depreciation		149	150
Service agreements and outsourcing		83	68
Communications		72	68
Other		563	521
		1,752	1,608
OPERATING SURPLUS EARNINGS		583	485
Income taxes on surplus earnings		119	101
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS⁽¹⁾		464	384
Member dividends		40	75
Tax recovery on member dividends		(10)	(20)
NET SURPLUS EARNINGS FOR THE PERIOD AFTER MEMBER DIVIDENDS		\$ 434	\$ 329
of which:			
Group's share		\$ 409	\$ 321
Non-controlling interests' share		25	8

⁽¹⁾ The Group's share of "Surplus earnings before member dividends" is presented in Note 15, "Segmented information".

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

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31	
	2015	2014
Net surplus earnings for the period after member dividends	\$ 434	\$ 329
Other comprehensive income, net of income taxes		
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	(77)	(285)
	(77)	(285)
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	294	138
Reclassification to the Combined Statements of Income of gains on available-for-sale securities	(47)	(51)
	247	87
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	171	59
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(18)	(15)
	153	44
Net unrealized exchange gains on the translation of the financial statements of a self-sustaining foreign operation, net of hedging transactions	1	-
	401	131
Total other comprehensive income	324	(154)
COMPREHENSIVE INCOME FOR THE PERIOD	\$ 758	\$ 175
of which:		
Group's share	\$ 707	\$ 166
Non-controlling interests' share	51	9

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

INCOME TAXES ON OTHER COMPREHENSIVE INCOME

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

(in millions of Canadian dollars)	For the three-month periods ended March 31	
	2015	2014
Item that will not be reclassified subsequently to the Combined Statements of Income		
Remeasurement of net defined benefit plan liabilities	\$ (28)	\$ (101)
	(28)	(101)
Items that will be reclassified subsequently to the Combined Statements of Income		
Net change in unrealized gains and losses on available-for-sale securities		
Net unrealized gains on available-for-sale securities	84	41
Reclassification to the Combined Statements of Income of gains losses on available-for-sale securities	(15)	(16)
	69	25
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	65	24
Reclassification to the Combined Statements of Income of gains on derivative financial instruments designated as cash flow hedges	(8)	(8)
	57	16
	126	41
Total income tax expense (recovery)	\$ 98	\$ (60)

COMBINED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the three-month periods ended March 31

	Capital		Undistributed surplus earnings	Accumulated other comprehensive income (Note 12)	Reserves				Equity - Group's share	Non-controlling interests	Total equity
	Capital stock (Note 11)	Share capital			Stabilization reserve	Reserve for future member dividends	General and other reserves	Total reserves			
(in millions of Canadian dollars)											
BALANCE AS AT DECEMBER 31, 2014	\$ 4,777	\$ 85	\$ 1,468	\$ 615	\$ 981	\$ 479	\$ 10,016	\$ 11,476	\$ 18,421	\$ 472	\$ 18,893
Net surplus earnings for the period after member dividends	-	-	409	-	-	-	-	-	409	25	434
Other comprehensive income for the period	-	-	(79)	377	-	-	-	-	298	26	324
Comprehensive income for the period	-	-	330	377	-	-	-	-	707	51	758
Issuance of F capital shares	388	-	-	-	-	-	-	-	388	-	388
Other net change in capital stock	(197)	-	-	-	-	-	-	-	(197)	-	(197)
Issuance of share capital	-	2	-	-	-	-	-	-	2	652	654
Redemption of share capital	-	-	-	-	-	-	-	-	-	(21)	(21)
Remuneration on capital stock	-	-	(85)	-	-	-	-	-	(85)	-	(85)
Dividends	-	-	(2)	-	-	-	-	-	(2)	(14)	(16)
Transfer from undistributed surplus earnings (to reserves)	-	-	(537)	-	-	4	533	537	-	-	-
Transactions related to put options	-	-	-	-	-	-	7	7	7	-	7
Other	-	-	-	-	-	-	-	-	-	(1)	(1)
BALANCE AS AT MARCH 31, 2015	\$ 4,968	\$ 87	\$ 1,174	\$ 992	\$ 981	\$ 483	\$ 10,556	\$ 12,020	\$ 19,241	\$ 1,139	\$ 20,380
BALANCE AS AT DECEMBER 31, 2013	\$ 3,881	\$ 82	\$ 1,400	\$ 420	\$ 913	\$ 476	\$ 9,616	\$ 11,005	\$ 16,788	\$ 444	\$ 17,232
Net surplus earnings for the period after member dividends	-	-	321	-	-	-	-	-	321	8	329
Other comprehensive income for the period	-	-	(280)	125	-	-	-	-	(155)	1	(154)
Comprehensive income for the period	-	-	41	125	-	-	-	-	166	9	175
Issuance of F capital shares	321	-	-	-	-	-	-	-	321	-	321
Other net change in capital stock	1	-	-	-	-	-	-	-	1	-	1
Issuance of share capital	-	3	-	-	-	-	-	-	3	-	3
Remuneration on capital stock	-	-	(58)	-	-	-	-	-	(58)	-	(58)
Dividends	-	-	(3)	-	-	-	-	-	(3)	(3)	(6)
Transfer from undistributed surplus earnings (to reserves)	-	-	(541)	-	-	8	533	541	-	-	-
Other	-	-	(3)	-	-	-	-	-	(3)	1	(2)
BALANCE AS AT MARCH 31, 2014	\$ 4,203	\$ 85	\$ 836	\$ 545	\$ 913	\$ 484	\$ 10,149	\$ 11,546	\$ 17,215	\$ 451	\$ 17,666

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

COMBINED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31	
	2015	2014
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings	\$ 583	\$ 485
Non-cash adjustments:		
Depreciation of property, plant and equipment and investment property	40	38
Net change in insurance contract liabilities	1,048	556
Provision for credit losses	89	94
Net realized gains on available-for-sale securities	(76)	(68)
Other	58	36
Change in operating assets and liabilities:		
Securities at fair value through profit and loss	(3,946)	(3,226)
Securities borrowed or purchased under reverse repurchase agreements	(4,742)	(2,607)
Loans	(2,200)	(2,179)
Derivative financial instruments, net amount	(921)	(352)
Net amounts receivable from and payable to clients, brokers and financial institutions	(312)	(284)
Deposits	4,113	2,424
Commitments related to securities sold short	2,830	304
Commitments related to securities lent or sold under repurchase agreements	4,665	5,175
Other	18	(192)
Income taxes paid on surplus earnings	(44)	(114)
	1,203	90
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Purchase of debt securities and subordinated notes from third parties on the market	35	16
Issuance of F capital shares	388	321
Other net change in capital stock	(197)	1
Remuneration on capital stock	(85)	(58)
Issuance of share capital	654	3
Redemption of share capital	(21)	-
Dividends paid	(16)	(6)
Exercise of put options written on non-controlling interests	(33)	-
	725	277
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of available-for-sale securities	(14,031)	(16,765)
Proceeds from disposals of available-for-sale securities	7,636	14,201
Proceeds from maturities of available-for-sale securities	4,810	2,436
Business acquisition, net of cash and cash equivalents acquired	(75)	-
Acquisitions of property, plant and equipment and investment property	(128)	(163)
	(1,788)	(291)
Net increase in cash and cash equivalents	140	76
Cash and cash equivalents at beginning of period	1,781	1,320
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,921	\$ 1,396
Supplemental information on cash flows from (used in) operating activities		
Interest paid	\$ 368	\$ 380
Interest and dividends received	1,370	1,395

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

NOTES TO THE CONDENSED INTERIM COMBINED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 – INFORMATION ON DESJARDINS GROUP

NATURE OF OPERATIONS

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

BASIS OF PRESENTATION OF THE COMBINED FINANCIAL STATEMENTS

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

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

STATEMENT OF COMPLIANCE

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

These Interim Combined Financial Statements should be read in conjunction with the audited Annual Combined Financial Statements (the Annual Combined Financial Statements) for the year ended December 31, 2014, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Combined Financial Statements. All accounting policies were applied as described in Note 2, "Significant accounting policies", to the Annual Combined Financial Statements. The IASB did not issue any new accounting standards during the three-month period ended March 31, 2015. For more information, refer to Note 4, "Future accounting changes", to the Annual Combined Financial Statements.

These Interim Combined Financial Statements were approved by the Board of Directors of Desjardins Group, which is the Board of Directors of the Federation, on May 13, 2015.

PRESENTATION AND FUNCTIONAL CURRENCY

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

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

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

	At fair value through profit or loss			Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments ⁽²⁾	Total
	Held for trading	Designated as at fair value through profit or loss	Available for sale			
As at March 31, 2015						
Financial assets						
Cash and deposits with financial institutions	\$ 9	\$ 80	\$ 630	\$ 1,202	\$ -	\$ 1,921
Securities						
Securities at fair value through profit or loss	13,916	20,357	-	-	-	34,273
Available-for-sale securities	-	-	22,781	-	-	22,781
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	14,701	-	14,701
Loans ⁽¹⁾	-	-	-	152,762	-	152,762
Other financial assets						
Clients' liability under acceptances	-	-	-	339	-	339
Premiums receivable	-	-	-	1,503	-	1,503
Derivative financial instruments	2,364	-	-	-	2,342	4,706
Amounts receivable from clients, brokers and financial institutions	-	-	-	3,196	-	3,196
Other	-	-	-	1,187	-	1,187
Total financial assets	\$ 16,289	\$ 20,437	\$ 23,411	\$ 174,890	\$ 2,342	\$ 237,369
Financial liabilities						
Deposits	\$ -	\$ -	\$ -	\$ 150,437	\$ -	\$ 150,437
Other financial liabilities						
Acceptances	-	-	-	339	-	339
Commitments related to securities sold short	9,134	-	-	-	-	9,134
Commitments related to securities lent or sold under repurchase agreements	-	-	-	17,737	-	17,737
Derivative financial instruments	1,771	-	-	-	366	2,137
Amounts payable to clients, brokers and financial institutions	-	-	-	4,959	-	4,959
Other	218	-	-	3,317	-	3,535
Subordinated notes	-	-	-	2,600	-	2,600
Total financial liabilities	\$ 11,123	\$ -	\$ -	\$ 179,389	\$ 366	\$ 190,878

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

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

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

As at December 31, 2014	At fair value through profit or loss		Available for sale	Loans and receivables, and financial liabilities at amortized cost	Derivatives designated as hedging instruments ⁽²⁾	Total
	Held for trading	Designated as at fair value through profit or loss				
Financial assets						
Cash and deposits with financial institutions	\$ 13	\$ 174	\$ 262	\$ 1,332	\$ -	\$ 1,781
Securities						
Securities at fair value through profit or loss	11,168	13,677	-	-	-	24,845
Available-for-sale securities	-	-	19,890	-	-	19,890
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	9,959	-	9,959
Loans ⁽¹⁾	-	-	-	150,454	-	150,454
Other financial assets						
Clients' liability under acceptances	-	-	-	858	-	858
Premiums receivable	-	-	-	1,127	-	1,127
Derivative financial instruments	1,896	-	-	-	1,237	3,133
Amounts receivable from clients, brokers and financial institutions	-	-	-	1,742	-	1,742
Other	-	-	-	955	-	955
Total financial assets	\$ 13,077	\$ 13,851	\$ 20,152	\$ 166,427	\$ 1,237	\$ 214,744
Financial liabilities						
Deposits	\$ -	\$ -	\$ -	\$ 146,324	\$ -	\$ 146,324
Other financial liabilities						
Acceptances	-	-	-	858	-	858
Commitments related to securities sold short	6,304	-	-	-	-	6,304
Commitments related to securities lent or sold under repurchase agreements	-	-	-	13,072	-	13,072
Derivative financial instruments	1,495	-	-	-	180	1,675
Amounts payable to clients, brokers and financial institutions	-	-	-	3,713	-	3,713
Other	91	-	-	2,798	-	2,889
Subordinated notes	-	-	-	2,564	-	2,564
Total financial liabilities	\$ 7,890	\$ -	\$ -	\$ 169,329	\$ 180	\$ 177,399

⁽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, "Significant accounting policies", to the Annual Combined Financial Statements.

Financial instruments whose fair value equals carrying amount

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	As at March 31, 2015		As at December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans	\$ 152,762	\$ 153,706	\$ 150,454	\$ 151,014
Financial liabilities				
Deposits	150,437	150,942	146,324	146,736
Subordinated notes	2,600	2,853	2,564	2,784

FAIR VALUE HIERARCHY

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

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

Transfers between levels

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

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

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

As at March 31, 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	\$ 5	\$ 84	\$ -	\$ 89
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	9,803	1,003	-	10,806
Provincial governmental entities and municipal corporations in Canada	15,037	1,473	-	16,510
School or public corporations in Canada	33	139	-	172
Foreign public administrations	292	-	-	292
Other securities				
Financial institutions	28	1,129	74	1,231
Other issuers	2	1,814	2,499	4,315
Equity securities	768	118	61	947
	25,968	5,760	2,634	34,362
Derivative financial instruments				
Interest rate contracts	-	1,821	-	1,821
Foreign exchange contracts	-	1,703	-	1,703
Other contracts	-	1,182	-	1,182
	-	4,706	-	4,706
Total financial assets at fair value through profit or loss	25,968	10,466	2,634	39,068
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	630	-	630
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,428	1,516	-	7,944
Provincial governmental entities and municipal corporations in Canada	10,037	981	-	11,018
School or public corporations in Canada	8	-	-	8
Foreign public administrations	7	32	-	39
Other securities				
Financial institutions	10	1,157	-	1,167
Other issuers	3	324	109	436
Equity securities	1,648	438	81	2,167
Total available-for-sale financial assets⁽¹⁾	18,141	5,078	190	23,409
Financial instruments of segregated funds	5,394	4,655	-	10,049
Total financial assets	\$ 49,503	\$ 20,199	\$ 2,824	\$ 72,526
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	\$ 9,043	\$ 91	\$ -	\$ 9,134
Other	-	-	218	218
	9,043	91	218	9,352
Derivative financial instruments				
Interest rate contracts	-	546	-	546
Foreign exchange contracts	-	433	-	433
Other contracts	-	1,135	23	1,158
	-	2,114	23	2,137
Total financial liabilities	\$ 9,043	\$ 2,205	\$ 241	\$ 11,489

⁽¹⁾ Certain available-for-sale securities having a carrying amount of \$2 million were recognized at cost since their fair value cannot reliably be measured.

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

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	\$ 4	\$ 183	\$ -	\$ 187
Securities at fair value through profit or loss				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,530	428	-	6,958
Provincial governmental entities and municipal corporations in Canada	10,806	418	-	11,224
School or public corporations in Canada	31	132	-	163
Foreign public administrations	797	-	-	797
Other securities				
Financial institutions	25	558	72	655
Other issuers	2	1,635	2,527	4,164
Equity securities	752	111	21	884
	18,947	3,465	2,620	25,032
Derivative financial instruments				
Interest rate contracts	-	1,000	-	1,000
Foreign exchange contracts	-	917	-	917
Other contracts	-	1,216	-	1,216
	-	3,133	-	3,133
Total financial assets at fair value through profit or loss	18,947	6,598	2,620	28,165
Available-for-sale financial assets				
Cash and deposits with financial institutions	-	262	-	262
Available-for-sale securities				
Debt securities issued or guaranteed by				
Canadian governmental entities	6,769	1,326	-	8,095
Provincial governmental entities and municipal corporations in Canada	8,385	198	-	8,583
School or public corporations in Canada	8	-	-	8
Foreign public administrations	-	31	-	31
Other securities				
Financial institutions	192	626	-	818
Other issuers	-	278	107	385
Equity securities	1,533	392	43	1,968
Total available-for-sale financial assets ⁽¹⁾	16,887	3,113	150	20,150
Financial instruments of segregated funds	5,044	3,682	-	8,726
Total financial assets	\$ 40,878	\$ 13,393	\$ 2,770	\$ 57,041
Financial liabilities				
Financial liabilities held for trading				
Other liabilities				
Commitments related to securities sold short	\$ 6,118	\$ 186	\$ -	\$ 6,304
Other	-	-	91	91
	6,118	186	91	6,395
Derivative financial instruments				
Interest rate contracts	-	248	-	248
Foreign exchange contracts	-	230	-	230
Other contracts	-	1,180	17	1,197
	-	1,658	17	1,675
Total financial liabilities	\$ 6,118	\$ 1,844	\$ 108	\$ 8,070

⁽¹⁾ Certain available-for-sale securities having a carrying amount of \$2 million were recognized at cost since their fair value cannot reliably be measured.

During the three-month period ended March 31, 2015 and the year ended December 31, 2014, no material transfers attributable to changes in the observability of market data were made between hierarchy levels for instruments measured at fair value.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS CATEGORIZED WITHIN LEVEL 3

Valuation process for financial instruments categorized within Level 3

Desjardins Group has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are 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 Desjardins Group are ABTNs, mortgage bonds, equity securities and the financial liability related to put options written on certain non-controlling interests.

Desjardins Group uses an internal model to measure ABTNs. Data obtained from third parties are used to validate this measurement afterwards, and any significant difference is analyzed. In addition, the results from this model are frequently compared with certain credit indexes and other relevant indicators. To that effect, a scorecard that presents, in particular, an overview of the credit markets and indicators that can be used to follow up on the values and the main risks arising from ABTNs, is regularly sent to the members of a committee that supports the Management Committee of Desjardins Group. Every quarter, this committee approves the fair value of ABTNs as well as their measurement methodology.

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

Desjardins Group measures the majority of equity securities based on brokers' valuations obtained from independent third parties. Data obtained are reviewed and approved by Desjardins Group.

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

Sensitivity of financial instruments categorized within Level 3

Desjardins Group performs sensitivity analyses to measure the fair value of financial instruments categorized within Level 3. Changing unobservable inputs to one or more reasonably possible alternative assumptions does not significantly change the fair value of financial instruments categorized within Level 3.

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

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

For the 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
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 Combined Statements of Comprehensive Income.

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

For the three-month period ended March 31, 2014	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	\$ 61	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61
Other issuers								
Hedge funds	18	-	2	-	-	-	-	20
Asset-backed term notes	1,630	1	18	-	-	-	(3)	1,646
Mortgage bonds	817	-	7	-	-	-	(34)	790
Financial asset-backed securities	40	-	1	-	-	-	(15)	26
Equity securities	9	-	-	-	-	-	-	9
Derivative financial instruments								
Other contracts								
Total return swap	1	-	(1)	-	-	-	-	-
Total financial assets at fair value through profit or loss	2,576	1	27	-	-	-	(52)	2,552
Available-for-sale financial assets								
Available-for-sale securities								
Other securities								
Other issuers								
Mortgage bonds	104	-	-	1	-	-	(1)	104
Equity securities	29	-	4	-	-	1	(1)	33
Total available-for-sale financial assets	133	-	4	1	-	1	(2)	137
Financial instruments of segregated funds	-	-	-	-	-	2	-	2
Total financial assets	\$ 2,709	\$ 1	\$ 31	\$ 1	\$ -	\$ 3	\$ (54)	\$ 2,691
Financial liabilities								
Financial liabilities held for trading								
Other liabilities - Other								
Financial liability related to put options	\$ 133	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 136
Derivative financial instruments								
Other contracts								
Total return swap	-	-	2	-	-	-	-	2
Other	10	-	3	-	-	-	-	13
Total financial liabilities	\$ 143	\$ -	\$ 8	\$ -	\$ -	\$ -	\$ -	\$ 151

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

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

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

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Valuation techniques and inputs used to measure the fair value of financial instruments categorized within Level 3**

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

As at March 31, 2015	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Asset-backed term notes	\$ 1,575	Internal model ⁽¹⁾	Illiquidity premium ^(B)	2.0%
			Credit spread ^(B,C)	0 bp to 300 bp
Mortgage bonds	1,069	Discounted cash flows	Comparable inputs ^(B,C)	0 bp to 520 bp
			Proportion of credit spread ^(B,C)	75%
Equity securities	23	Option valuation model	Increase in exercise price ^(B,C)	5%
Other financial assets ⁽³⁾	119	Brokers' valuations	Brokers' inputs	- - ⁽²⁾
	38			
Total financial assets	\$ 2,824			
Financial liabilities				
Other liabilities - Other				
			Enterprise value ^(A,C)	- - ⁽⁴⁾
			Discount rate ^(B,C)	7.5%
Financial liability related to put options	\$ 85	Discounted cash flows	Put option exercise date ^(B,C)	3 months to 4.75 years
Other financial liabilities ⁽⁵⁾	156			
Total financial liabilities	\$ 241			

As at December 31, 2014	Fair value	Main valuation techniques	Unobservable inputs	Input value ranges
Financial assets				
Securities				
Asset-backed term notes	\$ 1,641	Internal model ⁽¹⁾	Illiquidity premium ^(B)	4.0%
			Credit spread ^(B,C)	0 bp to 300 bp
Mortgage bonds	1,029	Discounted cash flows	Comparable inputs ^(B,C)	0 bp to 520 bp
			Proportion of credit spread ^(B,C)	75%
Equity securities	17	Option valuation model	Increase in exercise price ^(B,C)	5%
Other financial assets ⁽³⁾	47	Brokers' valuations	Brokers' inputs	- - ⁽²⁾
	36			
Total financial assets	\$ 2,770			
Financial liabilities				
Other liabilities - Other				
			Enterprise value ^(A,C)	- - ⁽⁴⁾
			Discount rate ^(B,C)	7.5%
Financial liability related to put options	\$ 91	Discounted cash flows	Put option exercise date ^(B,C)	6 months to 5 years
Other financial liabilities ⁽⁵⁾	17			
Total financial liabilities	\$ 108			

⁽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 hedge funds and financial asset-backed securities.

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

⁽⁵⁾ Include other financial liabilities such as other derivative financial instrument contracts and the financial liability related to the contingent consideration.

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, 2015	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	\$ 7,770	\$ 175	\$ 1	\$ 7,944
Provincial governmental entities and municipal corporations in Canada	10,647	373	2	11,018
School or public corporations in Canada	8	-	-	8
Foreign public administrations	38	1	-	39
Other securities				
Financial institutions	1,158	10	1	1,167
Other issuers	411	26	-	437
Equity securities	1,750	428	10	2,168
	\$ 21,782	\$ 1,013	\$ 14	\$ 22,781

As at December 31, 2014	Amortized cost	Unrealized gross gains	Unrealized gross losses	Carrying amount
Debt securities issued or guaranteed by				
Canadian governmental entities	\$ 8,026	\$ 69	\$ -	\$ 8,095
Provincial governmental entities and municipal corporations in Canada	8,336	247	-	8,583
School or public corporations in Canada	8	-	-	8
Foreign public administrations	30	1	-	31
Other securities				
Financial institutions	811	7	-	818
Other issuers	370	16	-	386
Equity securities	1,667	312	10	1,969
	\$ 19,248	\$ 652	\$ 10	\$ 19,890

Impairment losses recognized

During the three-month period ended March 31, 2015, Desjardins Group concluded that there was objective evidence of material impairment. An impairment loss of \$17 million (\$2 million for the three-month period ended March 31, 2014) on available-for-sale securities was recognized under "Net income on available-for-sale securities" in the Combined Statements of Income.

SECURITIES – ASSET-BACKED TERM NOTES

Desjardins Group holds ABTNs from Master Asset Vehicles (MAV) having a fair value and a nominal value of \$1,575 million and \$1,626 million, respectively, as at March 31, 2015 (\$1,641 million and \$1,722 million as at December 31, 2014) 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 \$4 million as at March 31, 2015 (negative fair value of \$3 million as at December 31, 2014, including the positive fair value of \$1 million of the total return swap, which expired on March 31, 2015). For information on the ABTN measurement methodology, see the "Securities – Asset-backed term notes" section of Note 8, "Securities", and Note 6, "Fair value of financial instruments", to the 2014 Annual Combined Financial Statements.

Desjardins Group participates, for an amount of \$1,193 million, in the margin funding facility (MFF) intended to cover any potential collateral calls from the counterparties to the credit default swaps of MAV 1. As at March 31, 2015, no amount had been drawn on the MFF. In addition, Desjardins Group purchased a \$400 million protection for its commitments under the MFF. For more information on the terms of the MFF and acquired protection, see the "Securities – Asset-backed term notes" section of Note 8, "Securities", to the 2014 Annual Combined Financial Statements.

Impact on profit or loss

A gain of \$32 million related to the fair value of ABTNs was recognized in Desjardins Group's Combined Statement of Income for the three-month period ended March 31, 2015 (gain of \$19 million for the three-month period ended March 31, 2014). In addition, a loss of \$1 million related to the derivative financial instruments hedging ABTNs was recognized for the three-month period ended March 31, 2015 (loss of \$2 million for the three-month period ended March 31, 2014).

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, 2015	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance⁽¹⁾	Net loans
Residential mortgages	\$ 97,472	\$ 307	\$ 157	\$ 15	\$ 50	\$ 97,871
Consumer, credit card and other personal loans	18,136	2,387	104	23	127	20,477
Business and government	33,807	596	259	87	161	34,414
	\$ 149,415	\$ 3,290	\$ 520	\$ 125	\$ 338	\$ 152,762

⁽¹⁾ Includes the collective allowance on impaired loans of \$18 million.

As at December 31, 2014	Gross loans neither past due nor impaired	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance⁽¹⁾	Net loans
Residential mortgages	\$ 97,061	\$ 303	\$ 148	\$ 14	\$ 50	\$ 97,448
Consumer, credit card and other personal loans	18,095	2,313	87	21	119	20,355
Business and government	32,026	601	276	89	163	32,651
	\$ 147,182	\$ 3,217	\$ 511	\$ 124	\$ 332	\$ 150,454

⁽¹⁾ Includes the collective allowance on impaired loans of \$13 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, 2015	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 240	\$ 40	\$ 18	\$ 9	\$ 307
Consumer, credit card and other personal loans	1,772	331	128	156	2,387
Business and government	356	114	27	99	596
	\$ 2,368	\$ 485	\$ 173	\$ 264	\$ 3,290

As at December 31, 2014	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	\$ 242	\$ 35	\$ 15	\$ 11	\$ 303
Consumer, credit card and other personal loans	1,717	307	129	160	2,313
Business and government	393	70	28	110	601
	\$ 2,352	\$ 412	\$ 172	\$ 281	\$ 3,217

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	
	2015	2014	2015	2014	2015	2014	2015	2014
For the three-month periods ended March 31								
Balance at beginning of period	\$ 65	\$ 58	\$ 176	\$ 167	\$ 306	\$ 294	\$ 547	\$ 519
Provision for credit losses	11	10	78	60	-	24	89	94
Write-offs and recoveries	(10)	(8)	(68)	(58)	(6)	(10)	(84)	(76)
Balance at end of period	\$ 66	\$ 60	\$ 186	\$ 169	\$ 300	\$ 308	\$ 552	\$ 537
Composed of:								
Allowance for credit losses	\$ 65	\$ 58	\$ 150	\$ 128	\$ 248	\$ 246	\$ 463	\$ 432
Allowance for off-balance sheet credit commitments ⁽¹⁾	1	2	36	41	52	62	89	105

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

NOTE 7 – COVERED BONDS

Structured entities are in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by Desjardins Group. The operations of each of these entities are included in the Combined Financial Statements of Desjardins Group as they are controlled by Desjardins Group. Desjardins Group sold residential mortgage loans to one or another of these entities and granted them financing to facilitate the acquisition of these assets. The financing granted by Desjardins Group may reach a maximum amount equal to the outstanding loans held by these entities for purposes of guaranteeing the covered bonds issued. Under the terms and conditions of each of the issuance agreements, Desjardins Group has limited access to the assets that are legally owned by one or another of these structured entities. The assets, totalling \$7,384 million as at March 31, 2015 (\$6,798 million as at December 31, 2014), are presented under "Loans – Residential mortgages" in the Combined Balance Sheets, and the covered bonds, amounting to \$5,877 million as at March 31, 2015 (\$5,694 million as at December 31, 2014), are presented under "Deposits – Business and government".

NOTE 8 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at March 31, 2015				As at December 31, 2014			
	Payable on demand	Payable upon notice	Payable on a fixed date	Total	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	\$ 34,314	\$ 3,743	\$ 50,333	\$ 88,390	\$ 34,285	\$ 3,788	\$ 50,390	\$ 88,463
Business and government	19,257	311	41,084	60,652	17,800	332	38,384	56,516
Deposit-taking institutions	64	-	1,331	1,395	51	-	1,294	1,345
	\$ 53,635	\$ 4,054	\$ 92,748	\$ 150,437	\$ 52,136	\$ 4,120	\$ 90,068	\$ 146,324

NOTE 9 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

	As at March 31, 2015			As at December 31, 2014		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
Designated as hedging instruments						
Fair value hedges	\$ 35,081	\$ 1,863	\$ 301	\$ 31,444	\$ 1,012	\$ 161
Cash flow hedges	21,617	479	65	21,971	225	19
Total - Designated as hedging instruments	56,698	2,342	366	53,415	1,237	180
Trading purposes	179,744	2,364	1,771	127,435	1,896	1,495
Total derivative financial instruments before impact of master netting agreements	236,442	4,706	2,137	180,850	3,133	1,675
Less :						
Impact of master netting agreements ⁽¹⁾	-	828	828	-	412	412
Total derivative financial instruments after impact of master netting agreements	\$ 236,442	\$ 3,878	\$ 1,309	\$ 180,850	\$ 2,721	\$ 1,263

⁽¹⁾ Impact of offsetting credit exposure when Desjardins Group holds master netting agreements without the intention of settling on a net basis or simultaneously.

HEDGING ACTIVITIES

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

	For the three-month periods ended March 31	
	2015	2014
Fair value hedge ineffectiveness	\$ 28	\$ (4)
Cash flow hedge ineffectiveness	8	8
	\$ 36	\$ 4

NOTE 10 – SIGNIFICANT ACQUISITION

On January 1, 2015, Desjardins Group completed the acquisition of all of the Canadian property and casualty and life and health insurance, mutual fund, loan and living benefit businesses of State Farm Mutual Automobile Insurance Company (State Farm). The acquisition of the property and casualty and life and health insurance businesses was carried out by transferring assets and assuming liabilities, while the acquisition of the other businesses was carried out by purchasing company shares. This acquisition has allowed Desjardins Group to develop a multi-product distribution network that gives it access to a new client base and to reach a scale, in particular in property and casualty insurance, that should provide it with competitive advantages.

The following table presents the fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date.

Net identifiable assets acquired	
Cash and deposits with financial institutions	\$ 13
Securities	6,408
Loans	197
Premiums receivable	442
Reinsurance assets	2
Property, plant and equipment	86
Intangible assets	82
Deferred tax assets	111
Other assets – Other	83
Insurance contract liabilities	(6,605)
Net defined benefit plan liabilities	(106)
Deferred tax liabilities	(7)
Other liabilities – Other	(452)
	\$ 254
Consideration	
Acquired cash and cash equivalents	13
Net cash used for the acquisition	75
Contingent consideration	113
Total consideration	201
Gain on acquisition	\$ 53

The gain on acquisition was recognized under “Other income – Other” in the Combined Statement of Income.

Securities of \$5,090 million received as part of the acquisition were pledged as collateral pursuant to the reinsurance treaty that transfers the property and casualty insurance contract liabilities of the Canadian businesses of State Farm to Desjardins Group.

The acquisition agreement includes a price adjustment clause based on the favourable and unfavourable development of the property and casualty insurance contract liabilities transferred as part of the acquisition. State Farm will compensate Desjardins Group for 95% of the unfavourable development of these liabilities, while Desjardins Group will have to give State Farm 90% of the favourable development of these liabilities. As at the acquisition date, Desjardins Group determined that the fair value of the contingent consideration it expects to pay was \$113 million. As at March 31, 2015, the value of the contingent consideration recognized under “Other liabilities – Other” amounted to \$133 million.

As part of this transaction, State Farm and *Groupe des Assurances du Crédit Mutuel S.A.*, a minority partner in Desjardins General Insurance Group Inc. (DGIG), have respectively invested \$450 million in non-voting preferred shares and \$200 million in common shares, non-voting preferred shares and subordinated notes of DGIG’s insurance subsidiaries. Desjardins Group ownership interest in the common shares of these subsidiaries did not change as a result of these investments.

The determination of the fair value of the identifiable assets and liabilities acquired is substantially completed but remains preliminary. It should be completed by June 30, 2015.

Since the acquisition, the contribution of the Canadian businesses of State Farm to Desjardins Group’s “Total income” and “Net surplus earnings for the period after member dividends”, excluding the gain on acquisition, has amounted to \$520 million and \$28 million, respectively.

In the three-month period ended March 31, 2015, closing costs of \$1 million (\$20 million in fiscal 2014) directly attributable to the acquisition of the Canadian businesses of State Farm have been recognized under “Non-interest expense – Other” in the Combined Statement of Income.

NOTE 11 – CAPITAL STOCK

ISSUANCE OF CAPITAL SHARES

During the three-month period ended March 31, 2015, the Federation issued 38,790,064 F capital shares for a cash consideration of \$388 million.

NOTE 12 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at March 31, 2015		As at December 31, 2014	
	Group's share	Non-controlling interests' share	Group's share	Non-controlling interests' share
Items that will be reclassified subsequently to the Combined Statements of Income				
Net unrealized gains on available-for-sale securities	\$ 661	\$ 68	\$ 438	\$ 44
Net gains on derivative financial instruments designated as cash flow hedges	329	-	176	-
Net unrealized exchange gains on the translation of the financial statements of a self-sustaining foreign operation, net of hedging transactions	2	-	1	-
Accumulated other comprehensive income	\$ 992	\$ 68	\$ 615	\$ 44

NOTE 13 – CAPITAL MANAGEMENT

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 minimum Tier 1A capital ratio that Desjardins Group must maintain is 7.0%. In addition, its Tier 1 capital ratio and total capital ratio must be above 8.5% and 10.5%, respectively. These minimum ratios include a 2.5% capital conservation buffer. Furthermore, the use of the Internal Ratings-Based Approach for credit risk related to retail loan portfolios (individuals) is conditional to the total capital ratio being greater than 11.5% instead of 10.5%, as stated in the guideline.

Since January 1, 2014, the measures and requirements related to the credit valuation adjustment (CVA) charge have been phased in as set out in the guideline. This charge will reach 100% by 2019 for each of the capital ratios. As at March 31, 2015, the CVA charge applied to the Tier 1A capital ratio, the Tier 1 capital ratio and the total capital ratio was 64%, 71% and 77%, respectively.

Effective January 1, 2015, the asset/capital ratio was replaced by a new leverage ratio defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes: 1) on-balance sheet exposures; 2) securities financing transaction exposures; 3) derivative exposures; and 4) off-balance sheet items. According to the guideline, the minimum leverage ratio that Desjardins Group must meet is 3%.

As mentioned in Note 11, "Capital stock", the Federation issued F capital shares for gross proceeds of \$388 million.

As at March 31, 2015, Desjardins Group was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

NOTE 14 – NET INCOME ON SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**FINANCIAL INSTRUMENTS HELD FOR TRADING**

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

	For the three-month periods ended March 31	
	2015	2014
Income		
Net interest income	\$ 5	\$ 8
Net income on securities at fair value through profit or loss	132	81
	\$ 137	\$ 89

FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	For the three-month periods ended March 31	
	2015	2014
Income		
Net interest income	\$ -	\$ 2
Net income on securities at fair value through profit or loss	1,042	476
	\$ 1,042	\$ 478

NOTE 15 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

	Personal Services and Business and Institutional Services		Wealth Management and Life and Health Insurance		Property and Casualty Insurance		Other		Combined	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
For the three-month periods ended March 31										
Net interest income	\$ 941	\$ 910	\$ -	\$ 1	\$ -	\$ (1)	\$ 54	\$ 51	\$ 995	\$ 961
Net premiums	-	-	1,004	946	938	553	(66)	(58)	1,876	1,441
Other income	486	475	1,312	859	262	88	(4)	(36)	2,056	1,386
Total income	1,427	1,385	2,316	1,806	1,200	640	(16)	(43)	4,927	3,788
Provision for credit losses	89	94	-	-	-	-	-	-	89	94
Claims, benefits, annuities and changes in insurance contract liabilities	-	-	1,650	1,197	856	406	(3)	(2)	2,503	1,601
Non-interest expense	1,075	1,034	538	475	260	206	(121)	(107)	1,752	1,608
Operating surplus earnings	263	257	128	134	84	28	108	66	583	485
Income taxes on surplus earnings	67	63	30	31	8	7	14	-	119	101
Surplus earnings before member dividends⁽¹⁾	196	194	98	103	76	21	94	66	464	384
Member dividends, net of income tax recovery	30	55	-	-	-	-	-	-	30	55
Net surplus earnings for the period after member dividends	\$ 166	\$ 139	\$ 98	\$ 103	\$ 76	\$ 21	\$ 94	\$ 66	\$ 434	\$ 329
of which:										
Group's share	\$ 165	\$ 138	\$ 88	\$ 97	\$ 63	\$ 21	\$ 93	\$ 65	\$ 409	\$ 321
Non-controlling interests' share	1	1	10	6	13	-	1	1	25	8

⁽¹⁾ For the three-month periods ended March 31, 2015 and 2014, the Group's share of "Surplus earnings before member dividends" was respectively \$195 million and \$193 million for the Personal Services and Business and Institutional Services segment, \$88 million and \$97 million for the Wealth Management and Life and Health Insurance segment, \$63 million and \$21 million for the Property and Casualty Insurance segment and \$93 million and \$65 million for the Other category.

SEGMENT ASSETS

	Personal Services and Business and Institutional Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Other	Combined
As at March 31, 2015	\$ 194,142	\$ 35,980	\$ 13,737	\$ 10,230	\$ 254,089
As at December 31, 2014	\$ 185,068	\$ 32,000	\$ 6,140	\$ 6,179	\$ 229,387

NOTE 16 – SUBSEQUENT EVENT

The Federation acquired from JP Morgan Chase Bank, National Association the outstandings and accounts receivable of the Best Buy Canada stores as at April 15, 2015 for a cash consideration of approximately \$175 million.