Fédération des caisses Desjardins du Québec

Financial Report

First quarter of 2020

FINANCIAL HIGHLIGHTS

(in millions of dollars and as a percentage)	As at and for the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Results			
Net interest income	**$ 406**	$ 398	$ 365
Net premiums	**2,551**	2,556	2,345
Other operating income[1]	**1,004**	1,299	942
Operating income[1]	**3,961**	4,253	3,652
Investment income (loss)[1]	**(114)**	(73)	1,257
Total income	**3,847**	4,180	4,909
Provision for credit losses	**199**	103	84
Claims, benefits, annuities and changes in insurance contract liabilities	**2,083**	1,428	3,120
Non-interest expense	**1,728**	1,856	1,658
Income taxes on surplus earnings	**(113)**	145	(9)
Surplus earnings (deficit) before dividends to member caisses	**$ (50)**	$ 648	$ 56
Adjusted surplus earnings (deficit) before dividends to member caisses[1]	**$ (50)**	$ 339	$ 56
Contribution to consolidated surplus earnings by business segment[2]			
Personal and Business Services	**$ (10)**	$ 372	$ 85
Wealth Management and Life and Health Insurance	**(41)**	285	133
Property and Casualty Insurance	**73**	111	(81)
Treasury and Other Support to Desjardins Group Entities	**(72)**	(120)	(81)
	$ (50)	$ 648	$ 56
Indicators			
Return on equity[1]	**(1.7)%**	17.0%	1.7%
Adjusted return on equity[1]	**(1.7)**	8.7	1.7
Credit loss provisioning rate[1]	**1.21**	0.63	0.55
Gross credit-impaired loans/gross loans and acceptances[1]	**0.58**	0.56	0.64
On-balance sheet and off-balance sheet			
Assets	**$ 177,578**	$ 164,413	$ 162,449
Net loans and acceptances	**65,527**	65,493	60,859
Deposits	**69,318**	58,972	57,430
Equity	**15,925**	15,512	14,836
Assets under administration[3]	**395,770**	437,000	410,445
Assets under management[4]	**73,031**	77,018	70,720
Capital ratios and leverage ratio			
Tier 1A capital ratio	**17.6%**	16.9%	16.3%
Tier 1 capital ratio	**17.6**	16.9	16.3
Total capital ratio	**17.6**	16.9	16.3
Leverage ratio	**9.6**	9.0	7.9

(1) See “Non-GAAP measures”.
(2) The breakdown by line item is presented in Note 11, “Segmented information”, to the Interim Consolidated Financial Statements.
(3) Data for 2019 have been reclassified to conform to the current period's presentation.
(4) Assets under management may also be administered by the Federation. When this is the case, they are included in assets under administration.

MESSAGE FROM SENIOR MANAGEMENT

Lévis, May 13, 2020 – For the first quarter ended March 31, 2020, the Federation recorded a deficit before dividends to member caisses of $50 million, compared to surplus earnings of $56 million in the corresponding quarter of 2019, due to the negative financial impact of the COVID-19 pandemic. This impact included an increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook, the rise in travel insurance provisions after the Canadian government's announcement of travel restrictions, the increase in credit balance insurance provisions, and the decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads. The solid performance of the Property and Casualty Insurance segment, which reported higher premium income and a favourable claims experience compared to the first quarter of 2019, mitigated the decrease in surplus earnings.

This result reflects the contribution of $73 million made by the Property and Casualty Insurance segment. The Wealth Management and Life and Health Insurance segment and the Personal and Business Services segment recorded deficits of $41 million and $10 million, respectively.

In the context of the COVID-19 pandemic, the Government of Canada, through the Bank of Canada and the CMHC, deployed a number of financing initiatives to support the Canadian financial system by maintaining a source of financing for businesses. Like the Canadian banks, the Federation made use of these programs for an amount of $8.9 billion at the end of March and is continuing to participate in several of these programs in the second quarter of 2020. These additional sources of financing allow the Federation to maintain a sufficient level of liquidity to deal with the repercussions of the pandemic.

The Federation complies with Basel III rules and maintains very good capitalization. As at March 31, 2020, its Tier 1A and total capital ratios were both 17.6%, compared to 16.9% as at December 31, 2019.

"Last March, Québec and Canada were temporarily shut down to slow down the spread of the COVID-19," said Desjardins President and CEO Guy Cormier. "Desjardins was one of the first financial institutions to put in place relief measures for its members and clients. Desjardins was able to quickly adapt to the situation, thanks to its wide range of online services and the 38,000 employees who were able to work from home. Our financial stability will help us contribute the social and economic recovery, especially through the $150 million GoodSpark Fund announced at the end of April. I would also like to thank our members, clients and employees for their courage and resilience in these troubled times."

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Fédération des caisses Desjardins du Québec* (the Federation) is a cooperative entity of Desjardins Group (Desjardins Group or Desjardins). Desjardins Group comprises the Desjardins caisses in Québec and the Caisse Desjardins Ontario Credit Union Inc. (the caisses), the Federation and its subsidiaries, and the *Fonds de sécurité Desjardins*.

The Management's Discussion and Analysis (MD&A) dated May 13, 2020 presents the analysis of the results of and main changes to the Federation's balance sheet for the period ended March 31, 2020, in comparison to previous periods. The Federation reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* prescribed by the Canadian Securities Administrators (CSA). Information on the Federation's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements), including the notes thereto, as at March 31, 2020, and the Federation's 2019 Annual Report (the 2019 Annual Report), which contains the MD&A and the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements).

Additional information about the Federation is available on the SEDAR website at www.sedar.com (under the *Fédération des caisses Desjardins du Québec* profile). The Annual Information Form of the Federation can be found on SEDAR as well. Further information is available on the Desjardins website at www.desjardins.com/ca/about-us/investor-relations. None of the information presented on these sites is incorporated by reference into this MD&A.

The Annual and Interim Consolidated Financial Statements have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). These Interim Consolidated Financial Statements of the Federation have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". The accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

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

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

The Federation's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation. 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 include, but are not limited to, comments about the Federation's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Québec, Canadian, U.S. and global economies. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or the predictions, forecasts or other forward-looking statements as well as the Federation's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially.

A number of factors, many of which are beyond the Federation's control and the effects of which can be difficult to predict, could influence, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", of the Federation's 2019 annual MD&A, such as credit, market, liquidity, operational, insurance, strategic and reputation risk. Additional factors include legal and regulatory risk, environmental or social risk, and the risk related to pension plans.

Additional factors that may affect the accuracy of the forward-looking statements in this MD&A also include factors related to climate change, household indebtedness and real estate market trends, technological advancement and regulatory developments, interest rate fluctuations and geopolitical uncertainty. Furthermore, there are factors related to general economic and business conditions in regions in which the Federation operates; cyber threats; monetary policies; the accuracy and completeness of information concerning clients and counterparties; the critical accounting estimates and accounting standards applied by the Federation; new products and services to maintain or increase the Federation's market share; geographic concentration; acquisitions and joint arrangements; and credit ratings. Other factors include amendments to tax laws, unexpected changes in consumer spending and saving habits, talent recruitment and retention for key positions, the ability to implement the Federation's disaster recovery plan within a reasonable time, the potential impact of international conflicts on operations, public health crises, such as pandemics and epidemics, including the COVID-19 pandemic, or any other similar disease affecting the local, national or global economy, and the Federation's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in Section 4.0, "Risk management" of the Federation's 2019 annual MD&A.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on the Federation's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of the Federation's 2019 annual MD&A.

Although the Federation believes that the expectations expressed in these forward-looking statements are reasonable and founded on valid bases, it cannot guarantee that these expectations will materialize or prove to be correct. The Federation cautions readers against placing undue reliance on forward-looking statements when making decisions, given that actual results, conditions, actions or future events could differ significantly from the targets, expectations, estimates or intentions advanced in them, explicitly or implicitly. Readers who rely on these statements must carefully consider these risk factors and other uncertainties and potential events, including the uncertainty inherent in forward-looking statements.

The significant economic assumptions underlying the forward-looking statements in this document are described in Section 1.5 "Economic environment and outlook" of the Federation's 2019 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies.

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

SIGNIFICANT EVENTS

COVID-19 pandemic

On March 11, 2020, the World Health Organization declared a COVID-19 pandemic, and on March 13, 2020, the Québec government declared a public health emergency throughout Québec. The Canadian government introduced various protection measures during the first quarter of 2020. Following recommendations by government authorities concerning the spread of COVID-19, Desjardins Group implemented a number of protection and relief measures.

Desjardins Group annual general meetings

The Board of Directors of the Federation decided, in particular, to change the form of its 2020 annual general meetings (AGMs). Consequently, the statutory portion of the Federation's AGM was held virtually on Saturday, March 28, and the election of members of the Board of Directors and the Board of Ethics and Professional Conduct was postponed. The outgoing members of these two Desjardins bodies will thus remain in office. The Board of Directors of the Federation also requested that all caisses postpone their AGMs to a later date. Approval of member dividend payments has therefore been postponed as well, given that member dividends must be approved by members at their AGM.

Main financial relief measures for the benefit of members and clients

On March 16, 2020, Desjardins announced relief measures for its personal and business members and clients who might experience difficulty meeting their financial obligations because of the COVID-19 situation. The solutions available to personal members and clients can go as far as giving them payment relief for all their financing products and offering credit to members and clients who need quick access to cash. In addition to these measures, since April 6, 2020, Desjardins has been offering loans of last resort of up to $3,000 to personal members hit hard by COVID-19. In addition, since April 8, 2020, Desjardins is temporarily granting an annual interest rate of 10.9% to personal members and clients who have Desjardins Visa and MasterCard credit cards and obtained a payment deferral on a Desjardins financing product. For business members and clients, needs are analyzed on a case-by-case basis, and special measures could be adopted to meet them, such as a temporary revision of financing conditions for credit lines, a moratorium on principal debt repayment, accelerated decision-making, deferred payments on credit cards and Accord D financing, and refinancing of certain assets.

Desjardins also announced various other relief measures. On April 6, 2020, the Desjardins Group property and casualty insurance subsidiaries gave their personal and business insureds who were staying at home a refund on their auto insurance premium. As well, members and clients who are abroad and who have Desjardins travel insurance enjoy an assistance service that includes help to reserve airline tickets, support in case of a health emergency and financial help to cover living expenses.

By the beginning of May 2020, Desjardins had received more than 616,000 requests for relief measures since March 16. Of this number, more than 74,000 were to defer payments on credit cards, Accord D financing or automobile loans. For loans and credit lines, a total of nearly 111,000 requests were received, over 89,000 of which were related to mortgages. Concerning business members and clients, a total of more than 23,000 requests were received. Finally, over 408,000 requests were received concerning auto insurance.

In addition to these measures, Desjardins set up partnerships with the Québec and Canadian governments in order to offer solutions to members and clients, in particular the Canada Emergency Business Account, the Business Development Bank of Canada Co-Lending Program for SMEs and the concerted temporary action program for businesses (PACTE) with Investissement Québec.

Social and community measures

Desjardins Group also announced a number of public health and protection measures to help limit the spread of COVID-19 and its effects. These included reducing the number of service outlets open to members and clients, increasing the contactless payment limit for credit and debit cards at Desjardins payment terminals, reducing physical access hours at Desjardins caisses in Québec and Ontario, introducing assistance measures for young clients, improving support for members aged 70 and over, donating $475,000 to community organizations meeting basic needs and donating protective masks to the Québec government. Since the start of the crisis, Desjardins has also made various announcements asking its members and clients to limit travel and carry out their transactions from home. Finally, Desjardins set up special measures to ensure continuity of those of its services deemed essential during the COVID-19 situation. In this context, Desjardins has not announced any lay-offs or reduction in personnel.

To contribute to the reopening of the Québec economy, Desjardins has put forward a number of initiatives to encourage innovation and entrepreneurship and thereby help out Québec-based businesses and community organizations. These initiatives include the creation of the $150 million *Fonds du Grand Mouvement* and the $10 million C Fund, as well as a partnership with Google and Bonjour Startup Montréal to hold an innovation competition.

Impact of the pandemic

As mentioned in the “Economic environment and outlook” section of this MD&A, the pandemic has had disruptive effects in the countries and Canadian provinces where the Federation and Desjardins Group have operations and on the global economy more generally, while triggering higher volatility and a decline on financial markets. Considering as well the measures taken by Desjardins and by the federal and provincial governments to fight the spread of the virus (including social distancing measures, the shutdown of non-essential businesses, travel restrictions, lockdown of households and cancellation of gatherings and events), the impact of the COVID-19 pandemic could have a negative effect on the Federation’s financial position, profitability, reputation and operating results over the coming quarters. Desjardins is continuing to monitor developments in the COVID-19 pandemic and its potential detrimental effects of the organization’s operations.

On March 2, 2020, Desjardins Group released its financial objectives and outlook for 2020 in its annual MD&A for the year ended December 31, 2019, which did not take into account the potential impact of the disruptions related to the COVID-19 pandemic. Given the risk and uncertainty created by COVID-19 for the local, national and global economy, as well as for its members and clients and its operations, Desjardins Group has withdrawn its financial objectives and outlook for 2020 published in section 1.4 “Strategic orientations and financial objectives” of its 2019 annual MD&A.

The impact of the COVID-19 pandemic on the Federation’s financial results for the first quarter of 2020 is reflected particularly in the increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook, such as the rise in the unemployment rate and the drop in GDP, as well as the increase in travel insurance provisions following the Canadian government’s announcement of travel restrictions, leading to higher current and expected volumes of claims. The increase in credit balance insurance provisions and the decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads had a negative impact on first quarter 2020 financial results.

Changes to merchant financing activities

On October 31, 2019, the Federation announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Personal and Business Services segment.

Purchase of a home mortgage portfolio

On February 1, 2020, the Federation acquired a portfolio of quality home mortgages from La Capitale, for a total consideration of $474 million. This acquisition consolidated Desjardins Group’s leadership position in Québec’s residential mortgage market.

NON-GAAP MEASURES

To assess its performance, the Federation uses GAAP (IFRS) measures and various non-GAAP financial measures. Non-GAAP 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 GAAP measures. Investors, among others, may find these non-GAAP measures useful in analyzing financial performance. They are defined as follows:

Adjusted surplus earnings of the Federation before dividends to member caisses

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

The Federation's surplus earnings before dividends to member caisses are adjusted to exclude the following specific item: the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand to Global Payments, completed on December 31, 2019.

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

(in millions of dollars)	**For the three-month periods ended**		
	March 31, 2020	December 31, 2019	March 31, 2019
Presentation of surplus earnings (deficit) before dividends to member caisses in the Consolidated Financial Statements	**$ (50)**	$ 648	$ 56
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Presentation of adjusted surplus earnings (deficit) before dividends to member caisses	**$ (50)**	$ 339	$ 56

Adjusted net surplus earnings – Personal and Business Services segment

The Personal and Business Services segment's net surplus earnings are adjusted to exclude the following specific item: the gain, net of income taxes, related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand to Global Payments, completed on December 31, 2019.

The following table presents a reconciliation of the net surplus earnings of the Personal and Business Services segment as presented in the Consolidated Financial Statements and the adjusted net surplus earnings as presented in the MD&A.

(in millions of dollars)	**For the three-month periods ended**		
	March 31, 2020	December 31, 2019	March 31, 2019
Presentation of net surplus earnings (deficit) of the Personal and Business Services segment in the Consolidated Financial Statements	**$ (10)**	$ 372	$ 85
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Presentation of the adjusted net surplus earnings (deficit) of the Personal and Business Services segment	**$ (10)**	$ 63	$ 85

Gross credit-impaired loans/gross loans and acceptances

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

The "Gross credit-impaired loans by borrower category" table of the MD&A provides more detailed information on this ratio.

Average loans and acceptances – Average deposits – Average equity

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

Loss ratio – Expense ratio – Combined ratio

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

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

The loss ratio is comprised of the following ratios:
- Current year loss ratio, which is the loss ratio excluding catastrophe and major event claims expenses for the current year as well as changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.
- Loss ratio related to catastrophes and major events, which is the loss ratio including catastrophe and major event claims expenses for the current year, net of reinsurance and including the impact of reinstatement premiums, as applicable.
- Ratio of changes in prior year claims, which is the loss ratio including the effect of changes in prior year claims, net of related reinsurance, not including reinstatement premiums, as applicable.

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

The combined ratio is equal to the sum of the loss ratio and the expense ratio.

The following table presents the calculation of the loss ratio, the expense ratio and the combined ratio, as presented in the MD&A.

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Net premiums	**$ 1,377**	$ 1,303	$ 1,184
Net premiums considered in the ratio denominators	**$ 1,377**	$ 1,303	$ 1,184
Claims, benefits, annuities, and changes in insurance contract liabilities	**$ 1,042**	$ 834	$ 1,101
Market yield adjustment (MYA)	**(122)**	25	(77)
Claims, benefits, annuities and changes in insurance contract liabilities excluding the MYA	**$ 920**	$ 859	$ 1,024
Loss ratio	**66.8%**	65.9%	86.5%
Non-interest expense	**$ 330**	$ 320	$ 307
Other expenses excluded from the expense ratio(1)	**(3)**	-	1
Operating expenses	**$ 327**	$ 320	$ 308
Expense ratio	**23.7%**	24.6%	26.0%
Combined ratio	**90.5%**	90.5%	112.5%

(1) Comes mainly from investment management expenses as well as certain other expenses.

Return on equity and adjusted return on equity

Return on equity is used to measure profitability resulting in value creation for members and clients. Expressed as a percentage, it is equal to surplus earnings before dividends to member caisses, excluding the non-controlling interests' share, divided by average equity before non-controlling interests.

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

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Surplus earnings (deficit) before dividends to member caisses	**$ (50)**	$ 648	$ 56
Non-controlling interests' share	**(13)**	(20)	3
Group's share	**$ (63)**	$ 628	$ 59
Average equity before non-controlling interests' share	**$ 14,992**	$ 14,637	$ 13,947
Return on equity(1)	**(1.7)%**	17.0%	1.7%
Adjusted return on equity(1)(2)	**(1.7)%**	8.7%	1.7%

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

Income

Operating income

The concept of operating income is used to analyze financial results. This concept allows for better structuring of financial data and makes it easier to compare operating activities from one period to the next by excluding the volatility of results specific to investments, particularly regarding the extent of life and health insurance and Property and Casualty Insurance (P&C) operations, for which a very large proportion of investments are recognized at fair value through profit or loss. The analysis therefore breaks down the Federation's income into two parts, namely operating income and investment income, which make up total income. This measure is not directly comparable to similar measures used by other companies.

Operating income includes net interest income, generated mainly by the Personal and Business Services segment and the Treasury and Other Support to Desjardins Group Entities category, net premiums and other operating income such as assessments, service agreements, lending fees and credit card service revenues, income from brokerage and investment fund services, management and custodial service fees, foreign exchange income as well as other income. These items, taken individually, correspond to those presented in the Consolidated Financial Statements.

Investment income

Investment income includes net investment income on securities classified and designated as being at fair value through profit or loss, net investment income on securities classified as being at fair value through other comprehensive income, and net investment income on securities measured at amortized cost and other investment income, which are included under "Net investment income" in the Consolidated Statements of Income. Investment income also includes the overlay approach adjustment for insurance operations financial assets. The life and health insurance and P&C insurance subsidiaries' matching activities, which include changes in fair value, gains and losses on disposals and interest and dividend income on securities, are presented with investment income, given that these assets back insurance liabilities, which are recognized under expenses related to claims, benefits, annuities and changes in insurance contract liabilities in the Consolidated Financial Statements. In addition, this investment income includes changes in the fair value of investments for the Personal and Business Services segment, recognized at fair value through profit or loss.

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

(in millions of dollars)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Presentation of income in the Consolidated Financial Statements			
Net interest income	**$ 406**	$ 398	$ 365
Net premiums	**2,551**	2,556	2,345
Other income			
Assessments	**101**	98	98
Service agreements	**199**	198	186
Lending fees and credit card service revenues	**199**	195	210
Brokerage and investment fund services	**241**	226	214
Management and custodial service fees	**157**	162	147
Net investment income (loss)(1)	**(626)**	(51)	1,424
Overlay approach adjustment for insurance operations financial assets	**512**	(22)	(167)
Foreign exchange income	**44**	19	14
Other	**63**	401	73
Total income	**$ 3,847**	$ 4,180	$ 4,909
Presentation of income in the MD&A			
Net interest income	**$ 406**	$ 398	$ 365
Net premiums	**2,551**	2,556	2,345
Other operating income			
Assessments	**101**	98	98
Service agreements	**199**	198	186
Lending fees and credit card service revenues	**199**	195	210
Brokerage and investment fund services	**241**	226	214
Management and custodial service fees	**157**	162	147
Foreign exchange income	**44**	19	14
Other	**63**	401	73
Operating income	**3,961**	4,253	3,652
Investment income (loss)			
Net investment income (loss)(1)	**(626)**	(51)	1,424
Overlay approach adjustment for insurance operations financial assets	**512**	(22)	(167)
Investment income (loss)	**(114)**	(73)	1,257
Total income	**$ 3,847**	$ 4,180	$ 4,909

(1) The breakdown of this line item is presented in Note 10, "Net interest income and net investment income (loss)", to the Interim Consolidated Financial Statements.

Credit loss provisioning rate

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

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

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Provision for credit losses	**$ 199**	$ 103	$ 84
Average gross loans	**65,788**	64,937	61,771
Average gross acceptances	**231**	282	152
Average gross loans and acceptances	**$ 66,019**	$ 65,219	$ 61,923
Credit loss provisioning rate[(1)]	**1.21%**	0.63%	0.55%

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

THE FEDERATION'S PROFILE

The Federation is the cooperative entity which is responsible for assuming orientation, framework, coordination, treasury and development activities for Desjardins Group, and acts as a financial agent on Canadian and international capital markets. It provides its member caisses with a variety of services, including certain technical, financial and administrative services. The Federation's mission is also to ensure risk management and capital management for Desjardins Group and look after the financial health of the *Groupe coopératif Desjardins*, which comprises the Desjardins caisses in Québec, the Federation and the *Fonds de sécurité Desjardins*, as well as its sustainability pursuant to the *Act respecting financial services cooperatives*. The Federation had 218 member caisses in Québec as at March 31, 2020 as well as the Caisse Desjardins Ontario Credit Union Inc. A number of its subsidiaries are active across Canada, and the Federation maintains a presence in the U.S. through Desjardins Bank, National Association. The Caisse Desjardins Ontario Credit Union Inc. is the product of a merger between the *Fédération des caisses populaires de l'Ontario Inc.* and its 11 member caisses populaires. The merger took effect on January 1, 2020.

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

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

The Federation also has the right to participate in the Visa Inc. and MasterCard Inc. payment systems in Canada on behalf of Desjardins Group. In addition, it manages majority interests in joint-stock companies through holding companies.

CHANGES IN THE REGULATORY ENVIRONMENT

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

Desjardins Group closely monitors regulations for financial products and services, as well as new developments in fraud, corruption, tax evasion, protection of personal information, money laundering, terrorist financing and domestic and international economic sanctions in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard. Additional information can be found in the "Regulatory environment" section of the 2019 annual MD&A, and the "Capital management" section presents further information on regulatory developments relating to capital.

Rules concerning capital instruments

Desjardins Group, under the AMF's guideline on adequacy of capital base standards for financial services cooperatives, is subject to rules applicable to non-viability contingent capital (NVCC) in its regulatory capital. These rules are similar to the ones set out by the OSFI applicable to Canadian financial institutions. Although Desjardins Group has not yet issued any instrument subject to these rules, the Federation is able to issue NVCC on Canadian, U.S. and European markets.

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA)

The final version of the amendments to the PCMLTFA and its regulations, tabled in June 2018, was published in the Canada Gazette by the Department of Finance Canada on July 10, 2019. Some of the amendments took effect upon official publication and the rest will take effect in June 2020 and June 2021. In February 2020, the Department of Finance Canada published new proposed regulatory changes, which were commented by Desjardins. Desjardins Group is continuing to analyze the various regulatory changes and will make the required adjustments, particularly the changes to be made to the systems for electronic funds transfers and large cash transaction reports.

The *Income Tax Act* – Part XVIII (FATCA – Foreign Account Tax Compliance Act) and Part XIX (Common Reporting Standard)

In November 2019, the Canada Revenue Agency (CRA) announced regulatory changes taking effect on January 1, 2020. The changes were made to the guidance on the Canada-U.S. Enhanced Tax Information Exchange Agreement and the Common Reporting Standard (CRS). Although these changes have technically already taken effect, they have not been officially published. An impact analysis is under way and work sessions are continuing with the Canadian Life and Health Insurance Association, the Investment Industry Association of Canada, the Canadian Bankers Association, the Investment Funds Institute of Canada and the CRA.

Financial reforms in the U.S.

Should reform initiatives in the U.S. pertaining to financial regulation become a reality, they may affect non-U.S. financial institutions operating in the U.S., including Desjardins Group. The deregulation bill of U.S. Congress and the American regulators has been set in motion, in particular with the enactment of a statute providing some relief concerning certain rules prescribed by the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and a proposal for a draft regulation simplifying the Volcker rule which deals with proprietary trading and hedge fund ownership interests. On August 20, 2019, U.S. regulators at the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency approved changes to the Volcker rule. The rule was subsequently approved by the Securities and Exchange Commission and the Commodity Futures Trading Commission and finally by the U.S. Federal Reserve in October 2019. The changes took effect on January 1, 2020 and financial institutions will have until January 1, 2021 to comply. Desjardins Group is continuing its analysis to determine the impact of these changes on its operations.

Data confidentiality and security

Because of rapid changes in information technology, the protection of data confidentiality and data security are highly topical areas. In May 2019, the Government of Canada issued its Digital Charter, which provides 10 principles to guide the government's action in terms of information technology, big data and artificial intelligence. The Canadian and Québec governments also announced that they intended to update their respective protection of personal information laws. In Europe, the control authorities in charge of applying the *General Data Protection Regulation* imposed harsh penalties in 2019 on organizations that had failed to respect the regulation. In the U.S., the State of California passed a restrictive law on protection of personal information that took effect on January 1, 2020. Desjardins Group expects that stricter rules will be adopted by the Canadian and Québec governments for the protection of personal information, particularly enhanced powers for privacy commissioners, and it is keeping a close watch in order to assess the potential impacts on its operations.

Pillar 3 financial disclosure requirements

Desjardins Group continues to monitor changes in financial disclosure requirements under global standards developed by the Basel Committee on Banking Supervision (BCBS). These requirements related to the third pillar aim to enhance comparability across financial institutions, transparency and disclosure with regard to regulatory capital adequacy and risk exposure. In December 2016, the AMF filed an update of its guideline on the adequacy of capital base standards for financial services cooperatives, which includes revised Pillar 3 provisions. Desjardins Group has issued a Pillar 3 Report since December 31, 2018 in order to comply with it. In October 2019, as part of a public consultation by the AMF, Pillar 3 financial disclosure requirements were removed from the *Capital Adequacy Guideline* and included in a separate document entitled *Pillar 3 Disclosure Requirements Guideline*. This document took effect on January 1, 2020 and features new requirements that deal in particular with liquidity risk, operational risk, interest rate risk in the banking book and credit valuation adjustments. It was anticipated that these requirements would be phased in until January 1, 2022. However, on March 31, 2020, the AMF announced that the effective date of the disclosures was postponed to first quarter 2023 to allow financial institutions to optimize and prioritize their operations during the COVID-19 crisis. Desjardins Group is continuing to work toward compliance with these new requirements.

Report on Ontario's auto insurance system

Following the Ontario government's recent economic update concerning, among other things, property insurance and general insurance, the current automobile insurance plan will undergo another review. In the update, the government showed that it wanted to make automobile insurance more affordable for Ontario drivers. A first wave of changes is expected to roll out during the year. The Financial Services Regulatory Authority of Ontario (FSRA), the regulator that has overseen the province's financial regime since June 2019, will in particular study how insurance rates are regulated. The FSRA aims to be a modern and innovative regulator capable of responding to the dynamic pace of change in the marketplace, the industry and consumer expectations. The Canadian insurance industry, which includes Desjardins Group, is actively working with the current government to ensure a smooth transition to the FSRA until the new reform of Ontario's automobile insurance system is in place.

Modernization of the Canadian payments system

Since 2016, Payments Canada has been carrying on a complex, multiyear initiative to modernize the Canadian payments system that mobilizes the financial industry, the federal government and Payments Canada. Desjardins Group continues to monitor developments in this project and to analyze the potential impacts and advantages of payments system modernization and the emergence of new payment technologies.

Client focused reforms

In October 2019, the Canadian Securities Administrators (CSA) adopted new obligations for brokerage firms and investment dealers, called the Client Focused Reforms. The new obligations have to do in particular with "know your client" and "know your product", the suitability of recommendations and dealing with conflicts of interest. The CSA also developed a new fundamental requirement for registrants, namely that clients' interests come first in terms of suitability of investments. Desjardins Group is continuing its analysis to determine the impact on its operations and to comply within the time limit provided. The Client Focused Reforms have been in effect since December 31, 2019 and their application is expected to extend over a period of two years.

Guideline on Information and Communications Technology Risk Management

During the quarter, the AMF published the final version of the Guideline on Information and Communications Technology Risk Management (ICT), applying, in particular, to insurers and financial services cooperatives. The financial institutions targeted by the guideline are to comply with its expectations by January 23, 2021. Given the changes made compared to the previous draft of this guideline, Desjardins Group will continue to assess the impact of the guideline on its operations, including, in particular, any necessary adjustments in ICT-related risk management procedures.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The global economy was showing signs of improvement at the start of the year, due in part to reduced trade tensions between China and the United States. However, this situation changed with the outbreak of COVID-19 in China. At first, the Chinese economy experienced real difficulties, with an annualized drop of 33.8% in real GDP in the first quarter. The first consequences for the global economy were declining Chinese demand and supply problems. However, the coronavirus then spread to many other countries, becoming a full-blown pandemic that caused even more serious problems for economic development around the world. The sharp decline in tourism, the temporary closure of many services, and the required health and lockdown measures either suggested or imposed by the public authorities of many countries lead to significant declines in real GDP in the first quarter, with a drop of 14.4% in annualized GDP in the eurozone. The situation is expected to continue to deteriorate in the second quarter. The overall economic slowdown will depend on the duration of these measures and on their effectiveness in curbing the number of COVID-19 cases and the success of the lifting of the lockdown measures. A global recession is expected, and unemployment rates are expected to rise sharply in many countries. There may also be second-round effects on the economy through deteriorating confidence or falling incomes. However, the global economy is expected to rally in the second half of 2020 and in 2021, although activity levels will take time to return to pre-crisis level.

The financial markets also began 2020 on a positive note, with stock markets maintaining the momentum of the final months of 2019. Initially, the outbreak of the COVID-19 epidemic in China had only a limited impact on the markets, and several stock market indices climbed to new heights in mid-February. However, the spread of the epidemic in Europe and the Americas then triggered a true wave of panic, with several stock exchanges experiencing their sharpest corrections ever. Oil prices fell dramatically. Central bankers reacted quickly, with the U.S. Federal Reserve (the Fed) and the Bank of Canada slashing their key interest rates by 150 basis points in March, bringing them close to zero. The central banks also stepped up programs to ensure the smooth functioning of the financial markets and to avoid a credit crunch. This included enormous injections of liquidity and the announcement of massive purchases of financial securities. These central bank initiatives drove down federal bond rates and appeared to ease financial tensions at the end of March, but the stock markets nevertheless recorded one of the worst contractions in history in the first quarter of 2020.

North American central banks now believe that their key interest rates have reached their effective lower bounds, and have turned their focus to efforts to ensure the proper functioning of financial markets and favourable financial conditions. The key interest rates in North America should therefore remain stable for several quarters, which will help keep bond rates very low. If governments and central banks are able to limit the financial consequences of the current crisis for households and businesses, stock markets may consolidate their recent rally.

United States

The U.S. economy was quite strong at the beginning of 2020. The markets, as well as household and business confidence, were supported by key interest rate cuts in 2019 and the truce reached in the trade war with China. However, all this changed in mid-March due to a surge in COVID-19 cases. Voluntary or imposed lockdown measures led to a decline in activity and even to the temporary closure of many businesses. Real GDP fell 4.8% in the first quarter at an annualized rate, the worst decline since 2009. Millions of jobs have been lost quickly and the unemployment rate is expected to reach its highest level since the 1940s. Real GDP decline expected to be even deeper in second quarter 2020, but the U.S. economy should rebound as early as the third quarter, with a return to strong growth in 2021. This improvement will be supported by, among other things, the US$2,300 billion aid package approved by Congress and President Trump, as well as the measures implemented by the Fed.

Canada

Much like in every other jurisdiction, the Canadian economy is be deeply affected by the adverse effects of the COVID-19 pandemic. However, the situation in Canada had already been deteriorating since last fall when several temporary disruptive factors affected production. In fact, only 0.3% real GDP growth (annualized rate) was posted for the fourth quarter of 2019. A strike by CN employees severely hobbled rail transportation in November, and in October the Canadian auto industry was affected by a strike by the U.S. employees of General Motors. In November a broken oil pipeline in the United States disrupted the transportation of Canadian oil. Continued global trade tensions and uncertainties around the last-minute negotiations of the Canada-United States-Mexico Agreement (CUSMA) also affected business confidence in the fall.

Unfortunately, the rebound in the Canadian economy initially anticipated for early 2020 did not materialize. In February, rail transportation was disrupted by protests, hampering supply chains. In addition, the numerous measures adopted by the various levels of government to limit the COVID-19 pandemic in Canada will have a significant negative impact on the Canadian economy since March. The Canadian oil industry is also in turmoil due to the drop in oil prices. According to Statistics Canada, real GDP fell by around 2.6% in the first quarter, or almost 10% at an annualized quarterly rate. The fall in real GDP should be even more significant in the second quarter. The start of a gradual lifting of the lockdown measures across the country, however, suggests that real GDP could return to positive territory in the third quarter. However, the recovery of the Canadian economy should be slow and gradual.

Québec

The Québec economy lost momentum in the last quarter of 2019. Real GDP grew only slightly, by 0.5% (annualized), which was considerably slower than the 2.5% to 3.0% growth recorded in previous quarters. For 2019 as a whole, economic growth reached 2.7%, making for a third consecutive year with growth exceeding 2.5%. Spending on household consumption and residential investment grew at a good pace last year. The number of home sales set a new record, and price increases accelerated to 5.2% in 2019. The Québec economy began 2020 on a strong note, with continued overheating in the Montréal and Gatineau markets. In February, the annual increase in sales in the Québec market was over 25%, with prices up over 10%. The housing market will obviously suffer a certain paralysis in March and April due to measures implemented by the Québec government to contain the pandemic. Consumer spending will also be much weaker during this period.

This spring, the Quebec economy was hit hard by the general lockdown measures imposed earlier than elsewhere in the country. Household confidence fell further and the unemployment rate jumped from 4.5% in February to 8.1% in March, the largest increase among the provinces. Damage is expected to be greater in April given that non-essential activities have been stopped for a longer period than in March, but the economy is expected to rebound as early as May. Recovery will however be gradual according to the reopening plan. A level of activity lower than that before the crisis will persist by the end of 2021. Businesses will experience a rough period until the economy returns to normal, but government assistance programs should ease their financial problems. One thing is certain: the province's economic growth will give way to a major downturn, but this situation will turn around once the lockdown measures are lifted.

REVIEW OF FINANCIAL RESULTS

IMPACT OF SIGNIFICANT TRANSACTION

Changes related to merchant payment and financing activities in 2019

On December 31, 2019, the Federation completed the sale to Global Payments of the entire portfolio of merchants receiving services from the Federation under the Monetico brand, and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. On October 31, 2019, the Federation also announced it would gradually phase out in-store Accord D financing as of May 1, 2020. These activities were presented in the Personal and Business Services segment.

A $309 million gain, net of income taxes, related to the sale of the merchant portfolio was recognized in the Consolidated Statements of Income for the three-month period ended December 31, 2019.

ANALYSIS OF RESULTS

Financial results and indicators

(in millions of dollars and as a percentage)	For the three-month periods ended March 31, 2020	December 31, 2019	March 31, 2019
Results			
Net interest income	**$ 406**	$ 398	$ 365
Net premiums	**2,551**	2,556	2,345
Other operating income[1]			
Assessments	**101**	98	98
Service agreements	**199**	198	186
Lending fees and credit card service revenues	**199**	195	210
Brokerage and investment fund services	**241**	226	214
Management and custodial service fees	**157**	162	147
Foreign exchange income	**44**	19	14
Other	**63**	401	73
Operating income[1]	**3,961**	4,253	3,652
Investment income (loss)[1]			
Net investment income (loss)	**(626)**	(51)	1,424
Overlay approach adjustment for insurance operations financial assets	**512**	(22)	(167)
Investment income (loss)[1]	**(114)**	(73)	1,257
Total income	**3,847**	4,180	4,909
Provision for credit losses	**199**	103	84
Claims, benefits, annuities and changes in insurance contract liabilities	**2,083**	1,428	3,120
Non-interest expense	**1,728**	1,856	1,658
Income taxes on surplus earnings	**(113)**	145	(9)
Surplus earnings (deficit) before dividends to member caisses	**$ (50)**	$ 648	$ 56
Adjusted surplus earnings (deficit) before dividends to member caisses[1]	**$ (50)**	$ 339	$ 56
Contribution to consolidated surplus earnings by business segment[2]			
Personal and Business Services	**$ (10)**	$ 372	$ 85
Wealth Management and Life and Health Insurance	**(41)**	285	133
Property and Casualty Insurance	**73**	111	(81)
Treasury and Other Support to Desjardins Group Entities	**(72)**	(120)	(81)
	$ (50)	$ 648	$ 56
Indicators			
Return on equity[1]	**(1.7)%**	17.0%	1.7%
Adjusted return on equity[1]	**(1.7)**	8.7	1.7
Credit loss provisioning rate[1]	**1.21**	0.63	0.55

(1) See “Non-GAAP measures”.
(2) The breakdown by line item is presented in Note 11, “Segmented information”, to the Interim Consolidated Financial Statements.

COMPARISON OF THE FIRST QUARTERS OF 2020 AND 2019

Surplus earnings

For the first quarter ended March 31, 2020, the Federation recorded a deficit before dividends to member caisses of $50 million, compared to surplus earnings of $56 million in the corresponding quarter of 2019, due to the negative financial impact of the COVID-19 pandemic. This impact included an increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook, the rise in travel insurance provisions after the Canadian government’s announcement of travel restrictions, the increase in credit balance insurance provisions, and the decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads. The solid performance of the Property and Casualty Insurance segment, which reported higher premium income and a favourable claims experience compared to the first quarter of 2019, mitigated the decrease in surplus earnings.

Business segment contributions to surplus earnings

- Personal and Business Services: **Net deficit of $10 million,** compared to net surplus earnings of $85 million for the same period in 2019.
  - Increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook due to the COVID-19 pandemic.
  - Decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads in first quarter 2020 related to the COVID-19 pandemic.
- Wealth Management and Life and Health Insurance: **Net deficit of $41 million,** compared to net surplus earnings of $133 million for the comparative quarter, due to the following items related to the COVID-19 pandemic:
  - After the Canadian government's announcement of travel restrictions, increase in the current and expected volume of claim applications, leading to a rise in travel insurance provisions.
  - The markets' negative impact on guaranteed investment funds.
  - Increase in credit balance insurance provisions.
- Property and Casualty Insurance: **Contribution of $73 million,** compared to a net deficit of $81 million for the comparative quarter of 2019.
  - Higher net premiums.
  - Decrease in the cost of claims due to a lower loss experience than in the comparative quarter of 2019.
  - Offset by lower investment income.

- **Return on equity was (1.7%),** down compared to 1.7% for the quarter ended March 31, 2019, mainly because of the deficit in first quarter 2020, as explained earlier.

Operating income

Operating income totalled $3,961 million, up $309 million, or 8.5%, compared to the first quarter of 2019.

Net interest income was up $41 million, or 11.2%, to total $406 million, compared to $365 million for the same period in 2019, as a result of year-over-year growth in the entire average portfolio of loans and acceptances outstanding of $4.7 billion, or 7.7%, particularly loans to medium-sized businesses and large corporations, consumer loans and credit card products.

Net premiums were up $206 million, or 8.8%, compared to the first quarter of 2019, to total $2,551 million as at March 31, 2020.

Wealth Management and Life and Health Insurance segment

- **Net insurance and annuity premiums of $1,217 million,** up $20 million, or 1.7%, essentially because of the following:
  - Annuity premiums up $11 million, and individual insurance premiums up $7 million.

Property and Casualty Insurance segment

- **Net premiums of $1,377 million,** up $193 million, or 16.3%, essentially due to the following:
  - Growth in the average premium due to rate increases in the previous 12 months, reflecting the current trend in the Canadian property and casualty insurance industry.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of the Canadian operations of State Farm Mutual Automobile Insurance Company (State Farm).
  - Larger number of policies issued as a result of growth across all market segments and regions since the comparative quarter.

Other operating income stood at $1,004 million, which is an increase of $62 million, or 6.6%, compared to the first quarter of 2019, mainly due to the following:

- Growth in income from assets under management.
- Growth in income from securities brokerage activities.

This increase was partially offset by the following:

- Decrease in income following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.
- Larger increase than in first quarter 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

Investment income

A $114 million loss, presented under "Investment income (loss)" compared to income of $1,257 million in the first quarter of 2019, essentially due to the following items:

- Decrease primarily due to fluctuations in the fair value of assets backing liabilities related to life and health insurance operations.
  - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations combined with wider credit spreads, partly as a result of the COVID-19 pandemic.
  - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
- Decrease in the fair value of derivative financial instruments due in particular to volatility on financial markets and in credit spreads during first quarter 2020 and related to the COVID-19 pandemic.
- Lower trading income due to financial market volatility in first quarter 2020.

This decrease was partially offset by the following items:

- Higher gains on the disposal of securities and real estate investments compared to 2019.
- Larger increase in the fair value of matched bonds in the Property and Casualty Insurance segment than in the comparative quarter, mainly on account of a larger decline in market interest rates in the first quarter of 2020 compared to the first quarter of 2019. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

Total income

Total income amounted to $3,847 million, a decrease of $1,062 million, or 21.6%, compared to the same period in 2019.

Provision for credit losses

The provision for credit losses totalled $199 million, an increase of $115 million compared to the same period in 2019. The significant deterioration in the economic outlook due to the COVID-19 pandemic, such as the higher unemployment rate and the decline in GDP, resulted in a higher loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements.

The Federation has continued to present a quality loan portfolio in 2020.
- The credit loss provisioning rate was 1.21% for the first quarter of 2020, up compared to 0.55% for the corresponding period of 2019. The significant adjustment of the provision related to the pandemic, as explained earlier, was a major factor in the increase in this indicator.
- The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.58% compared to 0.64% as at March 31, 2019.

Claims, benefits, annuities and changes in insurance contract liabilities

Expenses related to claims, benefits, annuities and changes in insurance contract liabilities totalled $2,083 million, down $1,037 million, or 33.2%, compared to the corresponding quarter of 2019.

Wealth Management and Life and Health Insurance segment

- **Cost of claims of $1,041 million,** down $978 million, basically due to the following:
  - Reduction of $1,198 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments.
  - Offset, following the federal government's announcement of travel restrictions, by an increase in the current and expected volume of claim applications, leading to a rise in travel insurance provisions.

Property and Casualty Insurance segment

- **Cost of claims of $1,042 million,** down $59 million, or 5.4%, due to the following items:
  - Loss ratio of 66.8% for the quarter ended March 31, 2020, compared to 86.5% for the corresponding period in 2019.
    - Lower current year loss ratio compared to first quarter 2019, namely 76.2% compared to 89.7%. The first quarter of 2019 was marked by difficult weather conditions that contributed to an increase in the frequency of claims.
    - More favourable changes in prior year claims in first quarter 2020, i.e. (9.4)% vs. (5.7)%.
    - No catastrophes or major events during first quarter 2020, while in the corresponding quarter of 2019, four major events were noted.

  This decrease was partially offset by the following items:
  - Business growth, which led to a higher cost of claims.
  - More unfavourable impact of the decrease in the discount rates used to measure the provision for claims compared to first quarter 2019, offset by a similar increase in matched bonds.
  - Increase due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

Non-interest expense

- **Non-interest expense totalled $1,728 million,** up $70 million, or 4.2%, compared to the first quarter of 2019, mainly because of:
  - Higher salaries as a result of indexing and growth in operations.
  - Business growth resulting in an increase in expenses and the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations for the P&C Insurance segment.
  - Reduction in investment portfolio provisions in the first quarter of 2019.

Income taxes

- **Tax recovery on surplus earnings before dividends to member caisses of $113 million,** compared to a $9 million recovery in the first quarter of 2019, in particular because of the deficit recognized for the three-month period ended March 31, 2020 and the higher tax recovery in first quarter 2020 on the remuneration of F capital shares and G capital shares.

RESULTS BY BUSINESS SEGMENT

The Federation's financial reporting is organized by business segments, which are defined based on the needs of Desjardins Group's members and clients, the markets in which the Federation operates, and on its internal management structure. The Federation's financial results are divided into the following three business segments: Personal and Business Services, Wealth Management and Life and Health Insurance, and Property and Casualty Insurance. In addition to these three segments, there is also the Treasury and Other Support to Desjardins Group Entities category. This section presents an analysis of results for each of these segments. During the first quarter of 2020, certain changes were made to the business segments to reflect management's decisions concerning the way each segment is managed, as mentioned in the section on each one.

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

Additional information about each business segment, particularly its profile, activities, industry and 2020 strategies and priorities, can be found on pages 24 to 36 of the 2019 annual MD&A.

Personal and Business Services

The Personal and Business Services segment is central to Desjardins Group's operations. It is responsible for finetuning a comprehensive, integrated line of products and services designed to meet the needs of individuals, businesses, institutions, non-profit organizations and cooperatives offered through the Desjardins caisse network, its Desjardins Business centres and the Signature Service centres, as well as specialized teams. This is what makes Desjardins Group a leader in financial services in Québec and a player on the financial services scene in Ontario as well.

Desjardins's offer includes everyday financial management and savings transactions, payment services, financing, specialized services, access to capital markets, development capital, business ownership transfers and advisory services, and through its distribution network, life and health insurance and property and casualty insurance products.

In addition, caisse members and clients know that they can rely on the largest advisory force in Québec, made up of dedicated professionals who are there for them at every stage in their life or entrepreneurial growth.

To meet the constantly changing needs of caisse members and clients, the Federation supports the caisse network and its service centres in distributing products and services by optimizing the performance and profitability of physical and virtual networks by way of implementing and managing complementary access methods, by phone, online, via applications for mobile devices, and at ATMs.

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

On December 31, 2019, the Federation completed the sale to Global Payments of the entire portfolio of merchants receiving services from the Federation under the Monetico brand and finalized, as at January 1, 2020, a long-term partnership agreement with Global Payments, a company operating in the electronic payment sector. On October 31, 2019, the Federation also announced it would gradually phase out in-store Accord D financing as of May 1, 2020.

Personal and Business Services – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2020	December 31, 2019[1]	March 31, 2019[1]
Net interest income	**$ 319**	$ 319	$ 293
Other operating income[2]	**574**	896	546
Operating income[2]	**893**	1,215	839
Investment income (loss)[2]	**(26)**	11	19
Total income	**867**	1,226	858
Provision for credit losses	**193**	103	83
Non-interest expense	**686**	691	659
Income taxes on surplus earnings	**(2)**	60	31
Net surplus earnings (deficit) for the period	**$ (10)**	$ 372	$ 85
Specific item, net of income taxes			
Gain related to the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand	**-**	(309)	-
Adjusted net surplus earnings (deficit) for the period[2]	**$ (10)**	$ 63	$ 85
Indicators			
Average gross loans and acceptances[2]	**$ 34,897**	$ 33,934	$ 31,611
Average deposits[2]	**22,733**	16,830	17,693
Credit loss provisioning rate[2]	**2.22%**	1.20%	1.06%
Gross credit-impaired loans/gross loans and acceptances[2]	**1.07**	1.08	1.24

(1) Data for 2019 have been reclassified to conform to the current period's presentation.
(2) See "Non-GAAP measures".

COMPARISON OF THE FIRST QUARTERS OF 2020 AND 2019 – PERSONAL AND BUSINESS SERVICES

- **Net deficit of $10 million,** compared to net surplus earnings of $85 million for the comparative quarter, essentially due to:
  - Increase in the provision for credit losses, mainly as a result of the significant deterioration in the economic outlook due to the COVID-19 pandemic.
  - Decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads in first quarter 2020 related to the COVID-19 pandemic.

- **Operating income of $893 million,** up $54 million, or 6.4%.
  - Increase of $26 million in net interest income mainly as a result of year-over-year growth of $3.3 billion in the entire average portfolio of loans and acceptances outstanding, particularly loans to medium-sized businesses and large corporations, consumer loans and credit card products.
  - Other operating income of $574 million, up $28 million, or 5.1%, mainly due to the following:
    - Growth in income from securities brokerage activities.
    - Growth in income from new capital market issues.
    - Offset by a decrease in income following the sale of the entire portfolio of merchants receiving services from the Federation under the Monetico brand.

- **Loss of $26 million, presented under Investment income (loss),** compared to income of $19 million recognized in the comparative quarter, essentially because of:
  - Decrease in the fair value of derivative financial instruments due in particular to the volatility of financial markets and credit spreads in first quarter 2020 related to the COVID-19 pandemic.
  - Lower trading income due to financial market volatility in first quarter 2020.

- **Total income of $867 million,** up $9 million, or 1.0%.

- **Provision for credit losses of $193 million,** up $110 million compared to the same period in 2019. The significant deterioration in the economic outlook due to the COVID-19 pandemic, such as the higher unemployment rate and the decline in GDP, resulted in a higher loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, “Loans and allowance for credit losses”, to the Interim Consolidated Financial Statements.

- **Non-interest expense of $686 million,** up $27 million, or 4.1%, essentially due to:
  - Growth in payment activities, including expenses related to the rewards program, and growth in financing activities.
  - Business growth, especially in activities aimed at enhancing the service offer to caisse members and clients, including activities related to the online business centre and the shared services centre.

Wealth Management and Life and Health Insurance

The Wealth Management and Life and Health Insurance segment combines different categories of service offers aimed at growing the assets of Desjardins Group members and clients and helping them protect their financial security. These offers are intended for individuals and businesses, while its group insurance and savings plans meet the needs of employees through their company, or individuals who are part of any other group.

The segment designs several lines of individual insurance (life and health) coverage as well as savings and investment products. In addition to its own products and services, it distributes external savings and investment products as well as securities and private wealth management services. The segment also includes asset management for institutional clients.

The greatest strengths of the Wealth Management and Life and Health Insurance segment include its vast and diversified Canada-wide distribution networks, which are mainly comprised of:
- Employees of the caisse network and Desjardins Business centres.
- Financial security advisers dedicated to caisse members.
- Investment advisers and private managers.
- Exclusive agents and independent partners.
- Actuarial consulting firms and group plan representatives.

To meet members’ and clients’ needs and preferences, certain product lines are also distributed directly via customer care centres, online or through applications for mobile devices. Online services are constantly being finetuned so that they meet clients’ changing requirements.

The operations of Desjardins Securities Inc. and Desjardins Investment Management Inc., such as securities brokerage and private management activities, formerly reported in the Wealth Management and Life and Health Insurance segment, have been fully included in the Personal and Business Services segment since the first quarter of 2020, while the operations of Desjardins Trust Inc., such as custodial and trust services, formerly reported in the Personal and Business Services segment, have been fully included in the Wealth Management and Life and Health Insurance segment since the first quarter of 2020. Data for 2019 have been reclassified to conform to these changes.

Wealth Management and Life and Health Insurance – Segment results

(in millions of dollars)	For the three-month periods ended		
	March 31, 2020	December 31, 2019[1]	March 31, 2019[1]
Net interest income	**$ 3**	$ 2	$ 3
Net premiums	**1,217**	1,291	1,197
Other operating income[2]	**321**	312	306
Operating income[2]	**1,541**	1,605	1,506
Investment income (loss)[2]	**(43)**	(158)	1,170
Total income	**1,498**	1,447	2,676
Provision for credit losses	**2**	-	-
Claims, benefits, annuities and changes in insurance contract liabilities	**1,041**	588	2,019
Non-interest expense	**524**	528	492
Income taxes on surplus earnings	**(28)**	46	32
Net surplus earnings (deficit) for the period	**$ (41)**	$ 285	$ 133
Indicators			
Net sales of savings products	**$ 1,899**	$ 853	$ 1,213
Insurance sales	**122**	93	202
Group insurance premiums	**832**	811	830
Individual insurance premiums	**222**	236	215
Annuity premiums	**163**	244	152
Segregated fund receipts	**765**	617	536

(1) Data for 2019 have been reclassified to conform to the current period's presentation.
(2) See "Non-GAAP measures".

COMPARISON OF THE FIRST QUARTERS OF 2020 AND 2019 – WEALTH MANAGEMENT AND LIFE AND HEALTH INSURANCE

- **Net deficit of $41 million,** compared to net surplus earnings of $133 million for the corresponding quarter, due to the following items related to the COVID-19 pandemic:
  - After the Canadian government's announcement of travel restrictions, increase in the current and expected volume of claim applications, leading to a rise in travel insurance provisions.
  - Markets' negative impact on guaranteed investment funds.
  - Increase in credit balance insurance provisions.

- **Operating income of $1,541 million,** up $35 million, or 2.3%.

- **Net premiums of $1,217 million,** up $20 million, or 1.7%, essentially because of the following:
  - Annuity premiums up $11 million, and individual insurance premiums up $7 million.

- **Other operating income of $321 million,** up $15 million, or 4.9%, mainly as a result of the growth in income from assets under management.

- **Loss of $43 million, presented under Investment income (loss)**, compared to income of $1,170 million observed in the comparative quarter.
  - Decrease primarily due to change in the fair value of assets backing liabilities related to life and health insurance operations.
    - Change mostly due to fluctuations in the fair value of the bond portfolio mainly related to interest rate variations combined with wider credit spreads, partly as a result of the COVID-19 pandemic.
    - Decrease largely offset by the change in actuarial liabilities leading to lower expenses related to claims, benefits, annuities and changes in insurance contract liabilities.
  - Mitigated by higher gains on the disposal of securities and real estate investments compared to 2019.

- **Total income of $1,498 million**, down $1,178 million, or 44.0%.

- **Expenses related to claims, benefits, annuities and changes in insurance contract liabilities of $1,041 million,** down $978 million, essentially due to the following:
  - Reduction of $1,198 million in actuarial liabilities under "Insurance contract liabilities", which included the effect of the decrease in the fair value of matched investments.
  - Offset by higher benefits essentially related to the increase in claim applications related to the COVID-19 pandemic, as previously mentioned.

- **Non-interest expense of $524 million,** up $32 million, or 6.5%, chiefly as a result of the following:
  - Decrease in investment portfolio provisions in first quarter 2019.
  - Higher expenses related to assets under management.

Property and Casualty Insurance

The Property and Casualty Insurance segment offers insurance products providing coverage for Desjardins Group members and clients against disasters. It includes the operations of Desjardins General Insurance Group Inc. and its subsidiaries. Desjardins General Insurance Group Inc. offers a personal line of automobile and property insurance products across Canada and also provides businesses with insurance products. Its products are distributed through property and casualty insurance agents in the Desjardins caisse network in Québec, a number of client care centres (call centres) and Desjardins Business centres, through an exclusive agent network of close to 500 agencies in Ontario, Alberta and New Brunswick distributing P&C insurance and several other financial products online and via applications for mobile devices.

Desjardins General Insurance Group Inc., which has more than 3,000,000 clients, markets its products to the Canada-wide individual and business market under the Desjardins Insurance banner, and to the group market—including members of professional associations and unions, and employers' staff—under The Personal banner. Desjardins Group has completed the integration of State Farm's Canadian operations and now offers its products under the Desjardins Insurance banner through the exclusive agent network.

Property and Casualty Insurance – Segment results

(in millions of dollars and as a percentage)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Net premiums	**$ 1,377**	$ 1,303	$ 1,184
Other operating income (loss)[(1)]	**(29)**	(63)	(12)
Operating income[(1)]	**1,348**	1,240	1,172
Investment income[(1)]	**114**	68	135
Total income	**1,462**	1,308	1,307
Claims, benefits, annuities and changes in insurance contract liabilities	**1,042**	834	1,101
Non-interest expense	**330**	320	307
Income taxes on surplus earnings	**17**	43	(20)
Net surplus earnings (deficit) for the period	**$ 73**	$ 111	$ (81)
Of which:			
Group's share	**$ 60**	$ 91	$ (78)
Non-controlling interests' share	**13**	20	(3)
Indicators			
Gross written premiums	**$ 1,244**	$ 1,316	$ 1,173
Loss ratio[(1)]	**66.8%**	65.9%	86.5%
Current year loss ratio[(1)]	**76.2**	76.4	89.7
Loss ratio related to catastrophes and major events[(1)]	**-**	4.2	2.5
Ratio of favourable changes in prior year claims[(1)]	**(9.4)**	(14.7)	(5.7)
Expense ratio[(1)]	**23.7**	24.6	26.0
Combined ratio[(1)]	**90.5**	90.5	112.5

(1) See "Non-GAAP measures".

COMPARISON OF THE FIRST QUARTERS OF 2020 AND 2019 – PROPERTY AND CASUALTY INSURANCE

- **Net surplus earnings of $73 million,** compared to a net deficit of $81 million for the comparative quarter, due to:
  - Higher net premiums.
  - Decrease in the cost of claims due to a lower loss experience than in the comparative quarter of 2019.
  - Offset by lower investment income.

- **Operating income of $1,348 million,** up $176 million, or 15.0%.

- **Net premiums of $1,377 million,** up $193 million, or 16.3%, due essentially to:
  - Growth in the average premium due to rate increases in the previous 12 months, reflecting the current trend in the Canadian P&C market.
  - End of the cession of premiums for new business and renewals after the acquisition date under the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.
  - Larger number of policies issued as a result of growth across all market segments and regions since the comparative quarter.

- **Loss totalling $29 million, presented under "Other operating income (loss)",** up $17 million, essentially as a result of the larger increase than in first quarter 2019 in the contingent consideration payable as part of the acquisition of State Farm's Canadian operations and arising from the favourable developments in claims taken over.

- **Investment income of $114 million,** down $21 million, or 15.6%, as a result of:
  - Unfavourable results for derivative financial instruments versus favourable results in the comparative quarter.
  - Net loss on common shares higher than in the comparative quarter.
  - Offset by a larger increase in the fair value of matched bonds than in the comparative quarter, mainly on account of lower market interest rates in the first quarter of 2020 than in the corresponding period in 2019. It should be remembered that this increase in the value of bonds was offset by a similar increase in the cost of claims because of a matching strategy.

- **Total income of $1,462 million,** up $155 million, or 11.9%.

- **Cost of claims totalling $1,042 million,** down $59 million, or 5.4%, as a result of:
  - Loss ratio of 66.8% for the period ended March 31, 2020, compared to 86.5% for the corresponding period in 2019.
    - Lower current year loss ratio compared to the first quarter 2019, namely 76.2% compared to 89.7%. The first quarter of 2019 was affected by difficult weather conditions that contributed to an increase in the frequency of claims.
    - More favourable changes in prior year claims in first quarter 2020, i.e. (9.4)% vs. (5.7)%.
    - No catastrophes or major events during first quarter 2020, while in the corresponding quarter of 2019, four major events were noted.

  This decrease was partially offset by the following:
  - Business growth, which led to a higher cost of claims.
  - More unfavourable impact of the decrease in the discount rates used to measure the provision for claims compared to first quarter 2019, offset by a similar increase in matched bonds.
  - Increase due to the effect of the reinsurance treaty signed as part of the acquisition of State Farm's Canadian operations.

- **Non-interest expense of $330 million,** up $23 million, or 7.5%, because of:
  - Business growth leading to higher expenses.
  - Effect of the reinsurance treaty, as previously mentioned, on the expenses covered by the treaty.
  - Offset by the remeasurement of the deferred compensation plan provision for Desjardins agents on account of higher discount rates.

Treasury and Other Support to Desjardins Group Entities category

The Treasury and Other Support to Desjardins Group Entities category includes financial information that is not specific to a business segment. It mainly includes treasury activities and financial intermediation between the caisses' liquidity surpluses or needs, as well as orientation and organizational activities for Desjardins Group, including finances, administration, risk management, human resources, communications and marketing. This category also includes the operations of Desjardins Capital Inc. and Desjardins Technology Group Inc., which encompasses all of Desjardins Group's IT operations. In addition to various adjustments required to prepare the Interim Consolidated Financial Statements, intersegment balance eliminations are classified in this category.

Treasury and Other Support to Desjardins Group Entities

(in millions of dollars)	For the three-month periods ended		
	March 31, 2020	December 31, 2019[1]	March 31, 2019[1]
Net interest income	**$ 84**	$ 77	$ 69
Net premiums	**(43)**	(38)	(36)
Other operating income[2]	**138**	154	102
Operating income[2]	**179**	193	135
Investment income (loss)[2]	**(159)**	6	(67)
Total income	**20**	199	68
Provision for credit losses	**4**	-	**1**
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	6	-
Non-interest expense	**188**	317	200
Income taxes on surplus earnings	**(100)**	(4)	(52)
Deficit before dividends to member caisses	**(72)**	(120)	(81)
Dividends to member caisses, net of tax recovery	**-**	84	-
Net deficit for the period after dividends to member caisses	**$ (72)**	$ (204)	$ (81)

(1) Data for 2019 have been reclassified to conform to the current period's presentation.
(2) See "Non-GAAP measures".

COMPARISON OF THE FIRST QUARTERS OF 2020 AND 2019 – CONTRIBUTION TO SURPLUS EARNINGS OF TREASURY AND OTHER SUPPORT TO DESJARDINS GROUP ENTITIES CATEGORY

- **Deficit of $72 million before dividends to member caisses,** compared to a deficit of $81 million for the corresponding period of 2019.
  - Higher tax recovery in first quarter 2020 on the remuneration of F capital shares and G capital shares.
  - In relation to treasury activities, market rate fluctuations as well as changes in hedging positions for matching activities had an unfavourable effect on net interest income and investment income.
  - Reduction in investment portfolio provisions in the first quarter of 2019.
  - Non-interest expense included expenses related to the continued implementation of Desjardins-wide strategic projects, in particular, to improve systems and processes as well as to create innovative technology platforms mainly related to the digital shift and information security, thereby enhancing the member and client experience and improving productivity. It also included amounts paid out under the Desjardins Member Advantages program.

SUMMARY OF INTERIM RESULTS

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

Results of the most recent eight quarters

(in millions of dollars)	2020	2019				2018		
	Q1[1]	Q4[1]	Q3[1]	Q2[1]	Q1[1]	Q4	Q3	Q2
Net interest income	**$ 406**	$ 398	$ 404	$ 372	$ 365	$ 398	$ 382	$ 353
Net premiums	**2,551**	2,556	2,354	2,270	2,345	2,246	2,288	2,225
Other operating income[2]								
Assessments	**101**	98	99	98	98	97	97	99
Service agreements	**199**	198	190	199	186	193	179	186
Lending fees and credit card service revenues	**199**	195	192	185	210	177	172	164
Brokerage and investment fund services	**241**	226	223	223	214	211	216	223
Management and custodial service fees	**157**	162	153	148	147	138	154	144
Foreign exchange income	**44**	19	18	19	14	29	15	21
Other	**63**	401	30	28	73	11	52	163
Operating income[2]	**3,961**	4,253	3,663	3,542	3,652	3,500	3,555	3,578
Investment income (loss)[2]								
Net investment income (loss)	**(626)**	(51)	581	991	1,424	(42)	(213)	299
Overlay approach adjustment for insurance operations financial assets	**512**	(22)	(13)	10	(167)	258	76	20
Investment income (loss)[2]	**(114)**	(73)	568	1,001	1,257	216	(137)	319
Total income	**3,847**	4,180	4,231	4,543	4,909	3,716	3,418	3,897
Provision for (recovery of) credit losses	**199**	103	129	(6)	84	63	73	63
Claims, benefits, annuities and changes in insurance contract liabilities	**2,083**	1,428	2,263	2,361	3,120	1,821	1,380	1,727
Non-interest expense	**1,728**	1,856	1,608	1,816	1,658	1,598	1,598	1,568
Income taxes on surplus earnings	**(113)**	145	20	56	(9)	6	68	75
Surplus earnings (deficit) before dividends to member	**(50)**	648	211	316	56	228	299	464
Dividends to member caisses, net of income tax recovery	**-**	84	-	-	-	51	-	-
Net surplus earnings (deficit) for the period after dividends to member caisses	**$ (50)**	$ 564	$ 211	$ 316	$ 56	$ 177	$ 299	$ 464
Of which:								
Group's share	**$ (63)**	$ 544	$ 200	$ 298	$ 59	$ 169	$ 286	$ 453
Non-controlling interests' share	**13**	20	11	18	(3)	8	13	11

(1) The information presented for the 2020 and 2019 quarters takes into account IFRS 16, "Leases", adopted on January 1, 2019. The comparative data have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.
(2) See "Non-GAAP measures".

Quarterly income, expenses and surplus earnings before dividends to member caisses are affected by certain trends, including seasonal variations, and by changes in general economic conditions and the capital markets. The results of the first quarter of 2020 were affected by the financial impact of the COVID-19 pandemic, while the results of the fourth quarter of 2019 were affected by the sale to Global Payments of the entire portfolio of merchants receiving services from the Federation under the Monetico brand, completed on December 31, 2019. The results of the second quarter of 2018 were affected by the transaction involving Qtrade Canada Inc. and the interest in the associate Northwest & Ethical Investments L.P., completed on April 1, 2018. For more information about quarterly trends, see pages 39 to 41 of the 2019 annual MD&A.

BALANCE SHEET REVIEW

BALANCE SHEET MANAGEMENT

Consolidated Balance Sheets

(in millions of dollars and as a percentage)	As at March 31, 2020		As at December 31, 2019	
Assets				
Cash and deposits with financial institutions	**$ 8,925**	**5.0%**	$ 3,084	1.9%
Securities	**51,828**	**29.2**	49,433	30.1
Securities borrowed or purchased under reverse repurchase agreements	**13,268**	**7.5**	11,352	6.9
Net loans and acceptances	**65,527**	**36.9**	65,493	39.8
Segregated fund net assets	**15,363**	**8.7**	17,026	10.4
Derivative financial instruments	**7,409**	**4.2**	4,795	2.9
Other assets	**15,258**	**8.5**	13,230	8.0
Total assets	**$ 177,578**	**100.0%**	$ 164,413	100.0%
Liabilities and equity				
Deposits	**$ 69,318**	**39.0%**	$ 58,972	35.9%
Commitments related to securities sold short	**8,901**	**5.0**	10,615	6.5
Commitments related to securities lent or sold under repurchase agreements	**13,368**	**7.5**	10,562	6.4
Derivative financial instruments	**5,327**	**3.0**	4,827	2.9
Insurance contract liabilities	**31,883**	**18.0**	31,637	19.2
Segregated fund net liabilities	**15,352**	**8.6**	17,002	10.3
Other liabilities	**16,105**	**9.1**	13,888	8.5
Subordinated notes	**1,399**	**0.8**	1,398	0.9
Equity	**15,925**	**9.0**	15,512	9.4
Total liabilities and equity	**$ 177,578**	**100.0%**	$ 164,413	100.0%

Assets

As at March 31, 2020, the Federation's total assets stood at $177.6 billion, up by $13.2 billion, or 8.0%, since December 31, 2019. This growth was due in part to a $5.8 billion increase in cash and deposits with financial institutions. In addition, securities, including those borrowed or purchased under reverse repurchase agreements, and derivative financial instrument assets were up by $4.3 billion and $2.6 billion, respectively.

The Federation's cash and deposits with financial institutions increased by $5.8 billion, in particular due to the liquidity obtained under the Government of Canada's funding initiatives, through the Bank of Canada and CMHC, to support the Canadian financial system during the COVID-19 pandemic. Securities, including securities borrowed or purchased under reverse repurchase agreements, increased by $4.3 billion, or 7.1%, because of growth in market activities and totalled $65.1 billion.

The Federation's outstanding loan portfolio, including acceptances, net of the allowance for credit losses, increased by $34 million, or 0.1%.

Loans and acceptances

(in millions of dollars and as a percentage)	As at March 31, 2020		As at December 31, 2019	
Residential mortgages	**$ 4,517**	**6.8%**	$ 4,183	6.3%
Consumer, credit card and other personal loans	**19,722**	**29.8**	20,567	31.2
Business and government	**41,841**	**63.4**	41,207	62.5
	66,080	**100.0%**	65,957	100.0%
Allowance for credit losses	**(553)**		(464)	
Total loans and acceptances by borrower category	**$ 65,527**		$ 65,493	

Outstanding business and government loans, including acceptances, increased by $634 million, or 1.5%. Residential mortgages were up $334 million, or 8.0%. Consumer, credit card and other personal loans outstanding were down $845 million, or 4.1%, since the end of 2019.

Information on the quality of the Federation's credit portfolio can be found in the "Risk management" section, on pages 28 and 29 of this MD&A.

Segregated fund net assets were down $1.7 billion, or 9.8%, because of the decline on financial markets.

Derivative financial instrument assets grew by $2.6 billion because of the significant drop in interest rates, partly offset by a deterioration in market conditions.

Other assets increased by $2.0 billion, or 15.3%, as a result of the higher amounts receivable from clients, brokers and financial institutions.

Liabilities

The Federation's total liabilities amounted to $161.7 billion as at March 31, 2020, up $12.8 billion, or 8.6%, since December 31, 2019, primarily due to the increase in deposits.

Outstanding deposits grew by $10.3 billion, or 17.5%. The increase in business and government deposits, which comprised 82.4% of the Federation's total deposit portfolio as at the same date, largely accounted for this growth. In fact, outstanding deposits were up $8.2 billion, or 16.7%. Various securities, including commercial paper and covered bonds, issued on U.S., Canadian and European markets, which made it possible to support the growth of the Federation's funding requirements, were partly responsible for this increase.

Deposits outstanding from deposit-taking institutions were up $2.0 billion, or 32.2%. This deposit category accounted for 12.1% of the Federation's total deposit portfolio as at the same date. Personal deposits were up by $123 million, or 3.3%.

Deposits

(in millions of dollars and as a percentage)	As at March 31, 2020		As at December 31, 2019	
Individuals	**$ 3,838**	**5.5%**	$ 3,715	6.3%
Business and government	**57,108**	**82.4**	48,924	83.0
Deposit-taking institutions	**8,372**	**12.1**	6,333	10.7
Total deposits	**$ 69,318**	**100.0%**	$ 58,972	100.0%

Commitments related to securities sold short and lent or sold under repurchase agreements increased by $1.1 billion, or 5.2%, to reach a volume of $22.3 billion.

Derivative financial instrument liabilities increased by $500 million, or 10.4%, because of lower interest rates.

The Federation's insurance contract liabilities were up by $246 million, or 0.8%.

Segregated fund net liabilities decreased by $1.7 billion, or 9.7%, as a result of the decline in financial markets.

Other liabilities grew by $2.2 billion, or 16.0%, due to the higher amounts payable to clients, brokers and financial institutions, partly offset by the decrease in defined benefit plan net liabilities as a result of the increase in discount rates.

Equity

Equity was up $413 million, or 2.7%, since December 31, 2019, in particular on account of the increase of $576 million in other comprehensive income. The net deficit for the first three months of 2020, after dividends to member caisses of $50 million, partially offset this increase.

Note 22, "Capital stock", to the Annual Consolidated Financial Statements provides additional information about the Federation's capital stock.

CAPITAL MANAGEMENT

Capital management is crucial to the financial management of Desjardins Group as a whole, including the Federation. Its goal is to ensure that the capital level and structure of Desjardins Group and its components are consistent with their risk profile, distinctive nature and cooperative objectives. Capital management must also ensure that the capital structure is adequate in terms of protection for members and clients, and regulators' expectations and requirements. In addition, it must optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group. Additional information on the Integrated Capital Management Framework can be found in the "Capital management" section of the Federation's 2019 annual MD&A.

Regulatory framework and internal policies

Desjardins Group's capital management is the responsibility of the Federation's Board of Directors. To support it with this task, it has mandated the Management Committee, through the Finance and Risk Management Committee, to ensure that Desjardins Group, including the Federation, has a sufficient capital base in light of the organization's strategic objectives and regulatory obligations. The Finance, Treasury and Administration Executive Division is responsible for preparing, on an annual basis, a capitalization plan to forecast capital trends, devise strategies and recommend action plans for achieving capital objectives and targets.

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

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

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

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

In this regard, it should be mentioned that the life and health insurance subsidiaries under provincial jurisdiction are subject to the Capital Adequacy Requirements Guideline (CARLI) issued by the AMF. The property and casualty insurance subsidiaries under provincial jurisdiction must comply with the Guideline on Capital Adequacy Requirements issued by the AMF. The property and casualty insurance subsidiaries under federal jurisdiction must comply with the OSFI's Minimum Capital Test Guideline for federally regulated property and casualty insurance companies.

For the purpose of calculating capital, Desjardins Financial Corporation Inc., the holding corporation that mainly includes the insurance companies, has been deconsolidated and presented as a partial capital deduction under the rules for significant investments stated in the guideline. Furthermore, Desjardins Financial Corporation Inc. is subject to the AMF's CARLI guideline.

Adjustments to capital requirements related to the COVID-19 pandemic

On March 31, 2020, the AMF issued a series of measures aimed at supporting Québec's financial system. Additional measures were also issued on April 9. These measures are retroactive and apply to the first quarter of 2020. For the calculation of capital ratios and the leverage ratio as at March 31, 2020, Desjardins Group introduced the following measures:

- Exclusion of loans where payment deferrals have been granted. These loans are treated as performing loans for regulatory purposes if they were not in default at the time the moratorium took effect.
- Reduction of stressed Value-at-Risk multipliers under market risk.
- Exclusion of reserves with central banks and securities issued by sovereign borrowers that meet the eligibility criteria for high-quality liquid assets in the total exposure used when calculating the leverage ratio.

Regulatory developments

Desjardins Group continues to monitor changes in capital requirements under the global standards developed by the Basel Committee on Banking Supervision (BCBS) and to assess their impact on the capital ratios and the leverage ratio. Additional information in this regard can be found in the Federation's 2019 annual MD&A on page 46. The "Changes in the regulatory environment" section also presents additional details on regulation as it affects all Desjardins Group operations.

On March 27, the BCBS announced the postponement of the international implementation calendar for the Basel III reforms released in December 2017. In line with this extension, the AMF announced on March 31 that it was postponing the implementation date of these reforms to the first quarter of 2023. This postponement included the revisions to the Standardized Approach and the Internal Ratings-Based Approach for credit risk, the operational risk framework, the leverage ratio framework, and the introduction of a more risk-sensitive capital floor.

Implementation of the revisions to the BCBS market risk framework, namely the fundamental review of the trading book, issued in January 2019, was postponed until January 2024. As a result, the implementation date of the revised credit valuation adjustment risk framework has also been postponed until January 2024.

Compliance with requirements

The ratios presented below are the result of the application of the guideline on adequacy of capital base standards for financial services cooperatives based on the Federation's Consolidated Financial Statements in order to meet regulatory requirements. Given the revision of the Act, which introduced the concept of the Cooperative Group formalizing procedures such that the Federation could not be liquidated individually but only with the other Cooperative Group entities, please see the "Capital management" section of Desjardins Group's 2019 annual report for a complete assessment of the Federation's financial strength. This section is not incorporated by reference in the MD&A.

As at March 31, 2020, the Tier 1A, Tier 1 and total capital ratios, calculated in accordance with Basel III requirements, were all 17.6%. The leverage ratio was 9.6%.

As at March 31, 2020, the Tier 1A capital ratio was up 71 basis points compared to December 31, 2019, mainly due the decrease in net liabilities for defined benefit plans as at March 31 2020. The widening of credit spreads on the high-quality corporate bond market resulting from the economic context at the end of the first quarter of 2020 had a significant impact on the discount rate, which is one of the main actuarial assumptions used in the valuation of these liabilities. The main actuarial assumptions used will be updated on the next reporting date according to the economic conditions as at that date.

The Federation and its subsidiaries that are subject to minimum regulatory capital requirements were in compliance with said requirements as at March 31, 2020.

Regulatory capital

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

Main capital components

	Total capital		
	Tier 1 capital		Tier 2 capital
	Tier 1A[(1)]	Tier 1B[(1)]	
Eligible items	• Reserves and undistributed surplus earnings • Eligible accumulated other comprehensive income • Capital shares	• Non-controlling interests[(2)]	• General allowance • Subordinated notes subject to phase-out • NVCC subordinated notes[(3)] • Eligible qualifying shares
Regulatory adjustments	• Goodwill • Software • Other intangible assets • Deferred tax assets essentially resulting from loss carryforwards • Shortfall in allowance • Cross-investments		
Deductions	• Mainly significant investments in financial entities[(4)]	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes	• Investment in preferred shares of a component deconsolidated for regulatory capital purposes • Subordinated financial instrument

(1) The Tier 1A and Tier 1B ratios are the equivalent of the financial institutions' CET1 and AT1 ratios, for financial services cooperatives regulated by the AMF.
(2) The amount of non-controlling interests is determined, in particular, based on the nature of the operations and the capitalization level of the investee.
(3) These notes meet the Non-Viability Contingent Capital (NVCC) requirements of the guideline. No security of this type was issued as at March 31, 2020.
(4) Represent the portion of investments in the components deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.) that exceeds 10% of capital net of regulatory adjustments. In addition, when the non-deducted balance, plus deferred tax assets net of corresponding deferred tax liabilities, exceeds 15% of the adjusted capital, the surplus is also deducted from this capital. The net non-deducted balance is subject to risk-weighting at a rate of 250%.

Regulatory capital and capital ratios

(in millions of dollars and as a percentage)	As at March 31, 2020	As at December 31, 2019
Tier 1A capital		
Federation's capital shares	**$ 4,872**	$ 4,872
Other capital shares	**4,012**	4,012
Reserves	**1,058**	330
Undistributed surplus earnings	**5,316**	5,279
Eligible accumulated other comprehensive income	**(101)**	263
Deductions[(1)(2)]	**(3,574)**	(3,683)
Total Tier 1A capital	**11,583**	11,073
Total Tier 1 capital	**11,583**	11,073
Tier 2 capital		
Subordinated notes subject to phase-out	**510**	687
General allowance	**124**	106
Deductions[(1)]	**(634)**	(793)
Total Tier 2 capital	**-**	-
Total regulatory capital (Tiers 1 and 2)	**$ 11,583**	$ 11,073
Ratios and leverage ratio exposure		
Tier 1A capital[(3)]	**17.6%**	16.9%
Tier 1 capital[(3)]	**17.6**	16.9
Total capital[(3)]	**17.6**	16.9
Leverage[(4)]	**9.6**	9.0
Leverage ratio exposure	**$ 120,577**	$ 123,322

(1) As prescribed by the guideline, when an entity is required to make a deduction from a given capital component but is not adequately provisioned, the difference is deducted from the component of the next highest quality. If Tier 2 capital is insufficient to absorb a deduction, the undeducted portion will be deducted from Tier 1B, and then from Tier 1A, if necessary.
(2) Deductions from Tier 1A are comprised of regulatory adjustments ($525 million, $553 million in 2019), for which cross-investments ($39 million, $27 million in 2019), significant investments ($2,203 million, $2,416 million in 2019), and items that could not be deducted from Tiers 1B and 2 because of insufficient capital in these tiers ($846 million, $714 million in 2019).
(3) As prescribed by the guideline, the capital ratios are expressed as a percentage of regulatory capital to risk-weighted assets.
(4) The leverage ratio is calculated by dividing Tier 1 capital by the exposure measure, which is an independent measure of risk and includes: 1) on-balance sheet exposures, 2) securities financing transaction exposures, 3) derivative exposures, and 4) other off-balance sheet items.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them effective January 1, 2013, as prescribed. In accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began on January 1, 2013. The subordinated notes issued by Desjardins Capital Inc. are 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. Although Desjardins Group has not yet issued any securities of this type, the Federation is able to issue NVCC instruments on Canadian, U.S. and European markets.

Change in regulatory capital
For the three-month period ended

(in millions of dollars)	March 31, 2020
Tier 1A capital	
Balance at beginning of period	$ 11,073
Increase in reserves and undistributed surplus earnings[1]	765
Eligible accumulated other comprehensive income	(364)
Deductions	109
Balance at end of period	11,583
Total Tier 1 capital	11,583
Tier 2 capital	
Balance at beginning of period	-
Senior notes subject to phase-out	(177)
General allowance	18
Deductions	159
Balance at end of period	-
Total capital	$ 11,583

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

Risk-weighted assets (RWA)

The Federation calculates risk-weighted assets for credit risk, market risk and operational risk.

Credit risk

- The Federation uses the Internal Ratings-Based Approach for credit risk.
- Since March 2009, the Internal Ratings-Based Approach has been used for credit risk related to retail loan portfolios − Personal.
- Since December 2019, the Internal Ratings-Based Approach has been used for most exposures in the asset classes consisting of sovereign borrowers, financial institutions, businesses and SMEs similar to other retail client exposures.
- The Standardized Approach is used to measure the credit risk of certain exposures related to components of lesser importance, as well as asset classes that are not significant in terms of amount and perceived risk profile.

Market risk

- Since September 2018, the Federation has been using market risk internal models for trading portfolios.
- The Standardized Approach is used for foreign exchange risk and commodity risk in the banking portfolio.

Operational risk

- Since June 2017, the Federation has been using the Standardized Approach to calculate operational risk.

The Federation is also subject to an RWA floor. When the RWA modelled are lower than the RWA calculated using the Standardized Approach multiplied by a factor set by the AMF, the difference is added to the denominator of the regulatory capital, as specified in the guideline on adequacy of capital base standards for financial services cooperatives issued by the AMF.

As indicated in the table below, risk-weighted assets totalled $65.7 billion as at March 31, 2020. Of this amount, $54.4 billion was for credit risk, $2.3 billion for market risk, and $9.0 billion for operational risk. As at December 31, 2019, risk-weighted assets stood at $65.4 billion.

Risk-weighted assets

	Internal Ratings-Based Approach		Standardized Approach		Total as at March 31, 2020				Total as at December 31, 2019
(in millions of dollars and as a percentage)	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Exposure (1)	Risk-weighted assets	Capital requirement(2)	Average risk weighting rate	Risk-weighted assets
Credit risk other than counterparty risk									
Sovereign borrowers	$ 10,055	$ 638	$ 6,981	$ 4	$ 17,036	$ 642	$ 51	3.8%	$ 580
Financial institutions	6,405	1,998	26,857	5,391	33,262	7,389	591	22.2	6,929
Businesses	13,786	9,238	5,985	5,770	19,771	15,008	1,201	75.9	14,734
Securitizations	-	-	7	84	7	84	7	1,250.0	151
Equities	-	-	209	298	209	298	24	142.4	324
SMEs similar to other retail client exposures	3,787	3,009	11	9	3,798	3,018	241	79.5	2,878
Mortgages	1,475	251	392	137	1,867	388	31	20.8	270
Other retail client exposures (excluding SMEs)	7,152	3,774	1,343	1,008	8,495	4,782	383	56.3	4,856
Qualifying revolving retail client exposures	25,173	8,506	-	-	25,173	8,506	680	33.8	8,567
Subtotal - Credit risk other than counterparty risk	67,833	27,414	41,785	12,701	109,618	40,115	3,209	36.6	39,289
Counterparty risk									
Sovereign borrowers	88	2	-	-	88	2	-	2.3	1
Financial institutions	3,276	2,071	247	49	3,523	2,120	170	60.2	1,770
Businesses	-	-	58	12	58	12	1	20.0	8
Trading portfolio	1,079	944	445	364	1,524	1,308	105	85.9	794
Credit valuation adjustment (CVA) charge	-	-	-	-	-	2,310	185	-	1,623
Additional requirements for banking and trading portfolio	-	-	-	-	108	17	1	-	23
Subtotal - Counterparty risk	4,443	3,017	750	425	5,301	5,769	462	108.8	4,219
Other assets(3)	-	-	-	-	18,926	6,626	530	35.0	8,037
Scaling factor(4)	-	1,826	-	-	-	1,826	146	-	1,698
Total credit risk	72,276	32,257	42,535	13,126	133,845	54,336	4,347	40.6	53,243
Market risk									
Value at Risk (VaR)	-	393	-	-	-	393	31	-	406
Stressed VaR (SVaR)	-	528	-	-	-	528	42	-	1,394
Incremental risk charge (IRC)(5)	-	692	-	-	-	692	55	-	819
Other(6)	-	88	-	640	-	728	59	-	472
Total market risk(7)	-	1,701	-	640	-	2,341	187	-	3,091
Operational risk	-	-	-	8,985	-	8,985	719	-	9,063
Total risk-weighted assets	$ 72,276	$ 33,958	$ 42,535	$ 22,751	$ 133,845	$ 65,662	$ 5,253	-%	$ 65,397

(1) Net exposure after credit risk mitigation (net of loss allowance for expected credit losses on credit-impaired loans other than retail clients (except for credit card loans) under the Standardized Approach, excluding those using the Internal Ratings-Based Approach, according to the AMF guideline).

(2) The capital requirement represents 8% of risk-weighted assets.

(3) Other assets are measured using a method other than the Standardized Approach or the Internal Ratings-Based Approach. Other assets include the investments portion below a certain threshold in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Corporation Inc.), the investments portion below a certain threshold in associates as well as the portion of other deferred tax assets above a certain threshold. These three items are weighted at 250% and the deducted portion (namely above a certain threshold) is weighted at 0%. This class does not include the CVA charge and additional requirements for the banking and trading portfolios, which are disclosed in the counterparty credit risk section.

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

(5) Additional requirements representing an estimate of default and migration risks of unsecuritized products exposed to interest rate risk.

(6) “Other” means mainly capital requirements calculated using the Standardized Approach for foreign exchange risk and commodities risk in banking portfolios.

(7) As at March 31, 2020, the simulated value at risk multiplier was reduced in the calculation of market risk in accordance with the relief measures implemented by the AMF in response to the COVID-19 pandemic.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of operations, the Federation enters into various off-balance sheet arrangements, including assets under management and under administration on behalf of caisse members and clients, credit instruments, guarantees and structured entities, including securitization. Additional information can be found in the “Off-balance sheet arrangements” section of the Federation’s 2019 annual MD&A.

Note 13, “Interests in other entities”, and Note 28, “Commitments, guarantees and contingent liabilities”, to the Federation’s Annual Consolidated Financial Statements contain information about structured entities, credit instruments and guarantees, while Note 8, “Derecognition of financial assets”, to the Annual Consolidated Financial Statements provides information about the securitization of the Federation’s loans.

Assets under management and under administration

As at March 31, 2020, the Federation administered, for the account of caisse members and its clients, assets worth $395.8 billion, for a decrease of $41.2 billion, or 9.4%. The financial assets entrusted to the Federation as wealth manager totalled $73.0 billion as at March 31, 2020, down $4.0 billion, or 5.2%, since December 31, 2019. The reduction in assets under management and under administration was mainly because of the decline on financial markets due to the COVID-19 pandemic.

Assets under management and under administration by the Federation are comprised essentially of financial assets in the form of investment funds, securities held in custody and assets accumulated by pension funds. They do not belong to the Federation, but to caisse members and clients and, as a result, they are not recognized on the Consolidated Balance Sheets. The Wealth Management segment is primarily responsible for the activities related to assets under management and under administration.

RISK MANAGEMENT

RISK MANAGEMENT

Desjardins Group's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all of the organization's business segments and support functions. To this end, Desjardins developed an Integrated Risk Management Framework reflective of its business strategies and organizational risk-taking philosophy which is aimed, among other things, at giving its senior management and the Federation's Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the risks associated with the achievement of its objectives.

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

Risk management is a function covering all Desjardins Group operations, including those of the Federation. As a result, the description of risk management that follows is a description for Desjardins Group. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major orientations, particularly regarding its financial soundness 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 proactive approach in which each of its business segments, employees and managers is responsible for risk management.

In the first three months of fiscal 2020, Desjardins Group's governance structure, frameworks and practices for risk management, and the nature and description of the risks to which it is exposed (including operational risk, insurance risk, strategic risk, reputational risk, risk related to pension plans, environmental or social risk and risk related to the regulatory and legal environment) did not change significantly from those described on pages 54 to 79 of the Federation's 2019 annual MD&A. In addition to these types of risk, other risk factors, which are not under the control of Desjardins Group (including the Federation), could have an impact on its future results. These principal risks and emerging risks, as well as other risk factors, did not change significantly from those described on pages 51 to 53 of the Federation's 2019 annual MD&A. As for the COVID-19 pandemic, Desjardins is closely monitoring developments and the pandemic's impact on Desjardins Group operations. For more information, please refer to "Significant events – COVID-19 pandemic" in this MD&A, which presents certain factors that could contribute to the risks described in the 2019 annual MD&A.

CREDIT RISK

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

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

Quality of loan portfolio

As at March 31, 2020, in accordance with Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements, the allowance for credit losses totalled $553 million, up $89 million compared to December 31, 2019. The significant deterioration in the economic outlook due to the COVID-19 pandemic, such as the higher unemployment rate and the decline in GDP, resulted in a higher loss allowance for expected credit losses. For more information about the methodology and assumptions used to estimate the loss allowance for expected credit losses, please refer to Note 5, "Loans and allowance for credit losses", to the Interim Consolidated Financial Statements.

Gross credit-impaired loans outstanding are considered Stage 3 loans of the impairment model. The ratio of gross credit-impaired loans, as a percentage of the total gross loans and acceptances portfolio, was 0.58% for the first quarter of 2020, compared to 0.56% as at December 31, 2019. The allowance for credit losses on credit-impaired loans totalled $169 million as at March 31, 2020, resulting in a provisioning rate of 43.9% for credit-impaired loans.

The following table presents the aging of gross loans that are past due but not credit-impaired.

Gross loans past due but not credit-impaired

As at March 31, 2020

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 38	$ 4	$ 1	$ 2	$ 45
Consumer, credit card and other personal loans	722	177	80	4	983
Business and government	20	-	-	-	20
	$ 780	$ 181	$ 81	$ 6	$ 1,048

As at December 31, 2019

(in millions of dollars)	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Residential mortgages	$ 27	$ 3	$ 1	$ 2	$ 33
Consumer, credit card and other personal loans	718	156	75	-	949
Business and government	2	-	-	-	2
	$ 747	$ 159	$ 76	$ 2	$ 984

The following tables present the Federation's gross credit-impaired loans by borrower category and the change in the gross credit-impaired loan balance.

Gross credit-impaired loans by borrower category

(in millions of dollars and as a percentage)	As at March 31, 2020					As at December 31, 2019	
	Gross carrying amount						
	Gross loans and acceptances	Gross credit-impaired loans		Allowance for credit losses on credit-impaired loans	Net credit-impaired loans	Gross credit-impaired loans	Net credit-impaired loans
Residential mortgages	$ 4,517	$ 9	0.20%	$ 4	$ 5	$ 8	$ 4
Consumer, credit card and other personal loans	19,722	258	1.31	132	126	249	119
Business and government	41,841	118	0.28	33	85	114	94
Total loans	$ 66,080	$ 385	0.58%	$ 169	$ 216	$ 371	$ 217

Change in gross credit-impaired loans

(in millions of dollars)	For the three-month periods ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Gross credit-impaired loans at the beginning of the period	$ 371	$ 419	$ 348
Gross loans that became credit-impaired since the last period	255	207	484
Loans returned to unimpaired status	(208)	(178)	(359)
Write-offs and recoveries	(92)	(98)	(75)
Other changes	59	21	(4)
Gross credit-impaired loans at the end of the period	$ 385	$ 371	$ 394

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 Risk Management Executive Division sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. In addition, limits are set for certain financial instruments. 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, Québec public and parapublic entities and major Canadian banks. For most of these counterparties and issuers, the credit rating is A- or higher. Apart from the U.S. sovereign debt holdings and commitments with major international banks, Desjardins Group's exposure to foreign entities 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 through its trading activities, which result primarily from short-term transactions conducted with the intention of profiting from current price movements or to provide arbitrage revenue. Desjardins Group is also exposed to market risk through its non-trading activities, which group together mainly asset/liability management transactions in the course of its traditional banking activities as well as investment portfolios related to its insurance operations. Desjardins Group and its components have adopted policies that set out the principles, limits and procedures to use in managing market risk.

Governance

Desjardins Group's components are primarily structured into different legal entities to deliver products and services that can be distributed to Desjardins Group members and clients. These legal entities manage financial instruments exposed to market risk and are subject to different regulatory environments such as the banking, securities brokerage, wealth management, life and health insurance and property and casualty insurance industries. The board of directors of these entities delegate to various committees the responsibility of setting up systems and procedures to establish measures adapted to their operations and regulatory environments. These measures, together with the appropriate follow-up procedures, are incorporated into their respective policies and guidelines. The function of the Risk Management Executive Division is to monitor these measures and ensure compliance with the said policies. The main measures used and their follow-up processes are described below.

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

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

The main tool used to measure this risk is "Value at Risk" (VaR). VaR is an estimate of the potential loss over a certain period of time at a given confidence level. A Monte Carlo VaR is calculated daily on the trading portfolios, using a 99% confidence level and a holding horizon of one day (holding horizon extended up to 10 days for regulatory capital calculations). It is therefore reasonable to expect a loss exceeding the VaR figure once every 100 days. The calculation of VaR is based on historical data for a one-year interval.

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

The incremental risk charge (IRC) supplements the VaR and SVaR measures and represents an estimate of default and migration risks of unsecuritized products held in the trading portfolio, exposed to interest rate risk, and measured over a one-year horizon at a 99.9% confidence level.

The table below presents the aggregate VaR and the aggregate SVaR of trading activities by risk category, as well as the IRC. Equity price risk, foreign exchange risk, interest rate risk and specific interest rate risk are the four risk categories to which the Federation is exposed. These risk factors are taken into account in measuring the market risk of the trading portfolio. They are reflected in the VaR table presented below. The definition of a trading portfolio meets the various criteria defined in the Basel Capital Accord.

Market risk measures for the trading portfolio

(in millions of dollars)	**For the quarter ended March 31, 2020**				For the quarters ended December 31, 2019		March 31, 2019	
	As at March 31, 2020	**Average**	**High**	**Low**	As at December 31, 2019	Average	As at March 31, 2019	Average
Equities	**$ 3.4**	**$ 1.5**	**$ 3.6**	**$ 0.2**	$ 0.5	$ 1.0	$ 1.1	$ 1.1
Foreign exchange	**1.6**	**0.4**	**1.8**	**0.1**	0.2	0.1	2.0	1.3
Interest rate	**4.0**	**3.7**	**5.4**	**2.1**	4.2	3.8	3.7	3.5
Specific interest rate risk(1)	**3.5**	**2.0**	**3.7**	**0.8**	1.8	4.8	4.8	5.6
Diversification effect(2)	**(6.7)**	**(3.4)**	**N/A(3)**	**N/A(3)**	(2.5)	(5.8)	(7.7)	(7.7)
Aggregate VaR	**$ 5.8**	**$ 4.2**	**$ 6.1**	**$ 2.1**	$ 4.2	$ 3.9	$ 3.9	$ 3.8
Aggregate SVaR	**$ 12.1**	**$ 11.9**	**$ 27.4**	**$ 6.6**	$ 9.7	$ 11.8	$ 17.4	$ 15.8
Incremental risk charge (IRC)	**$ 55.4**	**$ 44.2**	**$ 59.2**	**$ 24.2**	$ 30.9	$ 65.5	$ 36.8	$ 66.2

(1) Specific risk is the risk directly related to the issuer of a financial security, independent of market events. A portfolio approach is used to distinguish specific risk from general market risk. This approach consists of creating a sub-portfolio that contains the positions involving the specific risk of an issuer, such as provinces, municipalities and companies, and a sub-portfolio that contains the positions considered to be without issuer risk, such as governments in the local currency.
(2) Represents the risk reduction related to diversification, namely the difference between the sum of the VaR of the various market risks and the aggregate VaR.
(3) The highs and lows of the various market risk categories can refer to different dates.

The average of the trading portfolio's aggregate VaR was $4.2 million for the quarter ended March 31, 2020, up $0.3 million compared to the quarter ended December 31, 2019. The average of the aggregate SVaR was $11.9 million for the quarter ended March 31, 2020, stable compared to the quarter ended December 31, 2019. The average of the incremental risk charge totalled $44.2 million, down $21.3 million compared to the previous quarter as a result of the lower issuer risk in trading portfolios.

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

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

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

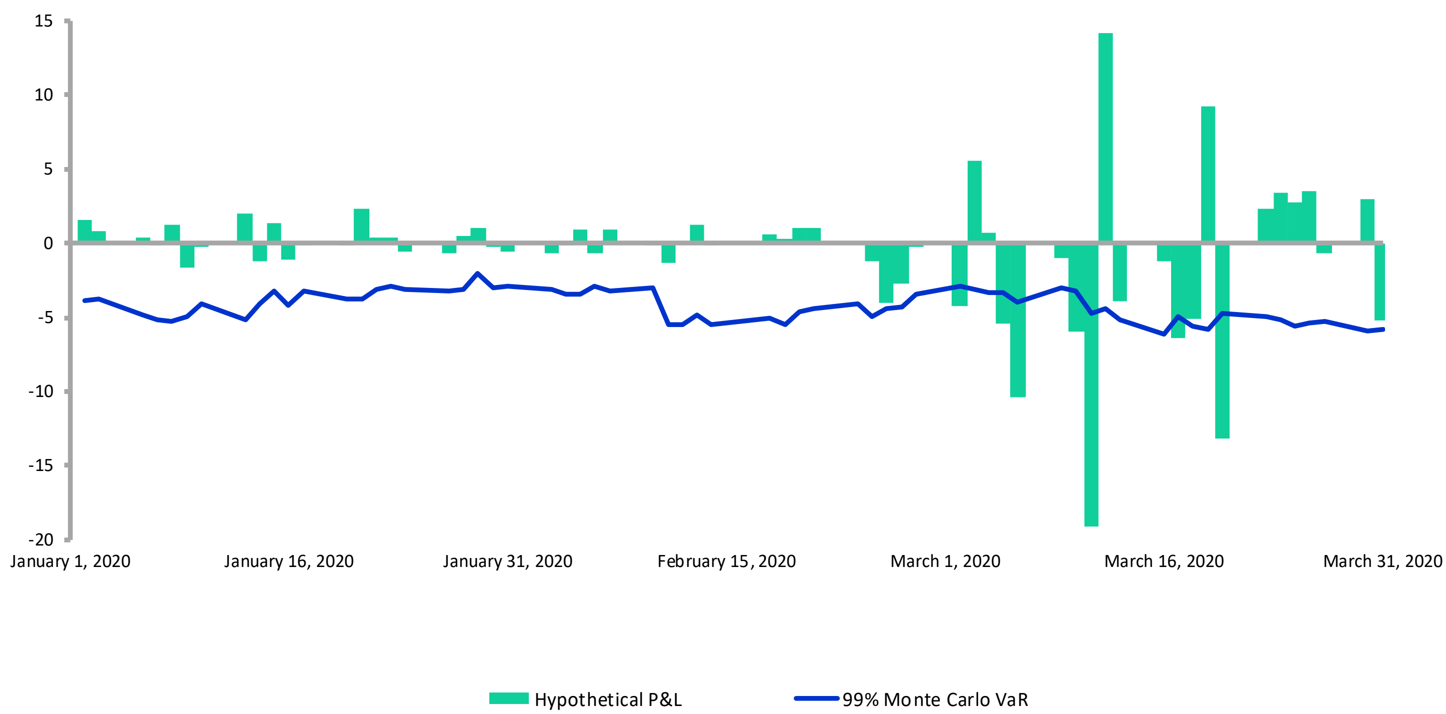
Back testing

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

Desjardins Group performs back testing daily, applying a hypothetical P&L and an actual 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 graph presents changes in VaR for trading activities as well as the hypothetical P&L related to these activities. During the first quarter of 2020, there were four overages of actual P&L compared to VaR, and seven overages of hypothetical P&L were observed for Desjardins Group since the end of February. These overages were due to the sharp swings on financial markets given the unusual situation because of the COVID-19 pandemic. Despite the overages of hypothetical P&L in the first quarter of 2020, the performance of the VaR model is considered adequate.

VaR compared to hypothetical P&L for trading activities
(in millions of dollars)



Stress testing

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

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

Structural interest rate risk management

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

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

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

In addition to the total sensitivity gap, the main structural interest rate risk factors are:
- the trend in interest rate level and volatility;
- the changes in the shape of the interest rate curve;
- member and client behaviour in their choice of products;
- the financial intermediation margin;
- the optionality of the various financial products offered.

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

The assumptions used in the stress testing are based on an analysis of historical data and on the effects of various interest rate environments on changes in such data. These assumptions concern changes in the structure of assets and liabilities, including modelling for non-maturity deposits and equity, in member and client behaviour, and in pricing. Desjardins Group's Asset/Liability Committee (ALCO) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in structural interest rate risk management policies. In the current context of the COVID-19 pandemic, the situation is still under control because the portfolios are well matched.

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

Interest rate sensitivity (before income taxes)(1)

(in millions of dollars)	**As at March 31, 2020**		As at December 31, 2019		As at March 31, 2019	
	Net interest income(2)	**Economic value of equity(3)**	Net interest income(2)	Economic value of equity(3)	Net interest income(2)	Economic value of equity(3)
Impact of a 100-basis-point increase in interest rates	**$ (35)**	**$ 8**	$ (40)	$ (17)	$ (23)	$ 46
Impact of a 100-basis-point decrease in interest rates(4)	**44**	**(9)**	38	14	24	(46)

(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 $124 million decrease in the economic value of equity before taxes as at March 31, 2020, and in a $215 million and $247 million decrease as at December 31, 2019 and March 31, 2019, respectively. A 100-basis-point decrease in interest rates would result in a $165 million increase in the economic value of equity before taxes as at March 31, 2020, and in a $228 million and $248 million increase as at December 31, 2019 and March 31, 2019, respectively.
(2) Represents the interest rate sensitivity of net interest income for the next 12 months.
(3) Represents the sensitivity of the present value of assets, liabilities and off-balance sheet instruments.
(4) The results of the impact of a decrease in interest rates take into consideration the use of a floor to avoid negative interest rates.

Foreign exchange risk management

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

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

LIQUIDITY RISK

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

Desjardins Group manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities, ensuring stable and diversified sources of funding, monitoring indicators and having a contingency plan in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group has established policies describing the principles, limits, risk appetite 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. Given that the insurance companies are subject to specific regulatory requirements, they manage their liquidity risks based on their own needs while following Desjardins Group guidelines. The securities held by these components are not taken into account in the valuation of Desjardins Group's liquidity reserves.

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 for its funding needs. Through these operations, the funding needs of Desjardins Group components can be satisfied under conditions comparable to those offered on capital markets.

Furthermore, Desjardins Group issues covered bonds and securitizes CHMC-insured loans in the course of its normal operations. Desjardins Group is also eligible for the Bank of Canada's various intervention programs and loan facilities for Emergency Lending Assistance advances.

The implementation of Basel III strengthens international minimum liquidity requirements through the application of a liquidity coverage ratio (LCR), a net stable funding ratio (NSFR) and the use of Net Cumulative Cash Flow (NCCF). Under its liquidity risk management policy, Desjardins Group already produces these two ratios as well as the NCCF, and reports them on a regular basis to the AMF. It should be noted that since January 2020, Desjardins Group has adopted the regulatory requirements concerning the NSFR. Desjardins Group's NSFR was above the minimum regulatory level as at March 31, 2020.

In the current context of the COVID-19 pandemic, the Government of Canada has set up exceptional liquidity programs to facilitate access to the funding of financial institutions. Additional information on Government of Canada programs is presented under "Sources of financing" in this section. Desjardins Group has used these programs to maintain adequate liquidity in order to deal with this unprecedented situation. Desjardins Group's average LCR was 125.0% for the quarter ended March 31, 2020, compared to 130.2% for the previous quarter. Even though the average ratio was lower than in the previous quarter, it rose to a very high level at the end of the quarter (139.7%) as a result of the use of the aforementioned programs. The AMF requires that in the absence of stressed conditions, the ratio be greater than or equal to the minimum requirement of 100%. However, in order to promote the effective circulation of liquidity during the COVID-19 pandemic crisis, the AMF could exceptionally accept levels this one time that are lower than the minimum requirements. Desjardins Group does not expect its regulatory ratio to fall below the regulatory limit. This ratio is proactively managed by Desjardins Group's Treasury, and an appropriate level of high-quality liquid assets is maintained for adequate coverage of the theoretical cash outflows associated with the standardized crisis scenario within the Basel III framework. Desjardins Group's main sources of theoretical cash outflows are a potential serious run on deposits by members of Desjardins caisses and a sudden drying-up of the short-term institutional funding sources used on a day-to-day basis by Desjardins Group.

Liquidity risk measurement and monitoring

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

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

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

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

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

Sources of financing

Core funding, which includes capital, long-term liabilities and a diversified deposit portfolio, is the foundation upon which the Federation's liquidity position depends. The solid base of deposits from member caisses combined with wholesale funding, diversified in terms of both the programs used as well as the staggering of contractual maturities, allows it to maintain high regulatory liquidity ratios while ensuring their stability. Total deposits, including wholesale funding, presented on the Consolidated Balance Sheets amounted to $69.3 billion as at March 31, 2020, up $10.3 billion since December 31, 2019. Additional information on deposits is presented in the "Balance sheet management" section.

Financing programs and strategies

As Desjardins Group's Treasurer, the Federation meets the needs of the organization's members and clients. Its first priority is to implement appropriate strategies to identify, measure and manage risks, and these strategies are regulated by policies. In the first three months of 2020, the Federation succeeded in maintaining a liquidity level sufficient to meet Desjardins Group's needs through its strict treasury policy, solid institutional financing and the contribution of the caisse network. Short-term wholesale financing is used to finance very liquid assets while long-term wholesale financing is mainly used to finance less liquid assets and to support reserves of liquid assets.

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

The main programs currently used by the Federation are as follows:

Main financing programs
As at March 31, 2020

	Maximum authorized amount
Medium-term notes (Canadian)	**$10 billion**
Covered bonds (multi-currency)[(1)]	**$26 billion**
Short-term notes (European)	**€3 billion**
Short-term notes (U.S.)	**US$15 billion**
Medium-term and subordinated notes (multi-currency)	**€7 billion**
NVCC subordinated notes (Canadian)	**$3 billion**

(1) The maximum authorized amount under the covered bond program was increased from $14 billion to $26 billion following the increase in the prudential limit for covered bond issues by the AMF on March 31, 2020. This temporary easing is granted for at least a year and could be extended beyond that, if necessary.

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

Remaining contractual term to maturity of wholesale funding

(in millions of dollars)	As at March 31, 2020								As at December 31, 2019
	Less than 1 month	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Total – Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**	Total
Bearer discount notes	**$ 1,795**	**$ 410**	**$ 44**	**$ 11**	**$ 2,260**	**$ -**	**$ -**	**$ 2,260**	$ 2,250
Commercial paper	**7,099**	**3,606**	**5,225**	**-**	**15,930**	**-**	**-**	**15,930**	13,058
Medium-term notes	**422**	**-**	**366**	**3,205**	**3,993**	**2,549**	**4,048**	**10,590**	11,171
Mortgage loan securitization	**-**	**369**	**217**	**599**	**1,185**	**1,386**	**8,670**	**11,241**	10,423
Covered bonds	**-**	**-**	**-**	**1,552**	**1,552**	**-**	**4,500**	**6,052**	5,655
Subordinated notes	**900**	**-**	**-**	**-**	**900**	**-**	**499**	**1,399**	1,398
Total	**$ 10,216**	**$ 4,385**	**$ 5,852**	**$ 5,367**	**$ 25,820**	**$3,935**	**$ 17,717**	**$ 47,472**	$ 43,955
Including:									
Secured	**$ 900**	**$ 369**	**$ 217**	**$ 2,151**	**$ 3,637**	**$1,386**	**$ 13,669**	**$ 18,692**	$ 17,476
Unsecured	**9,316**	**4,016**	**5,635**	**3,216**	**22,183**	**2,549**	**4,048**	**28,780**	26,479

The Federation's total wholesale funding presented in the table above was carried out by the Federation, except for the subordinated notes, which were issued by Desjardins Capital Inc. Total wholesale funding was up $3.5 billion compared to December 31, 2019, mainly because of an increase in commercial paper and the securitization of mortgage loans.

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

Wholesale funding by currency

(in millions of dollars and as a percentage)	As at March 31, 2020		As at December 31, 2019	
Canadian dollars	**$ 19,795**	**41.7%**	$ 20,276	46.1%
U.S. dollars	**20,094**	**42.3**	16,708	38.0
Other	**7,583**	**16.0**	6,971	15.9
	$ 47,472	**100.0%**	$ 43,955	100.0%

Moreover, the Federation participated in new issues under the NHA Mortgage-Backed Securities Program for a total amount of $551 million in the first three months of 2020. During the same period, the Federation also made one issue for a total of US$1.0 billion, subject to the bail-in regime, under its multi-currency medium-term notes program.

Outstanding notes issued under the Federation's medium-term financing programs amounted to $27.9 billion as at March 31, 2020, compared to $27.2 billion as at December 31, 2019. The outstanding notes for these issues are presented under "Deposits – Business and government" in the Consolidated Balance Sheets. Desjardins Capital Inc.'s senior notes outstanding totalled $1.4 billion as at March 31, 2020, unchanged from December 31, 2019.

During the COVID-19 pandemic, the Government of Canada, through the Bank of Canada and CMHC, has rolled out various funding initiatives with the aim of supporting the Canadian financial system by preserving a source of business financing. Like the Canadian banks, Desjardins Group made use of these programs for $8.9 billion by the end of March, and it continues to participate in several of these programs in second quarter 2020. These additional sources of funding allow Desjardins Group to maintain adequate liquidity levels to deal with the impacts related to this pandemic.

Among other things, on the effective date of March 31, 2020, under the Insured Mortgage Purchase Program (IMPP) implemented by CMHC, the Federation sold *National Housing Act* mortgage-backed securities (NHA MBS) for $500 million. Under this program, the Government of Canada may purchase up to $150 billion of NHA-insured mortgage pools from financial institutions through CMHC. Furthermore, on March 30, 2020, the Federation launched an issue of own-name covered bonds (self-held) in the amount of $2.5 billion, in order to participate in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the program on March 31, with settlement on April 2, 2020. Both these initiatives are included in the total amount of the Federation's participation in the initiatives of the Bank of Canada and CMHC totalling $8.9 billion.

On April 14, 2020, the Federation also issued own-name covered bonds (self-held) in the amount of $1.5 billion, for purposes of participating in the Bank of Canada's Term Repos program. The total amount of these covered bonds was pledged as collateral to the Bank of Canada under the said program on April 15 and 20, 2020.

On April 23, 2020, just like the Canadian banks, Desjardins Group also had access to the Standing Term Liquidity Facility that the Bank of Canada set up to support the liquidity of the financial system. Under the terms of this facility, eligible financial institutions can borrow from the Bank by giving as collateral a large pool of securities. In this way, they are better able to finance new loans.

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 the average term.

Credit ratings of securities issued and outstanding

Desjardins Group's credit ratings affect its ability to access sources of funding on capital markets, as well as the conditions of such funding. They are also a factor considered in certain Desjardins Group transactions involving counterparties.

Rating agencies assign credit ratings and related ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria, including factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group primarily on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Québec and the quality of its assets. Consequently, the credit ratings of the Federation, a reporting issuer, and of Desjardins Capital Inc., a venture issuer, are backed by Desjardins Group's financial strength.

In the first quarter of 2020, the credit ratings assigned to Desjardins Group's senior securities by the rating agencies DBRS, Moody's and Standard & Poor's (S&P) remained unchanged. At the date of this MD&A, the outlooks for Desjardins Group's ratings assigned by DBRS and S&P were stable, while Moody's was negative.

In January 2020, the rating agencies DBRS, Moody's and S&P assigned provisional credit ratings to the Federation's new non-viability contingent capital (NVCC) subordinated notes, namely A (low), A2 and BBB+, respectively.

On March 23, 2020, the rating agency Fitch revised the outlook for the Canadian banking sector from stable to negative as a result of its concern about banks' asset quality and profitability. On April 3, 2020, Fitch revised the outlook assigned to the ratings of Desjardins Group and of major Canadian banks from stable to negative. Furthermore, in relation to the announcement on February 28, 2020 concerning the update of its methodology for the banking and non-banking industry, Fitch announced on April 3 that it was upgrading the rating for the Federation's existing senior debt from AA- to AA, affirming the senior debt rating at AA- and revising from A+ to A the rating for the Federation's NVCC subordinated notes and Desjardins Capital Inc.'s senior debt.

The Federation and Desjardins Capital Inc. have first-class credit ratings that are among the best of the major Canadian and international banking institutions.

Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Fédération des caisses Desjardins du Québec				
Short-term	**R-1 (high)**	**F1+**	**P-1**	**A-1**
Medium- and long-term, existing senior(1)	**AA**	**AA**	**Aa2**	**A+**
Medium- and long-term, senior(2)	**AA (low)**	**AA-**	**A2**	**A-**
NVCC subordinated notes(3)	**A (low)**	**A**	**A2**	**BBB+**
Covered bonds	**-**	**AAA**	**Aaa**	**-**
Desjardins Capital Inc.				
Medium- and long-term, senior	**A (high)**	**A**	**A2**	**A**

(1) Includes senior medium- and long-term debt issued before March 31, 2019, as well as senior medium- and long-term debt issued on or after this date and which is excluded from the recapitalization (bail-in) regime applicable to Desjardins Group.
(2) Includes senior medium- and long-term debt issued on or after March 31, 2019, which can be converted under the recapitalization (bail-in) regime applicable to Desjardins Group.
(3) No security of this type was issued as at March 31, 2020.

Desjardins Group regularly monitors the additional level of obligations that its counterparties would require in the event of a credit rating downgrade for the Federation and Desjardins Capital Inc. This monitoring enables Desjardins Group to assess the impact of such a downgrade on its funding capabilities and its ability to perform transactions in the normal course of its operations as well as ensure that it has the additional liquid assets and collateral necessary to meet its obligations. Currently, Desjardins Group is not obliged to provide additional collateral in the event of its credit rating being lowered three notches by one or more credit rating agencies.

Contractual maturities of on-balance sheet items and off-balance sheet commitments

The following table presents assets and liabilities recorded on the Consolidated Balance Sheets and off-balance sheet commitments at their carrying amount and classified according to their residual contractual maturities. The classification of maturities is an information source for liquidity and financing risk, but it differs from the analysis performed by the Federation to determine the expected maturity of the items for liquidity risk management purposes. Many factors other than contractual maturity are taken into consideration to measure expected future cash flows and liquidity risk.

The value of the credit commitments presented in this table represents the maximum amount of additional credit that the Federation could be required to grant if the commitments were fully used. The value of guarantees and standby letters of credit amounts to the maximum cash outflows that the Federation could be required to make in the event of complete default of the parties to the guarantees, without taking any possible recovery into account. These commitments and guarantees do not necessarily represent future liquidity needs because a large portion of these instruments will expire or be cancelled without giving rise to any cash outflows.

Note 16, “Insurance contract liabilities”, to the Annual Consolidated Financial Statements provides additional information on the contractual maturities of actuarial liabilities and provisions for claims and adjustment expenses.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments
As at March 31, 2020

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 8,705	$ 361	$ -	$ -	$ -	$ -	$ -	$ -	$ (141)	$ 8,925
Securities										
Securities at fair value through profit or loss[1]	176	847	411	1,112	455	1,847	6,453	20,181	4,170	35,652
Securities at fair value through other comprehensive income[1]	342	549	386	2,115	233	1,752	6,812	2,470	55	14,714
Securities at amortized cost	401	427	199	169	228	1	4	35	(2)	1,462
Securities borrowed or purchased under reverse repurchase agreements	12,105	887	276	-	-	-	-	-	-	13,268
Loans										
Residential mortgages[2]	66	108	165	164	163	958	1,535	1,311	47	4,517
Consumer, credit card and other personal loans[2]	14	41	117	187	255	1,313	5,431	5,632	6,732	19,722
Business and government[2]	10,326	2,188	1,336	1,103	1,582	5,931	11,693	1,840	5,760	41,759
Allowance for credit losses	-	-	-	-	-	-	-	-	(553)	(553)
Segregated fund net assets	-	-	-	-	-	-	-	-	15,363	15,363
Clients' liability under acceptances	82	-	-	-	-	-	-	-	-	82
Premiums receivable	211	81	16	3	-	-	-	-	2,269	2,580
Derivative financial instruments	508	363	480	541	202	912	3,550	853	-	7,409
Amounts receivable from clients, brokers and financial institutions	4,021	2	-	-	-	-	-	-	91	4,114
Reinsurance assets	28	57	80	71	65	187	371	1,001	2	1,862
Right-of-use assets	-	-	-	-	-	-	-	-	301	301
Investment property	-	-	-	-	-	-	-	-	911	911
Property, plant and equipment	-	-	-	-	-	-	-	-	841	841
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	382	382
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,123	1,123
Deferred tax assets	-	-	-	-	-	-	-	-	829	829
Other assets	514	149	83	11	13	20	56	23	1,325	2,194
Total assets	$ 37,499	$ 6,060	$ 3,549	$ 5,476	$ 3,196	$ 12,921	$ 35,905	$ 33,346	$ 39,626	$ 177,578

See page 40 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)
As at March 31, 2020

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals(3)	$ 45	$ 22	$ 27	$ 44	$ 44	$ 112	$ 268	$ 92	$ 3,184	$ 3,838
Business and government(3)	9,563	4,408	5,894	5,146	253	3,967	13,610	4,143	10,124	57,108
Deposit-taking institutions(3)	142	178	155	196	163	822	1,972	13	4,731	8,372
Acceptances	82	-	-	-	-	-	-	-	-	82
Commitments related to securities sold short(4)	92	23	241	6	-	377	2,494	5,659	9	8,901
Commitments related to securities lent or sold under repurchase agreements	13,368	-	-	-	-	-	-	-	-	13,368
Derivative financial instruments	245	183	172	185	187	910	3,188	257	-	5,327
Amounts payable to clients, brokers and financial institutions	6,445	7	-	-	-	-	-	-	3,279	9,731
Lease liabilities	4	5	7	7	7	28	81	206	8	353
Insurance contract liabilities	282	564	1,028	918	861	2,159	4,620	18,781	2,670	31,883
Segregated fund net liabilities	-	-	-	-	-	-	-	-	15,352	15,352
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	817	817
Deferred tax liabilities	-	-	-	-	-	-	-	-	290	290
Other liabilities	2,362	85	36	37	120	46	94	44	2,008	4,832
Subordinated notes	900	-	-	-	-	-	-	499	-	1,399
Total equity	-	-	-	-	-	-	-	-	15,925	15,925
Total liabilities and equity	$ 33,530	$ 5,475	$ 7,560	$ 6,539	$ 1,635	$ 8,421	$ 26,327	$ 29,694	$ 58,397	$ 177,578
Off-balance sheet commitments										
Credit commitments(5)	$ 627	$ 71	$ 213	$ 323	$ 347	$ 3,762	$ 7,309	$ 565	$ 55,232	$ 68,449
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,775	1,775
Documentary letters of credit	-	-	-	-	7	-	-	-	-	7
Guarantees and standby letters of credit	39	104	226	153	108	6	11	5	70	722
Credit default swaps	-	-	-	-	-	-	-	489	-	489

See page 40 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)

As at December 31, 2019

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Assets										
Cash and deposits with financial institutions	$ 2,637	$ 428	$ 10	$ -	$ -	$ -	$ -	$ -	$ 9	$ 3,084
Securities										
Securities at fair value through profit or loss(1)	18	442	1,068	296	1,014	1,650	6,395	19,452	4,832	35,167
Securities at fair value through other comprehensive income(1)	353	330	379	255	185	1,479	6,715	2,895	59	12,650
Securities at amortized cost	567	468	263	166	113	1	4	34	-	1,616
Securities borrowed or purchased under reverse repurchase agreements	11,070	282	-	-	-	-	-	-	-	11,352
Loans										
Residential mortgages(2)	66	47	132	154	155	652	1,706	1,261	10	4,183
Consumer, credit card and other personal loans(2)	16	43	130	188	287	1,331	5,481	5,235	7,856	20,567
Business and government(2)	8,071	2,137	2,339	1,144	1,107	5,748	11,327	1,767	7,187	40,827
Allowance for credit losses	-	-	-	-	-	-	-	-	(464)	(464)
Segregated fund net assets	-	-	-	-	-	-	-	-	17,026	17,026
Clients' liability under acceptances	368	12	-	-	-	-	-	-	-	380
Premiums receivable	195	73	15	3	-	-	-	-	2,403	2,689
Derivative financial instruments	129	143	255	178	316	1,037	2,492	245	-	4,795
Amounts receivable from clients, brokers and financial institutions	2,142	3	-	-	-	-	-	-	94	2,239
Reinsurance assets	37	70	82	70	65	174	380	1,002	121	2,001
Right-of-use assets	-	-	-	-	-	-	-	-	298	298
Investment property	-	-	-	-	-	-	-	-	944	944
Property, plant and equipment	-	-	-	-	-	-	-	-	840	840
Goodwill	-	-	-	-	-	-	-	-	121	121
Intangible assets	-	-	-	-	-	-	-	-	381	381
Investments in companies accounted for using the equity method	-	-	-	-	-	-	-	-	1,034	1,034
Deferred tax assets	-	-	-	-	-	-	-	-	1,015	1,015
Other assets	271	84	74	5	10	24	57	7	1,136	1,668
Total assets	$ 25,940	$ 4,562	$ 4,747	$ 2,459	$ 3,252	$ 12,096	$ 34,557	$ 31,898	$ 44,902	$ 164,413

See page 40 for footnotes.

Residual contractual maturities of on-balance sheet items and off-balance sheet commitments (continued)

As at December 31, 2019

(in millions of dollars)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	No stated maturity	Total
Liabilities and equity										
Deposits										
Individuals[3]	$ 41	$ 26	$ 33	$ 28	$ 44	$ 102	$ 211	$ 62	$ 3,168	$ 3,715
Business and government[3]	7,260	5,656	3,591	3,153	4,867	2,731	12,520	3,311	5,835	48,924
Deposit-taking institutions[3]	152	98	257	173	204	819	2,029	5	2,596	6,333
Acceptances	368	12	-	-	-	-	-	-	-	380
Commitments related to securities sold short[4]	495	201	171	9	7	196	1,866	7,668	2	10,615
Commitments related to securities lent or sold under repurchase agreements	10,562	-	-	-	-	-	-	-	-	10,562
Derivative financial instruments	152	198	307	218	238	1,067	2,506	141	-	4,827
Amounts payable to clients, brokers and financial institutions	2,695	-	-	-	-	-	-	-	2,857	5,552
Lease liabilities	3	4	7	7	7	26	78	210	8	350
Insurance contract liabilities	442	792	980	858	798	1,931	4,492	18,520	2,824	31,637
Segregated fund net liabilities	-	-	-	-	-	-	-	-	17,002	17,002
Net defined benefit plan liabilities	-	-	-	-	-	-	-	-	1,956	1,956
Deferred tax liabilities	-	-	-	-	-	-	-	-	277	277
Other liabilities	2,225	423	417	25	25	45	110	44	2,059	5,373
Subordinated notes	-	-	899	-	-	-	-	499	-	1,398
Total equity	-	-	-	-	-	-	-	-	15,512	15,512
Total liabilities and equity	$ 24,395	$ 7,410	$ 6,662	$ 4,471	$ 6,190	$ 6,917	$ 23,812	$ 30,460	$ 54,096	$ 164,413
Off-balance sheet commitments										
Credit commitments[5]	$ 966	$ 50	$ 395	$ 335	$ 549	$ 3,566	$ 7,977	$ 513	$ 53,139	$ 67,490
Indemnification commitments related to securities lending	-	-	-	-	-	-	-	-	1,985	1,985
Documentary letters of credit	-	-	-	-	-	6	-	-	-	6
Guarantees and standby letters of credit	25	129	52	225	147	6	9	38	86	717
Credit default swaps	-	-	-	-	-	-	195	-	-	195

(1) Equity securities are classified under “No stated maturity”.
(2) Amounts repayable on demand are classified under “No stated maturity”.
(3) Deposits payable on demand or after notice are considered as having “No stated maturity”.
(4) Amounts are presented by remaining contractual maturity of the underlying security.
(5) Includes personal lines of credit, lines of credit secured by real or immovable property and credit card lines for which the amounts committed are unconditionally revocable at any time at the Federation’s discretion.

ADDITIONAL INFORMATION RELATED TO CERTAIN RISK EXPOSURES

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

Asset-backed securities

(in millions of dollars)	**As at March 31, 2020**		As at December 31, 2019	
	Notional amounts	**Fair value**	Notional amounts	Fair value
Financial asset-backed and mortgage-backed securities(1)	**$ 121**	**$ 120**	$ 135	$ 135

(1) None of the securities held is directly backed by subprime residential mortgage loans. These securities are presented under "Securities at fair value through profit or loss" and "Securities at fair value through other comprehensive income" on the Consolidated Balance Sheets.

Leveraged finance loans and subprime loans

(in millions of dollars)	**As at March 31, 2020**	As at December 31, 2019
Leveraged finance loans(1)	**$ 147**	$ 370
Alt-A mortgage loans(2)	**16**	15
Subprime residential mortgage loans(3)	**4**	4

(1) Leveraged finance loans are defined as loans to large corporations and finance companies whose credit rating is between BB+ and D, and whose level of indebtedness is very high compared to other companies in the same industry.
(2) Alt-A mortgage loans are defined as loans to borrowers with non-standard income documentation. These loans are presented in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.
(3) Subprime residential mortgage loans are defined as loans to borrowers with a high credit risk profile. Subprime residential mortgages are recorded in the Consolidated Balance Sheets under "Loans – Residential mortgages" and are measured at amortized cost.

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the interim period ended March 31, 2020, the Federation did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, its internal control over financial reporting. The parties involved and their responsibilities regarding such internal control are described on pages 79 and 80 of the 2019 annual MD&A.

RELATED PARTY DISCLOSURES

In the normal course of operations, the Federation offers financial services to related parties, including its associates, joint ventures and other related companies, and enters into agreements for operating services with them. It also pays its key management personnel compensation under normal market conditions. The Federation carries out transactions with other Desjardins Group entities, which are primarily caisses.

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

The Federation has set up a process to obtain assurance that all transactions with its officers and the persons related to them have been carried out as arm's length transactions and in compliance with the legislative framework for its various components. These policies and procedures have not changed significantly since December 31, 2019.

Additional information on related party transactions is provided in Note 31, "Related party disclosures", to the Annual Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by the Federation is essential to understanding the Annual and Interim Consolidated Financial Statements. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements on pages 101 to 119 of the 2019 Annual Report.

Some of these policies are of particular importance in presenting the Federation's financial position and operating results because they require management to make judgments as well as estimates and assumptions that 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 80 to 86 of the 2019 annual MD&A. For the quarter ended March 31, 2020, these significant accounting policies are the same as at December 31, 2019. However, the COVID-19 pandemic situation has resulted in new sources of uncertainty affecting the judgments as well as the estimates and assumptions made by management in applying these accounting policies for the quarter ended March 31, 2020. For more information, refer to the "Significant event" in Note 2, "Basis of presentation and significant accounting policies", to the Interim Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2019 are described in Note 2, "Basis of presentation and significant accounting policies", to the Federation's Annual Consolidated Financial Statements, on page 120 of the 2019 Annual Report. During the three-month period ended March 31, 2020, the IASB did not issue any new accounting standard or any new amendments to existing standards significantly affecting the Federation's financial statements. However, following the comments received regarding the exposure draft issued in June 2019, in which the IASB proposed to defer the effective date of IFRS 17 to January 1, 2022, the IASB tentatively decided in March 2020 to defer for another year, namely to January 1, 2023, the implementation of IFRS 17 (and the amendments thereto) as well as the expiry date of the temporary exemption from the obligation to apply IFRS 9, as provided by IFRS 4.

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Consolidated Balance Sheets

(unaudited)

(in millions of Canadian dollars)	Notes	As at March 31, 2020	As at December 31, 2019
ASSETS			
Cash and deposits with financial institutions		**$ 8,925**	$ 3,084
Securities			
Securities at fair value through profit or loss		**35,652**	35,167
Securities at fair value through other comprehensive income		**14,714**	12,650
Securities at amortized cost		**1,462**	1,616
		51,828	49,433
Securities borrowed or purchased under reverse repurchase agreements		**13,268**	11,352
Loans	5		
Residential mortgages		**4,517**	4,183
Consumer, credit card and other personal loans		**19,722**	20,567
Business and government		**41,759**	40,827
		65,998	65,577
Allowance for credit losses	5	**(553)**	(464)
		65,445	65,113
Segregated fund net assets		**15,363**	17,026
Other assets			
Clients' liability under acceptances		**82**	380
Premiums receivable		**2,580**	2,689
Derivative financial instruments		**7,409**	4,795
Amounts receivable from clients, brokers and financial institutions		**4,114**	2,239
Reinsurance assets		**1,862**	2,001
Right-of-use assets		**301**	298
Investment property		**911**	944
Property, plant and equipment		**841**	840
Goodwill		**121**	121
Intangible assets		**382**	381
Investments in companies accounted for using the equity method		**1,123**	1,034
Deferred tax assets		**829**	1,015
Other		**2,194**	1,668
		22,749	18,405
TOTAL ASSETS		**$ 177,578**	$ 164,413
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	7		
Individuals		**$ 3,838**	$ 3,715
Business and government		**57,108**	48,924
Deposit-taking institutions		**8,372**	6,333
		69,318	58,972
Other liabilities			
Acceptances		**82**	380
Commitments related to securities sold short		**8,901**	10,615
Commitments related to securities lent or sold under repurchase agreements		**13,368**	10,562
Derivative financial instruments		**5,327**	4,827
Amounts payable to clients, brokers and financial institutions		**9,731**	5,552
Lease liabilities		**353**	350
Insurance contract liabilities		**31,883**	31,637
Segregated fund net liabilities		**15,352**	17,002
Net defined benefit plan liabilities		**817**	1,956
Deferred tax liabilities		**290**	277
Other		**4,832**	5,373
		90,936	88,531
Subordinated notes		**1,399**	1,398
TOTAL LIABILITIES		**161,653**	148,901
EQUITY			
Capital stock		**8,884**	8,884
Undistributed surplus earnings		**5,306**	5,276
Accumulated other comprehensive income	8	**(4)**	249
Reserves		**1,058**	330
Equity – Group's share		**15,244**	14,739
Non-controlling interests		**681**	773
TOTAL EQUITY		**15,925**	15,512
TOTAL LIABILITIES AND EQUITY		**$ 177,578**	$ 164,413

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

Consolidated Statements of Income

(unaudited)

(in millions of Canadian dollars)	Notes	For the three-month periods ended March 31 2020	2019
INTEREST INCOME			
Loans		**$ 716**	$ 711
Securities		**62**	60
		778	771
INTEREST EXPENSE			
Deposits		**330**	356
Subordinated notes		**18**	18
Other		**24**	32
		372	406
NET INTEREST INCOME	10	**406**	365
NET PREMIUMS		**2,551**	2,345
OTHER INCOME			
Assessments		**101**	98
Service agreements		**199**	186
Lending fees and credit card service revenues		**199**	210
Brokerage and investment fund services		**241**	214
Management and custodial service fees		**157**	147
Net investment income (loss)	10	**(626)**	1,424
Overlay approach adjustment for insurance operations financial assets		**512**	(167)
Foreign exchange income		**44**	14
Other		**63**	73
		890	2,199
TOTAL INCOME		**3,847**	4,909
PROVISION FOR CREDIT LOSSES	5	**199**	84
CLAIMS, BENEFITS, ANNUITIES AND CHANGES IN INSURANCE CONTRACT LIABILITIES		**2,083**	3,120
NON-INTEREST EXPENSE			
Remuneration and other payments		**158**	166
Salaries and fringe benefits		**614**	586
Premises, equipment and furniture, including depreciation		**147**	131
Service agreements and outsourcing		**60**	85
Communications		**54**	55
Other		**695**	635
		1,728	1,658
OPERATING SURPLUS EARNINGS (DEFICIT)		**(163)**	47
Income taxes on surplus earnings		**(113)**	(9)
NET SURPLUS EARNINGS (DEFICIT) FOR THE PERIOD AFTER DIVIDENDS TO MEMBER CAISSES		**$ (50)**	$ 56
of which:			
Group's share		**$ (63)**	$ 59
Non-controlling interests' share		**13**	(3)

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

Consolidated Statements of Comprehensive Income

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31 2020	2019
Net surplus earnings (deficit) for the period after dividends to member caisses	**$ (50)**	$ 56
Other comprehensive income, net of income taxes		
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**843**	(87)
Share of associates and joint ventures accounted for using the equity method	**7**	(1)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(3)**	-
Net change in fair value attributable to changes in the credit risk of financial liabilities as at fair value through profit or loss	**5**	-
	852	(88)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	**72**	127
Provision for credit losses recognized in profit or loss	**4**	1
Reclassification of net gains to the Consolidated Statements of Income	**(65)**	(2)
	11	126
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(432)**	139
Reclassification of net (gains) losses to the Consolidated Statements of Income	**34**	(6)
	(398)	133
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**108**	17
Reclassification to the Consolidated Statements of Income of net losses on derivative financial instruments designated as cash flow hedges	**1**	-
	109	17
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**2**	-
	(276)	276
Total other comprehensive income, net of income taxes	**576**	188
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 526**	$ 244
of which:		
Group's share	**$ 519**	$ 240
Non-controlling interests' share	**7**	4

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

Consolidated Statements of Comprehensive Income *(continued)*

(unaudited)

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 2020	2019
Items that will not be reclassified subsequently to the Consolidated Statements of Income		
Remeasurement of net defined benefit plan liabilities	**$ 304**	$ (31)
Net change in gains and losses on equity securities designated as at fair value through other comprehensive income	**(1)**	-
Net change in fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	**2**	-
	305	(31)
Items that will be reclassified subsequently to the Consolidated Statements of Income		
Net change in unrealized gains and losses on debt securities classified as at fair value through other comprehensive income		
Net unrealized gains	**29**	45
Provision for credit losses recognized in profit or loss	**1**	-
Reclassification of net gains to the Consolidated Statements of Income	**(24)**	(1)
	6	44
Net change in unrealized gains and losses related to the overlay approach adjustment for insurance operations financial assets		
Net unrealized gains (losses)	**(128)**	35
Reclassification of net (gains) losses to the Consolidated Statements of Income	**14**	(1)
	(114)	34
Net change in cash flow hedges		
Net gains on derivative financial instruments designated as cash flow hedges	**39**	7
	39	7
	(69)	85
Total income tax expense	**$ 236**	$ 54

Consolidated Statements of Changes in Equity

For the three-month periods ended March 31
(unaudited)

(in millions of Canadian dollars)	Capital stock	Undistributed surplus earnings	Accumulated other comprehensive income (Note 8)	Reserves: Stabilization reserve	Reserves: General and other reserves	Reserves: Total reserves	Equity - Group's share	Non-controlling interests	Total equity
BALANCE AS AT DECEMBER 31, 2019	**$ 8,884**	**$ 5,276**	**$ 249**	**$ 265**	**$ 65**	**$ 330**	**$ 14,739**	**$ 773**	**$ 15,512**
Net surplus earnings (deficit) for the period after dividends to member caisses	**-**	**(63)**	**-**	**-**	**-**	**-**	**(63)**	**13**	**(50)**
Other comprehensive income for the period	**-**	**835**	**(253)**	**-**	**-**	**-**	**582**	**(6)**	**576**
Comprehensive income for the period	**-**	**772**	**(253)**	**-**	**-**	**-**	**519**	**7**	**526**
Net change in share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(93)**	**(93)**
Dividends	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(6)**
Transfer from undistributed surplus earnings (to reserves)	**-**	**(728)**	**-**	**-**	**728**	**728**	**-**	**-**	**-**
Loss on dilution of non-controlling interest	**-**	**(14)**	**-**	**-**	**-**	**-**	**(14)**	**-**	**(14)**
BALANCE AS AT MARCH 31, 2020	**$ 8,884**	**$ 5,306**	**$ (4)**	**$ 265**	**$ 793**	**$ 1,058**	**$ 15,244**	**$ 681**	**$ 15,925**
BALANCE AS AT DECEMBER 31, 2018	$ 8,779	$ 4,764	$ (9)	$ 417	$ (146)	$ 271	$ 13,805	$ 748	$ 14,553
Net surplus earnings (deficit) for the period after dividends to member caisses	-	59	-	-	-	-	59	(3)	56
Other comprehensive income for the period	-	(86)	267	-	-	-	181	7	188
Comprehensive income for the period	-	(27)	267	-	-	-	240	4	244
Issuance of F capital shares	46	-	-	-	-	-	46	-	46
Net change in share capital	-	-	-	-	-	-	-	4	4
Dividends	-	-	-	-	-	-	-	(10)	(10)
Transfer from undistributed surplus earnings (to reserves)	-	(291)	-	-	291	291	-	-	-
Other	-	(3)	-	-	-	-	(3)	2	(1)
BALANCE AS AT MARCH 31, 2019	$ 8,825	$ 4,443	$ 258	$ 417	$ 145	$ 562	$ 14,088	$ 748	$ 14,836

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

Consolidated Statements of Cash Flows

(unaudited)

(in millions of Canadian dollars)	For the three-month periods ended March 31 2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating surplus earnings (deficit)	**$ (163)**	$ 47
Non-cash adjustments:		
Depreciation of right-of-use assets, property, plant and equipment and investment property, and amortization of intangible assets	**60**	52
Net change in insurance contract liabilities	**246**	1,421
Provision for credit losses	**199**	84
Net realized gains on securities classified as at fair value through other comprehensive income	**(91)**	(2)
Net gains on disposal of investment property	**(102)**	-
Overlay approach adjustment for insurance operations financial assets	**(512)**	167
Other	**(6)**	(9)
Change in operating assets and liabilities:		
Securities at fair value through profit or loss	**(485)**	(2,832)
Securities borrowed or purchased under reverse repurchase agreements	**(1,916)**	911
Loans	**(531)**	1,037
Derivative financial instruments, net amount	**(2,390)**	494
Net amounts receivable from and payable to clients, brokers and financial institutions	**2,304**	1,329
Deposits	**10,346**	(627)
Commitments related to securities sold short	**(1,714)**	1,300
Commitments related to securities lent or sold under repurchase agreements	**2,806**	(2,674)
Other	**(194)**	(636)
Income taxes paid on surplus earnings	**(51)**	(10)
	7,806	52
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Repayment of lease liabilities	**(11)**	(9)
Sale of debt securities and subordinated notes to third parties on the market	**-**	6
Issuance of F capital shares	**-**	46
Remuneration on capital shares	**(206)**	-
Net change in share capital	**(106)**	4
Dividends paid	**(6)**	(10)
	(329)	37
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of securities at fair value through other comprehensive income and at amortized cost	**(12,224)**	(12,729)
Proceeds from disposals of securities at fair value through other comprehensive income and at amortized cost	**3,712**	3,115
Proceeds from maturities of securities at fair value through other comprehensive income and at amortized cost	**6,796**	8,883
Acquisitions of property, plant and equipment, intangible assets and investment property	**(51)**	(47)
Proceeds from disposal of property, plant and equipment, intangible assets and investment property	**131**	-
	(1,636)	(778)
Net increase (decrease) in cash and cash equivalents	**5,841**	(689)
Cash and cash equivalents at beginning of period	**3,084**	2,738
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 8,925**	$ 2,049
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 514**	$ 387
Interest and dividends received	**874**	937

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

Notes to the Condensed Interim Consolidated Financial Statements
(unaudited)

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

Nature of operations

The *Fédération des caisses Desjardins du Québec* (the Federation) is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. The role of the Federation is also to protect the interests of Desjardins Group members. It provides its member caisses with a variety of services, including certain technical, financial, and administrative services. The member caisses exercise a collective power over the Federation, and each of them has a significant influence on the Federation.

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

Pursuant to the *Act Respecting Financial Services Cooperatives*, these unaudited Condensed Interim Consolidated Financial Statements (the Interim Consolidated Financial Statements) have been prepared by the Federation's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS. Certain comparative figures have been reclassified to conform with the presentation of the Interim Consolidated Financial Statements for the current period. These reclassifications had no impact on the Federation's profit or loss or total assets and liabilities.

These Interim Consolidated Financial Statements should be read in conjunction with the audited Annual Consolidated Financial Statements (the Annual Consolidated Financial Statements) for the year ended December 31, 2019, and the shaded areas of section 4.0, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Consolidated Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements.

These Interim Consolidated Financial Statements were approved by the Board of Directors of the Federation on May 13, 2020.

Presentation and functional currency

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant event

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. On March 13, 2020, the Government of Québec declared a health emergency throughout the Québec territory. The Government of Canada has introduced various protection measures during the first quarter of 2020. This situation and the measures implemented have significant impacts on global, national, provincial and local economies. The Federation has put in place relief measures for personal and business members and clients who are having trouble meeting their financial obligations.

The main effects of the COVID-19 pandemic on the Federation's profit and loss and financial position as at March 31, 2020 are as follows:

- Securities designated for the overlay approach were examined at the reporting date to determine whether there was any objective evidence that they were impaired, and the Federation did not record any impairment losses. For more details, see Note 3, "Carrying amount of financial instruments".

- The COVID-19 pandemic situation gave rise to great uncertainty requiring management to make significant judgments to estimate the loss allowance for expected credit losses, which increased compared to the previous quarter. For more information, see Note 5, "Loans and allowance for credit losses".

- Travel restrictions by the federal government due to the pandemic had an impact on current and expected volumes of travel insurance inquiries and claims, which gave rise to an increase in the provision.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB, but not yet effective as at December 31, 2019, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements. During the three-month period ended March 31, 2020, the IASB has not issued any new accounting standards or new amendments to existing standards having a significant impact on the Federation's financial statements. However, as a result of the comments received on the June 2019 exposure draft in which the IASB proposed to defer by one year the effective date of IFRS 17 to January 1, 2022, the IASB tentatively decided in March 2020 to defer by an additional year, to January 1, 2023, the application of IFRS 17 (and its amendments) as well as the expiry date of the temporary exemption from applying IFRS 9 set out in IFRS 4.

NOTE 3 – CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

CLASSIFICATION AND CARRYING AMOUNT OF FINANCIAL INSTRUMENTS

The following tables present the carrying amount of financial assets and liabilities according to their classification in the classes defined in the financial instrument standards.

	At fair value through profit or loss		At fair value through other comprehensive income			
As at March 31, 2020	**Classified as at fair value through profit or loss(1)**	**Designated as at fair value through profit or loss**	**Classified as at fair value through other comprehensive income(2)**	**Designated as at fair value through other comprehensive income**	**Amortized cost(2)**	**Total**
Financial assets						
Cash and deposits with financial institutions	$ -	$ 305	$ 468	$ -	$ 8,152	$ 8,925
Securities	17,228	18,424	14,658	56	1,462	51,828
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	13,268	13,268
Loans	-	-	-	-	65,445	65,445
Other financial assets						
Clients' liability under acceptances	-	-	-	-	82	82
Premiums receivable	-	-	-	-	2,580	2,580
Derivative financial instruments(3)	7,409	-	-	-	-	7,409
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	4,114	4,114
Other	5	-	-	-	1,309	1,314
Total financial assets	$ 24,642	$ 18,729	$ 15,126	$ 56	$ 96,412	$ 154,965
Financial liabilities						
Deposits(4)	$ -	$ 123	$ -	$ -	$ 69,195	$ 69,318
Other financial liabilities						
Acceptances	-	-	-	-	82	82
Commitments related to securities sold short	8,901	-	-	-	-	8,901
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	13,368	13,368
Derivative financial instruments(3)	5,327	-	-	-	-	5,327
Amounts payable to clients, brokers and financial institutions	-	-	-	-	9,731	9,731
Other	298	-	-	-	2,122	2,420
Subordinated notes	-	-	-	-	1,399	1,399
Total financial liabilities	$ 14,526	$ 123	$ -	$ -	$ 95,897	$ 110,546

(1) An amount of $2,731 million corresponds to financial assets designated for the overlay approach. As at March 31, 2020, unrealized gross losses on available-for-sale equity securities designated for the overlay approach amounted to $428 million. These unrealized gross losses result from the significant disruptions on financial markets. The Federation has the ability and intent to continue to hold these securities to allow for recovery in fair value.

(2) As at March 31, 2020, the allowance for credit losses on securities at "Amortized cost" totalled $2 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $7 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses". The loss allowance for expected credit losses on securities "Classified as at fair value through other comprehensive income" is recognized under "Provision for credit losses recognized in profit or loss" in the Consolidated Statements of Comprehensive Income and "Provision for credit losses" in the Consolidated Statements of Income.

(3) Include derivative financial instruments designated as hedging instruments amounting to $1,514 million in assets and $128 million in liabilities.

(4) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and could differ from the fair value of such deposits as at the reporting date.

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

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

	At fair value through profit or loss		At fair value through other comprehensive income			
As at December 31, 2019	Classified as at fair value through profit or loss(1)	Designated as at fair value through profit or loss	Classified as at fair value through other comprehensive income(2)	Designated as at fair value through other comprehensive income	Amortized cost(2)	Total
Financial assets						
Cash and deposits with financial institutions	$ -	$ 273	$ 1,395	$ -	$ 1,416	$ 3,084
Securities	16,712	18,455	12,591	59	1,616	49,433
Securities borrowed or purchased under reverse repurchase agreements	-	-	-	-	11,352	11,352
Loans	-	-	-	-	65,113	65,113
Other financial assets						
Clients' liability under acceptances	-	-	-	-	380	380
Premiums receivable	-	-	-	-	2,689	2,689
Derivative financial instruments(3)	4,795	-	-	-	-	4,795
Amounts receivable from clients, brokers and financial institutions	-	-	-	-	2,239	2,239
Other	-	-	-	-	936	936
Total financial assets	$ 21,507	$ 18,728	$ 13,986	$ 59	$ 85,741	$ 140,021
Financial liabilities						
Deposits(4)	$ -	$ 84	$ -	$ -	$ 58,888	$ 58,972
Other financial liabilities						
Acceptances	-	-	-	-	380	380
Commitments related to securities sold short	10,615	-	-	-	-	10,615
Commitments related to securities lent or sold under repurchase agreements	-	-	-	-	10,562	10,562
Derivative financial instruments(3)	4,827	-	-	-	-	4,827
Amounts payable to clients, brokers and financial institutions	-	-	-	-	5,552	5,552
Other	268	-	-	-	2,421	2,689
Subordinated notes	-	-	-	-	1,398	1,398
Total financial liabilities	$ 15,710	$ 84	$ -	$ -	$ 79,201	$ 94,995

(1) An amount of $2,976 million corresponds to financial assets designated for the overlay approach.
(2) As at December 31, 2019, the allowance for credit losses on securities at "Amortized cost" totalled $1 million, and the allowance for credit losses on securities "Classified as at fair value through other comprehensive income" totalled $3 million. Detailed information on the allowance for credit losses on loans is presented in Note 5, "Loans and allowance for credit losses".
(3) Include derivative financial instruments designated as hedging instruments amounting to $241 million in assets and $318 million in liabilities.
(4) The maturity amount that the Federation will be contractually required to pay to holders of deposits designated as at fair value through profit or loss fluctuates and could differ from the fair value of such deposits as at the reporting date

During the three-month period ended March 31, 2020 and the year ended December 31, 2019, no financial instruments have been reclassified.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

For a description of the valuation techniques and data used to determine the fair value of the main financial instruments, refer to Note 2, "Basis of presentation and significant accounting policies", to the Annual Consolidated Financial Statements. No significant changes were made to our fair value valuation techniques during the quarter. The Federation has implemented controls and procedures to ensure that financial instruments are appropriately and reliably measured.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain financial instruments measured at amortized cost does not reasonably approximate fair value. These financial instruments are presented in the following table.

	As at March 31, 2020		As at December 31, 2019	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Securities	**$ 1,462**	**$ 1,460**	$ 1,616	$ 1,617
Loans	**65,445**	**64,772**	65,113	65,156
Financial liabilities				
Deposits	**69,195**	**68,283**	58,888	58,724
Subordinated notes	**1,399**	**1,414**	1,398	1,433

FAIR VALUE HIERARCHY

Fair value measurement is determined using a three-level fair value hierarchy. Refer to Note 4, "Fair value of financial instruments", to the Annual Consolidated Financial Statements, which contains a description of these three levels.

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

HIERARCHY OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

As at March 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 73	$ 232	$ -	$ 305
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,990	-	-	8,990
Provincial governmental entities and municipal corporations in Canada	15,922	807	-	16,729
School or public corporations in Canada	15	89	-	104
Foreign public administrations	202	-	-	202
Other securities				
Financial institutions	8	1,158	55	1,221
Other issuers	1	3,481	758	4,240
Equity securities	2,916	411	839	4,166
	28,127	6,178	1,652	35,957
Derivative financial instruments				
Interest rate contracts	-	3,908	-	3,908
Foreign exchange contracts	-	2,062	-	2,062
Other contracts	-	1,439	-	1,439
	-	7,409	-	7,409
Other assets	-	5	-	5
Total financial assets at fair value through profit or loss	28,127	13,592	1,652	43,371
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	5	463	-	468
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	1,835	2,193	-	4,028
Provincial governmental entities and municipal corporations in Canada	5,648	763	-	6,411
Foreign public administrations	17	-	-	17
Other securities				
Financial institutions	5	3,588	-	3,593
Other issuers	-	541	68	609
Equity securities	-	3	53	56
Total financial assets at fair value through other comprehensive income	7,510	7,551	121	15,182
Financial instruments of segregated funds	5,786	9,502	74	15,362
Total financial assets	$ 41,423	$ 30,645	$ 1,847	$ 73,915
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 123	$ -	$ 123
Other liabilities				
Commitments related to securities sold short	8,588	313	-	8,901
Other	-	-	298	298
	8,588	436	298	9,322
Derivative financial instruments				
Interest rate contracts	-	3,523	-	3,523
Foreign exchange contracts	-	508	-	508
Other contracts	-	1,296	-	1,296
	-	5,327	-	5,327
Total financial liabilities	$ 8,588	$ 5,763	$ 298	$ 14,649

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

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

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
Cash and deposits with financial institutions	$ 9	$ 264	$ -	$ 273
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	8,487	-	-	8,487
Provincial governmental entities and municipal corporations in Canada	15,680	785	-	16,465
School or public corporations in Canada	15	89	-	104
Foreign public administrations	133	-	-	133
Other securities				
Financial institutions	17	810	55	882
Other issuers	1	3,494	771	4,266
Equity securities	3,447	589	794	4,830
	27,789	6,031	1,620	35,440
Derivative financial instruments				
Interest rate contracts	-	1,515	-	1,515
Foreign exchange contracts	-	286	-	286
Other contracts	-	2,994	-	2,994
	-	4,795	-	4,795
Total financial assets at fair value through profit or loss	27,789	10,826	1,620	40,235
Financial assets at fair value through other comprehensive income				
Cash and deposits with financial institutions	9	1,386	-	1,395
Securities				
Debt securities issued or guaranteed by:				
Canadian governmental entities	2,020	1,907	-	3,927
Provincial governmental entities and municipal corporations in Canada	6,017	593	-	6,610
Foreign public administrations	11	-	-	11
Other securities				
Financial institutions	5	1,451	-	1,456
Other issuers	-	517	70	587
Equity securities	-	2	57	59
Total financial assets at fair value through other comprehensive income	8,062	5,856	127	14,045
Financial instruments of segregated funds	6,588	10,351	81	17,020
Total financial assets	$ 42,439	$ 27,033	$ 1,828	$ 71,300
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Deposits	$ -	$ 84	$ -	$ 84
Other liabilities				
Commitments related to securities sold short	10,193	422	-	10,615
Other	-	-	268	268
	10,193	506	268	10,967
Derivative financial instruments				
Interest rate contracts	-	1,396	-	1,396
Foreign exchange contracts	-	528	-	528
Other contracts	-	2,903	-	2,903
	-	4,827	-	4,827
Total financial liabilities	$ 10,193	$ 5,333	$ 268	$ 15,794

During the three-month period ended March 31, 2020 and the year ended December 31, 2019, 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

The Federation has implemented various key controls and procedures to ensure that financial instruments categorized within Level 3 are appropriately and reliably measured. During the three-month period ended March 31, 2020, no significant changes were made to the key controls and procedures as well as the valuation techniques. Some changes were made to the input value ranges used to determine fair value, but they did not result in material changes to the fair value of financial instruments categorized within Level 3. For a description of the valuation process for financial instruments categorized within Level 3, refer to Note 4, "Fair value of financial instruments", to the Annual Consolidated Financial Statements.

Sensitivity of financial instruments categorized within Level 3

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

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, 2020	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 / Other	Sales / Settlements / Other	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 55	$ -	$ -	$ -	$ -	$ -	$ -	$ 55
Other issuers								
Hedge funds	2	2	(1)	-	-	-	-	3
Asset-backed term notes	4	-	1	-	-	-	-	5
Mortgage bonds	710	-	(10)	-	-	-	(9)	691
Other debt securities	55	-	(2)	-	-	6	-	59
Equity securities	794	(2)	(10)	-	-	58	(1)	839
Total financial assets at fair value through profit or loss	1,620	-	(22)	-	-	64	(10)	1,652
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	70	-	-	(1)	-	-	(1)	68
Equity securities	57	-	-	(4)	-	-	-	53
Total financial assets at fair value through other comprehensive income	127	-	-	(5)	-	-	(1)	121
Financial instruments of segregated funds	81	-	(7)	-	-	5	(5)	74
Total financial assets	$ 1,828	$ -	$ (29)	$ (5)	$ -	$ 69	$ (16)	$ 1,847
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 268	$ -	$ 30	$ -	$ -	$ -	$ -	$ 298
Total financial liabilities	$ 268	$ -	$ 30	$ -	$ -	$ -	$ -	$ 298

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains” on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets “Designated as at fair value through other comprehensive income” are recognized under “Net change in gains and losses on equity securities designated as at fair value through other comprehensive income” in the Consolidated Statements of Comprehensive Income.

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

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

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

For the three-month period ended March 31, 2019	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 / Other	Sales / Settlements / Other	Balance at end of period
Financial assets								
Financial assets at fair value through profit or loss								
Securities								
Other securities								
Financial institutions								
Mortgage bonds	$ 56	$ -	$ -	$ -	$ -	$ -	$ -	$ 56
Other issuers								
Hedge funds	1	-	1	-	-	-	-	2
Asset-backed term notes	5	-	-	-	-	-	-	5
Mortgage bonds	736	-	13	-	-	-	(8)	741
Other debt securities	-	-	-	-	-	25	-	25
Equity securities	698	-	(13)	-	-	63	(14)	734
Other assets	13	-	-	-	-	-	(10)	3
Total financial assets at fair value through profit or loss	1,509	-	1	-	-	88	(32)	1,566
Financial assets at fair value through other comprehensive income								
Securities								
Other securities								
Other issuers								
Mortgage bonds	89	-	-	1	-	-	-	90
Corporate bonds	8	-	-	-	-	-	-	8
Total financial assets at fair value through other comprehensive income	97	-	-	1	-	-	-	98
Financial instruments of segregated funds	72	-	2	-	-	1	-	75
Total financial assets	$ 1,678	$ -	$ 3	$ 1	$ -	$ 89	$ (32)	$ 1,739
Financial liabilities								
Financial liabilities at fair value through profit or loss								
Other liabilities – Other								
Financial liability related to the contingent consideration	$ 319	$ -	$ 14	$ -	$ -	$ -	$ -	$ 333
Total financial liabilities	$ 319	$ -	$ 14	$ -	$ -	$ -	$ -	$ 333

(1) Realized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(2) Unrealized gains or losses on financial assets classified or designated as at fair value through profit or loss are presented under "Net investment income (loss)".
(3) Unrealized gains or losses on financial assets “Classified as at fair value through other comprehensive income” are recognized under “Net unrealized gains” on debt securities at fair value through other comprehensive income, while unrealized gains or losses on financial assets “Designated as at fair value through other comprehensive income” are recognized under “Net change in gains and losses on equity securities designated as at fair value through other comprehensive income” in the Consolidated Statements of Comprehensive Income.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS

The following tables present the gross carrying amount of loans and the exposure amount for off-balance sheet items for which the Federation estimates a loss allowance for expected credit losses, according to credit quality and the impairment model stage in which they are classified. For more information on the classification of loans and off-balance sheet items based on credit quality, see the table presenting probability of default (PD) tranches in relation with risk levels for loans and off-balance sheet items in Note 7, "Loans and allowance for credit losses", to the Annual Consolidated Financial Statements.

Loans

	Non-credit impaired		Credit-impaired	
As at March 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages				
Excellent	$ 119	$ -	$ -	$ 119
Very low	1,190	-	-	1,190
Low	2,382	65	-	2,447
Moderate	482	211	-	693
High	13	42	-	55
Default	-	4	9	13
Total gross residential mortgages	$ 4,186	$ 322	$ 9	$ 4,517
Allowance for credit losses	(6)	(1)	(4)	(11)
Total net residential mortgages	$ 4,180	$ 321	$ 5	$ 4,506
Consumer, credit card and other personal loans				
Excellent	$ 1,301	$ -	$ -	$ 1,301
Very low	2,558	-	-	2,558
Low	8,900	345	-	9,245
Moderate	3,002	1,632	-	4,634
High	22	1,704	-	1,726
Default	-	-	258	258
Total gross consumer, credit card and other personal loans	$ 15,783	$ 3,681	$ 258	$ 19,722
Allowance for credit losses	(105)	(237)	(132)	(474)
Total net consumer, credit card and other personal loans	$ 15,678	$ 3,444	$ 126	$ 19,248
Business and government loans(1)				
Acceptable risk:				
Investment grade	$ 32,328	$ -	$ -	$ 32,328
Other than investment grade	7,533	909	-	8,442
Under watch	71	882	-	953
Default	-	-	118	118
Total gross business and government loans	$ 39,932	$ 1,791	$ 118	$ 41,841
Allowance for credit losses	(18)	(17)	(33)	(68)
Total net business and government loans	$ 39,914	$ 1,774	$ 85	$ 41,773

(1) Include clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

Loans *(continued)*

	Non-credit impaired		Credit-impaired	
As at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages				
Excellent	$ 515	$ -	$ -	$ 515
Very low	1,970	-	-	1,970
Low	1,527	8	-	1,535
Moderate	46	83	-	129
High	1	21	-	22
Default	-	4	8	12
Total gross residential mortgages	$ 4,059	$ 116	$ 8	$ 4,183
Allowance for credit losses	(5)	(1)	(4)	(10)
Total net residential mortgages	$ 4,054	$ 115	$ 4	$ 4,173
Consumer, credit card and other personal loans				
Excellent	$ 1,558	$ -	$ -	$ 1,558
Very low	3,610	-	-	3,610
Low	8,459	139	-	8,598
Moderate	3,515	1,313	-	4,828
High	23	1,701	-	1,724
Default	-	-	249	249
Total gross consumer, credit card and other personal loans	$ 17,165	$ 3,153	$ 249	$ 20,567
Allowance for credit losses	(103)	(186)	(130)	(419)
Total net consumer, credit card and other personal loans	$ 17,062	$ 2,967	$ 119	$ 20,148
Business and government loans[1]				
Acceptable risk:				
Investment grade	$ 32,946	$ -	$ -	$ 32,946
Other than investment grade	7,662	220	-	7,882
Under watch	101	164	-	265
Default	-	-	114	114
Total gross business and government loans	$ 40,709	$ 384	$ 114	$ 41,207
Allowance for credit losses	(12)	(3)	(20)	(35)
Total net business and government loans	$ 40,697	$ 381	$ 94	$ 41,172

[1] Include clients' liability under acceptances.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

EXPOSURE TO CREDIT RISK OF LOANS AND OFF-BALANCE SHEET ITEMS *(continued)*

Off-balance sheet items[(1)]

	Non-credit impaired		Credit-impaired	
As at March 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Residential mortgages, consumer, credit card and other personal loans				
Excellent	**$ 13,206**	**$ -**	**$ -**	**$ 13,206**
Very low	**20,679**	**4**	**-**	**20,683**
Low	**7,661**	**42**	**-**	**7,703**
Moderate	**3,707**	**1,530**	**-**	**5,237**
High	**15**	**790**	**-**	**805**
Default	**-**	**-**	**33**	**33**
Total gross off-balance sheet items	**$ 45,268**	**$ 2,366**	**$ 33**	**$ 47,667**
Allowance for credit losses	**(34)**	**(4)**	**-**	**(38)**
Total net off-balance sheet items	**$ 45,234**	**$ 2,362**	**$ 33**	**$ 47,629**
Business and government				
Acceptable risk:				
Investment grade	**$ 12,576**	**$ -**	**$ -**	**$ 12,576**
Other than investment grade	**8,428**	**155**	**-**	**8,583**
Under watch	**61**	**289**	**-**	**350**
Default	**-**	**-**	**2**	**2**
Total gross off-balance sheet items	**$ 21,065**	**$ 444**	**$ 2**	**$ 21,511**
Allowance for credit losses	**(5)**	**(1)**	**-**	**(6)**
Total net off-balance sheet items	**$ 21,060**	**$ 443**	**$ 2**	**$ 21,505**

(1) Loan commitments for which the Federation estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

	Non-credit impaired		Credit-impaired	
As at December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Residential mortgages, consumer, credit card and other personal loans				
Excellent	$ 13,159	$ 3	$ -	$ 13,162
Very low	19,690	2	-	19,692
Low	7,525	16	-	7,541
Moderate	3,786	1,188	-	4,974
High	14	722	-	736
Default	-	-	32	32
Total gross off-balance sheet items	$ 44,174	$ 1,931	$ 32	$ 46,137
Allowance for credit losses	(24)	(2)	-	(26)
Total net off-balance sheet items	$ 44,150	$ 1,929	$ 32	$ 46,111
Business and government				
Acceptable risk:				
Investment grade	$ 12,850	$ -	$ -	$ 12,850
Other than investment grade	9,057	78	-	9,135
Under watch	36	53	-	89
Default	-	-	2	2
Total gross off-balance sheet items	$ 21,943	$ 131	$ 2	$ 22,076
Allowance for credit losses	(6)	-	-	(6)
Total net off-balance sheet items	$ 21,937	$ 131	$ 2	$ 22,070

(1) Loan commitments for which the Federation estimates a loss allowance for expected credit losses comprise credit commitments and documentary letters of credit, while financial guarantees for which it estimates a loss allowance for expected credit losses comprise guarantees and standby letters of credit.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES

The following tables present the changes in the balance of the loss allowance for expected credit losses on loans and off-balance sheet items.

	Non-credit impaired		Credit-impaired	Allowance for
For the three-month period ended March 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**credit losses**
Residential mortgages				
Balance at beginning of period	$ 5	$ 1	$ 4	$ 10
Provision for credit losses				
Transfers to[1]:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	-	-	-	-
Changes in model inputs[3]	-	-	-	-
New originations or acquisitions[4]	1	-	-	1
Derecognition and maturities[5]	-	-	-	-
Net drawdowns (repayments)[6]	-	-	-	-
	1	-	-	1
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 6	$ 1	$ 4	$ 11
Consumer, credit card and other personal loans[7]				
Balance at beginning of period	$ 133	$ 188	$ 130	$ 451
Provision for credit losses				
Transfers to[1]:				
Stage 1	77	(71)	(6)	-
Stage 2	(29)	52	(23)	-
Stage 3	(1)	(13)	14	-
Net remeasurement due to transfers[2]	(4)	9	87	92
Changes in model inputs[3]	(40)	78	59	97
New originations or acquisitions[4]	17	13	-	30
Derecognition and maturities[5]	(6)	(10)	(36)	(52)
Net drawdowns (repayments)[6]	(3)	(4)	(1)	(8)
	11	54	94	159
Write-offs and recoveries	-	-	(92)	(92)
Balance at end of period	$ 144	$ 242	$ 132	$ 518
Business and government				
Balance at beginning of period	$ 12	$ 3	$ 20	$ 35
Provision for credit losses				
Transfers to[1]:				
Stage 1	-	-	-	-
Stage 2	(3)	3	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	-	3	1	4
Changes in model inputs[3]	5	7	12	24
New originations or acquisitions[4]	3	-	-	3
Derecognition and maturities[5]	-	-	-	-
Net drawdowns (repayments)[6]	1	1	1	3
Other	-	-	(1)	(1)
	6	14	13	33
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 18	$ 17	$ 33	$ 68
Total balances at end of period	$ 168	$ 260	$ 169	$ 597
Composed of:				
Loans	$ 129	$ 255	$ 169	$ 553
Off-balance sheet items[8]	39	5	-	44

[1] Represent transfers between stages before the remeasurement of expected credit losses.
[2] Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
[3] Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
[4] Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[5] Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
[6] Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
[7] For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
[8] The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Consolidated Balance Sheets.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

ALLOWANCE FOR CREDIT LOSSES (*continued*)

	Non-credit impaired		Credit-impaired	Allowance for
For the three-month period ended March 31, 2019	Stage 1	Stage 2	Stage 3	credit losses
Residential mortgages				
Balance at beginning of period	$ 4	$ 1	$ 5	$ 10
Provision for credit losses				
Transfers to[1]:				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	-	-	-	-
Changes in model inputs[3]	-	-	-	-
New originations or acquisitions[4]	-	-	-	-
Derecognition and maturities[5]	-	-	-	-
Net drawdowns (repayments)[6]	-	-	-	-
	-	-	-	-
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 4	$ 1	$ 5	$ 10
Consumer, credit card and other personal loans[7]				
Balance at beginning of period	$ 129	$ 259	$ 110	$ 498
Provision for credit losses				
Transfers to[1]:				
Stage 1	64	(60)	(4)	-
Stage 2	(15)	25	(10)	-
Stage 3	-	(10)	10	-
Net remeasurement due to transfers[2]	(21)	15	49	43
Changes in model inputs[3]	(36)	49	45	58
New originations or acquisitions[4]	14	15	-	29
Derecognition and maturities[5]	(6)	(13)	(11)	(30)
Net drawdowns (repayments)[6]	(5)	(14)	-	(19)
Other	1	-	-	1
	(4)	7	79	82
Write-offs and recoveries	-	-	(75)	(75)
Balance at end of period	$ 125	$ 266	$ 114	$ 505
Business and government				
Balance at beginning of period	$ 9	$ 5	$ 6	$ 20
Provision for credit losses				
Transfers to[1]:				
Stage 1	1	(1)	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Net remeasurement due to transfers[2]	-	-	5	5
Changes in model inputs[3]	-	-	(4)	(4)
New originations or acquisitions[4]	1	-	-	1
Derecognition and maturities[5]	(1)	-	-	(1)
Net drawdowns (repayments)[6]	-	-	-	-
Other	-	-	1	1
	1	(1)	2	2
Write-offs and recoveries	-	-	-	-
Balance at end of period	$ 10	$ 4	$ 8	$ 22
Total balances at end of period	$ 139	$ 271	$ 127	$ 537
Composed of:				
Loans	$ 110	$ 260	$ 127	$ 497
Off-balance sheet items[8]	29	11	-	40

(1) Represent transfers between stages before the remeasurement of expected credit losses.
(2) Represents the remeasurement of the loss allowance for expected credit losses resulting from transfers between stages.
(3) Represent the change in the allowance resulting from changes in credit risk parameters and other model inputs.
(4) Represent the increase in the allowance for new originations or acquisitions during the period, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(5) Represent mainly the decrease in the allowance for fully repaid loans, including loans that were derecognized and for which a new asset was recognized following a modification of terms.
(6) Represent changes in the allowance attributable to drawdowns and repayments on outstanding loans.
(7) For purposes of this table, the entire allowance for credit losses on off-balance sheet items is presented in the "Consumer, credit card and other personal loans" section as the allowance amounts and changes therein attributable to other off-balance sheet items categories are not material.
(8) The allowance for credit losses on off-balance sheet items is presented under "Other liabilities – Other" in the Consolidated Balance Sheets.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS

Estimating the loss allowance for expected credit losses is based on a set of assumptions and methodologies specific to credit risk and changes in economic conditions and therefore requires significant judgment to be exercised. The development of the COVID-19 pandemic and its future resolution give rise to uncertainty. Management therefore had to make more complex and subjective judgments to estimate the loss allowance for expected credit losses as at March 31, 2020, which increases the risk of material adjustments in future periods.

The main sources of uncertainty regarding the pandemic that required management to make significant judgments to estimate the loss allowance for expected credit losses as at March 31, 2020 relate to, but are not limited to, the assessment of the impact of the situation on the risk of default by borrowers and the determination of significant increases in credit risk, as well as the determination of the macroeconomic scenarios used to calculate the allowance.

Significant judgments had to be made to estimate the negative impact of the unprecedented current situation on the risk of default by the different types of borrowers and, consequently, on the determination of significant increases in credit risk and the measurement of the allowance, as well as the extent by which this impact is captured by the expected credit losses measurement models in place or requires adjustments to be made. Estimating this impact also requires considering the positive effect of support measures by central banks and governments, which reached an unprecedented level and have constantly evolved since the outset of the pandemic. With respect to the use of the payment deferral program that it offers its members and clients, the Federation considered that it was not, taken individually. an indication of an increase in the risk of default over the life of the financial instrument. Accordingly, the use of such program was not considered to be, on its own, a sufficient criterion for concluding to a significant increase in credit risk and transferring a financial instrument to Stage 2 of the impairment model.

The Federation uses three macroeconomic scenarios to calculate the loss allowance for expected credit losses, namely a base scenario, an upside scenario and a downside scenario. Projections for each scenario are provided for a four-year horizon. The major uncertainty resulting from the COVID-19 pandemic makes it significantly more complex to determine reasonable and supportable assumptions concerning the change in macroeconomic variables for the various scenarios and the related probability of occurrence. This uncertainty, which relates in particular to the duration and magnitude of the impact of the COVID-19 pandemic on the various macroeconomic variables used in the models as well as to the positive effect of support measures by central banks and governments, required management to make significant judgments to revise the assumptions concerning forward-looking information.

The revision of macroeconomic scenarios and the probability of occurrence associated with each of them compared to the prior period had a significant upward impact on the loss allowance for expected credit losses as at March 31, 2020. In addition, developments after March 31, 2020 suggest that the economic outlook could be more negative than the outlook estimated as at March 31, 2020. The impact of this change in economic outlook on the loss allowance for expected credit losses for the next quarter is currently being assessed.

The macroeconomic scenarios selected for calculating the loss allowance for expected credit losses include the following value ranges over the projection horizon for the most significant variables for credit risk parameters:

	Base scenario		Upside scenario		Downside scenario	
As at March 31, 2020	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**	**Next 12 months**	**Remaining forecast period**
Macroeconomic variables(1)						
Gross domestic product (annualized change)	**1.8%**	**1.7%**	**3.2%**	**2.1%**	**(1.3)%**	**1.3%**
Unemployment rate (average)	**6.5%**	**4.8%**	**5.1%**	**3.8%**	**8.8%**	**6.9%**
Consumer Price Index (annualized change)	**1.2%**	**2.0%**	**3.7%**	**2.6%**	**(0.5)%**	**1.0%**
Housing prices (annualized change)	**(0.8)%**	**2.9%**	**12.9%**	**2.4%**	**(6.6)%**	**0.2%**
Corporate credit spread(2) (average)	**192 bp**	**121 bp**	**124 bp**	**90 bp**	**231 bp**	**147 bp**
S&P/TSX stock index(2) (annualized change)	**26.9%**	**8.6%**	**39.0%**	**9.2%**	**(1.0)%**	**9.3%**

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

NOTE 5 – LOANS AND ALLOWANCE FOR CREDIT LOSSES *(continued)*

KEY DATA AND ASSUMPTIONS *(continued)*

As at December 31, 2019	Base scenario – Next 12 months	Base scenario – Remaining forecast period	Upside scenario – Next 12 months	Upside scenario – Remaining forecast period	Downside scenario – Next 12 months	Downside scenario – Remaining forecast period
Macroeconomic variables[(1)]						
Gross domestic product (annualized change)	1.3%	1.5%	2.3%	1.9%	(1.0)%	1.3%
Unemployment rate (average)	4.5%	4.5%	4.1%	3.5%	6.1%	7.1%
Consumer Price Index (annualized change)	1.9%	1.7%	3.8%	2.6%	(1.9)%	1.5%
Housing prices (annualized change)	1.5%	0.7%	6.3%	1.9%	(5.8)%	(0.4)%
Corporate credit spread[(2)] (average)	124 bp	125 bp	94 bp	87 bp	173 bp	157 bp
S&P/TSX stock index[(2)] (annualized change)	4.7%	2.9%	9.9%	7.6%	(25.8)%	8.6%

(1) All macroeconomic variables relate to the Québec economy, unless otherwise noted.
(2) Macroeconomic variables related to the Canadian economy.

SENSITIVITY ANALYSIS OF THE ALLOWANCE FOR CREDIT LOSSES ON NON-CREDIT IMPAIRED LOANS

Scenarios

The amount of the loss allowance for expected credit losses depends on the probability of occurrence associated with each scenario. The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items at the reporting dates, which takes into account the probability weighting for the three scenarios, with the allowance for credit losses that would have been obtained if a weighting of 100% had been assigned to each scenario individually.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items – **As at March 31, 2020**	Allowance for credit losses on non-credit impaired loans and off-balance sheet items – As at December 31, 2019
Under IFRS 9	**$ 428**	$ 342
Weighting of 100% assigned to the scenario		
Base	**$ 422**	$ 344
Upside	**340**	327
Downside	**467**	346

Transfers between stages

The following table compares the allowance for credit losses on non-credit impaired loans and off-balance sheet items at the reporting dates with the allowance for credit losses that would have been obtained if all non-credit impaired loans had been included in Stage 1 of the impairment model.

	Allowance for credit losses on non-credit impaired loans and off-balance sheet items – **As at March 31, 2020**	Allowance for credit losses on non-credit impaired loans and off-balance sheet items – As at December 31, 2019
Under IFRS 9	**$ 428**	$ 342
If all non-credit impaired loans and off-balance sheet items had been included in Stage 1	**$ 401**	$ 332

NOTE 6 – INTERESTS IN OTHER ENTITIES

COVERED BONDS

Under its covered bond program, the Federation issues debt securities guaranteed by a pool of mortgage loans. A structured entity is in place to guarantee principal and interest payments owing to the holders of the covered bonds issued by the Federation. This entity is controlled by the Federation, and therefore included in its Consolidated Financial Statements. The Federation granted financing to the entity in order to facilitate the acquisition of these assets. The financing granted by the Federation may reach a maximum amount equal to the outstanding loans held by this entity for purposes of guaranteeing the covered bonds issues. Under the terms and conditions of each of the issuance agreements, the Federation has limited access to the assets that are legally owned by this structured entity. These assets do not meet the recognition criteria neither for the structured entity nor for the Federation, and are therefore not recognized in their respective balance sheets. The covered bonds, amounting to $6,052 million as at March 31, 2020 ($5,654 million as at December 31, 2019), are presented under “Deposits – Business and government” in the Consolidated Balance Sheets.

NOTE 7 – DEPOSITS

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

The following table presents the breakdown of deposits.

	As at March 31, 2020				As at December 31, 2019			
	Payable on demand	**Payable upon notice**	**Payable on a fixed date**	**Total**	Payable on demand	Payable upon notice	Payable on a fixed date	Total
Individuals	**$ 3,146**	**$ 33**	**$ 659**	**$ 3,838**	$ 3,128	$ 32	$ 555	$ 3,715
Business and government	**10,097**	**-**	**47,011**	**57,108**	5,835	-	43,089	48,924
Deposit-taking institutions	**4,731**	**-**	**3,641**	**8,372**	2,596	-	3,737	6,333
	$ 17,974	**$ 33**	**$ 51,311**	**$ 69,318**	$ 11,559	$ 32	$ 47,381	$ 58,972

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	As at March 31, 2020		As at December 31, 2019	
	Group’s share	**Non-controlling interests’ share**	Group’s share	Non-controlling interests' share
Items that will be reclassified subsequently to the Consolidated Statements of Income				
Net unrealized gains on debt securities classified as at fair value through other comprehensive income[1]	**$ 137**	**$ 3**	$ 128	$ 1
Net unrealized gains (losses) related to the overlay approach for insurance operations financial assets	**(241)**	**(19)**	132	6
Net gains (losses) on derivative financial instruments designated as cash flow hedges	**97**	**-**	(12)	-
Net unrealized exchange gains on the translation of a net investment in a foreign operation, net of hedging transactions	**3**	**-**	1	-
Accumulated other comprehensive income	**$ (4)**	**$ (16)**	$ 249	$ 7

(1) Take into account an allowance for credit losses of $7 million as at March 31, 2020 ($3 million as at December 31, 2019) on securities classified as at fair value through other comprehensive income.

NOTE 9 – CAPITAL MANAGEMENT

Capital management is a function covering all Desjardins Group operations, including those of the Federation. Accordingly, the description of the Federation’s capital management and the manner in which it meets its capital management objectives are derived from the orientation followed for all Desjardins Group operations. The goal of capital management at Desjardins Group is to ensure that a sufficient level of high-quality capital is maintained for the following reasons: to have flexibility for its development, to maintain favourable credit ratings and to maintain the confidence of depositors and financial markets.

The Federation’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 the applicable relief measures implemented by the AMF in response to the COVID-19 pandemic.

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

As at March 31, 2020, the Federation was in compliance with the AMF's capital ratio and leverage ratio regulatory requirements.

The following table presents the Federation’s regulatory capital balances, risk-weighted assets and capital ratios.

(in millions of dollars and as a percentage)	As at March 31, 2020	As at December 31, 2019
Capital		
Tier 1A capital	**$ 11,583**	$ 11,073
Tier 1 capital	**11,583**	11,073
Total capital	**11,583**	11,073
Risk-weighted assets for total capital calculation purposes		
Credit risk	**54,336**	53,243
Market risk	**2,342**	3,091
Operational risk	**8,984**	9,063
Total risk-weighted assets	**$ 65,662**	$ 65,397
Ratios and leverage ratio exposure		
Tier 1A capital	**17.6%**	16.9%
Tier 1 capital	**17.6**	16.9
Total capital	**17.6**	16.9
Leverage	**9.6**	9.0
Leverage ratio exposure	**$ 120,577**	$ 123,322

NOTE 10 – NET INTEREST INCOME AND NET INVESTMENT INCOME (LOSS)

NET INTEREST INCOME

The following table presents the breakdown of net interest income according to the classification of financial assets and liabilities.

	For the three-month periods ended March 31	
	2020	2019
Interest income on financial assets		
At amortized cost	**$ 725**	$ 719
At fair value through other comprehensive income	**52**	45
At fair value through profit or loss	**1**	7
	778	771
Interest expense on financial liabilities		
At amortized cost	**372**	406
	$ 406	$ 365

NET INVESTMENT INCOME (LOSS)

The following table presents the breakdown of investment income and loss according to the classification of financial assets and liabilities.

For the three-month periods ended March 31	**2020**			2019		
	Interest income and expense	**Fair value gains (losses) and other**	**Total**	Interest income and expense	Fair value gains (losses) and other	Total
Net investment income (loss) on financial assets and liabilities						
Classified as at fair value through profit or loss	**$ 59**	**$ (902)**	**$ (843)**	$ 74	$ 257	$ 331
Designated as at fair value through profit or loss	**139**	**(200)**	**(61)**	131	877	1,008
Classified as at fair value through other comprehensive income	**36**	**91**	**127**	35	1	36
At amortized cost and other	**32**	**119**	**151**	33	16	49
	$ 266	**$ (892)**	**$ (626)**	$ 273	$ 1,151	$ 1,424

NOTE 11 – SEGMENTED INFORMATION

RESULTS BY BUSINESS SEGMENT

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

For the three-month periods ended March 31	Personal and Business Services 2020	Personal and Business Services 2019	Wealth Management and Life and Health Insurance 2020	Wealth Management and Life and Health Insurance 2019	Property and Casualty Insurance 2020	Property and Casualty Insurance 2019	Treasury and Other Support to Desjardins Group Entities 2020	Treasury and Other Support to Desjardins Group Entities 2019	Consolidated 2020	Consolidated 2019
Net interest income	**$ 319**	$ 293	**$ 3**	$ 3	**$ -**	$ -	**$ 84**	$ 69	**$ 406**	$ 365
Net premiums	**-**	-	**1,217**	1,197	**1,377**	1,184	**(43)**	(36)	**2,551**	2,345
Other income	**548**	565	**278**	1,476	**85**	123	**(21)**	35	**890**	2,199
Total income	**867**	858	**1,498**	2,676	**1,462**	1,307	**20**	68	**3,847**	4,909
Provision for credit losses	**193**	83	**2**	-	**-**	-	**4**	1	**199**	84
Claims, benefits, annuities and changes in insurance contract liabilities	**-**	-	**1,041**	2,019	**1,042**	1,101	**-**	-	**2,083**	3,120
Non-interest expense	**686**	659	**524**	492	**330**	307	**188**	200	**1,728**	1,658
Operating surplus earnings(deficit)	**(12)**	116	**(69)**	165	**90**	(101)	**(172)**	(133)	**(163)**	47
Income taxes on surplus earnings	**(2)**	31	**(28)**	32	**17**	(20)	**(100)**	(52)	**(113)**	(9)
Net surplus earnings (deficit) for the period after dividends to member caisses	**$ (10)**	$ 85	**$ (41)**	$ 133	**$ 73**	$ (81)	**$ (72)**	$ (81)	**$ (50)**	$ 56
of which:										
Group's share	**$ (10)**	$ 85	**$ (41)**	$ 133	**$ 60**	$ (78)	**$ (72)**	$ (81)	**$ (63)**	$ 59
Non-controlling interests' share	**-**	-	**-**	-	**13**	(3)	**-**	-	**13**	(3)

SEGMENT ASSETS

	Personal and Business Services	Wealth Management and Life and Health Insurance	Property and Casualty Insurance	Treasury and Other Support to Desjardins Group Entities	Consolidated
As at March 31, 2020	**$ 69,807**	**$ 45,146**	**$ 13,571**	**$ 49,054**	**$ 177,578**
As at December 31, 2019	$ 61,885	$ 48,329	$ 13,860	$ 40,339	$ 164,413

GENERAL INFORMATION

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