Financial Statements

Caisse Desjardins de Vaudreuil-Soulanges

Transit No.: 30328

As at December 31, 2015

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Independent Auditor's Report

To the members of Caisse Desjardins de Vaudreuil-Soulanges,

Report on the Financial Statements

Pursuant to section 139 of the *Act respecting financial services cooperatives* (the Act), we have audited the accompanying financial statements of Caisse Desjardins de Vaudreuil-Soulanges (the Caisse), which comprise the Balance Sheets as at December 31, 2015 and 2014, and the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and 2014, and as a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Caisse as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended, in accordance with IFRS.

Report on a Legal Requirement

In accordance with section 159(2) of the Act, we report that, in our opinion, IFRS have been applied in the same manner as in the previous year.

Audit Department [1]

[1]CPA auditor, CA, public accountancy permit No. A109025

Montréal (Québec), April 6, 2016

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Caisse Desjardins de Vaudreuil-Soulanges
Balance Sheets

As at December 31

(in thousands of Canadian dollars)	Note	**2015**	2014
Assets			
Cash		**$15,705**	$19,493
Investments in the liquidity fund under management and other		**76,053**	69,076
		91,758	88,569
Loans	5		
Personal		**980,492**	953,756
Business		**437,254**	380,472
		1,417,746	1,334,228
Allowance for credit losses		**3,202**	2,830
		1,414,544	1,331,398
Other investments in the Federation	6	**79,466**	81,355
Other assets	7	**36,012**	37,102
		115,478	118,457
Total assets		**$1,621,780**	$1,538,424
Liabilities and equity			
Liabilities			
Deposits			
Term savings		**$501,986**	$523,846
Other		**673,872**	570,478
		1,175,858	1,094,324
Borrowings	9	**280,835**	287,177
Other liabilities	10	**27,179**	29,524
		308,014	316,701
Total liabilities		**1,483,872**	1,411,025
Equity			
Capital stock	13	**9,681**	12,371
Distributable surplus earnings		**5,577**	5,264
Accumulated other comprehensive income		**2,382**	3,576
Reserves		**120,268**	106,188
Total equity		**137,908**	127,399
Total liabilities and equity		**$1,621,780**	$1,538,424

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

Caisse Desjardins de Vaudreuil-Soulanges
Statements of Income

For the years ended December 31

(in thousands of Canadian dollars)	Note	**2015**	2014
Interest income		**$46,116**	$46,598
Interest expense		**17,151**	18,649
Net interest income		**28,965**	27,949
Provision for credit losses	5	**1,124**	373
Net interest income after provision for credit losses		**27,841**	27,576
Other income	14	**12,365**	11,946
Other expenses			
Employees	11	**16,329**	16,625
Assessments paid to Desjardins Group components		**4,166**	4,014
Computer services		**4,791**	4,840
Community development expenses		**517**	933
General expenses	15	**8,220**	7,589
		34,023	34,001
Operating surplus earnings		**6,183**	5,521
Income on other investments in the Federation	6	**8,289**	7,189
Income related to fair value of derivative financial instruments		**1,365**	1,681
Surplus earnings before taxes and member dividends		**15,837**	14,391
Income taxes on surplus earnings	12	**2,385**	2,342
Surplus earnings before member dividends		**13,452**	12,049
Member dividends	16	**972**	979
Tax recovery on member dividends	12	**(262)**	(264)
Net surplus earnings for the year after member dividends		**$12,742**	$11,334

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

Caisse Desjardins de Vaudreuil-Soulanges
Statements of Comprehensive Income

For the years ended December 31

(in thousands of Canadian dollars)	**2015**	2014
Net surplus earnings for the year after member dividends	**$12,742**	$11,334
Other comprehensive income, net of income taxes		
Items that will not be subsequently reclassified to the Statements of Income		
Remeasurement of net defined benefit plan liabilities	**1,888**	(2,832)
Share of other comprehensive income attributable to the remeasurement of net defined benefit plan liabilities from investments in the Federation's investment funds	**621**	(2,428)
	2,509	(5,260)
Items that will be subsequently reclassified to the Statements of Income		
Share of other comprehensive income from investments in the Federation's investment funds	**(497)**	1,792
Reclassification to the Statements of Income related to share of other comprehensive income from investments in the Federation's investment funds	**(697)**	(708)
	(1,194)	1,084
Total other comprehensive income	**1,315**	(4,176)
Comprehensive income for the year	**$14,057**	$7,158

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

Caisse Desjardins de Vaudreuil-Soulanges
Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)	**Capital stock**	**Distributable surplus earnings**	Reserves: Appreciation reserve (investments in the Federation's investment funds)	Reserves: Appreciation reserve (derivative financial instruments)	Reserves: Appreciation reserve (employee benefit plans)	Reserves: General reserve	Reserves: Stabilization reserve	Reserves: Reserve for future member dividends	Reserves: Community development fund	Reserves: **Total reserves**	**Accumulated other comprehensive income (1)**	**Total equity**
Balance as at December 31, 2014	$12,371	$5,264	$30,238	$2,940	$(9,130)	$74,308	$2,587	$4,200	$1,045	$106,188	$3,576	$127,399
Distribution by members at the 2015 general meeting												
Interest on permanent shares and on surplus shares	-	(536)	-	-	-	-	-	-	-	-	-	(536)
Transfer from (allocation to) reserves	-	(4,749)	-	-	-	4,549	-	-	200	4,749	-	-
Net adjustment related to member dividends	-	21	-	-	-	-	-	-	-	-	-	21
Balance after distribution	12,371	-	30,238	2,940	(9,130)	78,857	2,587	4,200	1,245	110,937	3,576	126,884
Net surplus earnings for 2015 after member dividends	-	12,742	-	-	-	-	-	-	-	-	-	12,742
Other comprehensive income for the year	-	2,509	-	-	-	-	-	-	-	-	(1,194)	1,315
Statutory transfer	-	(10,037)	6,852	995	2,190	-	-	-	-	10,037	-	-
Net amounts used during the year	-	384	-	-	-	-	-	-	(384)	(384)	-	-
Equity transactions related to other investments in the Federation	-	-	(322)	-	-	-	-	-	-	(322)	-	(322)
Repurchase of permanent shares	(2,274)	-	-	-	-	-	-	-	-	-	-	(2,274)
Other net change in capital stock	(416)	-	-	-	-	-	-	-	-	-	-	(416)
Net adjustment related to member dividends	-	(21)	-	-	-	-	-	-	-	-	-	(21)
Balance as at December 31, 2015	$9,681	$5,577	$36,768	$3,935	$(6,940)	$78,857	$2,587	$4,200	$861	$120,268	$2,382	$137,908

(1) "Accumulated other comprehensive income" mainly consists of the share of other comprehensive income from investments in the Federation's investment funds.

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

Caisse Desjardins de Vaudreuil-Soulanges
Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)	**Capital stock**	**Distributable surplus earnings**	Reserves: Appreciation reserve (investments in the Federation's investment funds)	Reserves: Appreciation reserve (derivative financial instruments)	Reserves: Appreciation reserve (employee benefit plans)	Reserves: General reserve	Reserves: Stabilization reserve	Reserves: Reserve for future member dividends	Reserves: Community development fund	Reserves: **Total reserves**	**Accumulated other comprehensive income (1)**	**Total equity**
Balance as at December 31, 2013	$12,685	$3,617	$27,311	$1,716	$(6,610)	$71,656	$2,532	$4,200	$1,329	$102,134	$2,492	$120,928
Distribution by members at the 2014 general meeting												
Interest on permanent shares and on surplus shares	-	(526)	-	-	-	-	-	-	-	-	-	(526)
Transfer from (allocation to) reserves	-	(3,107)	-	-	-	2,652	55	-	400	3,107	-	-
Net adjustment related to member dividends	-	16	-	-	-	-	-	-	-	-	-	16
Balance after distribution	12,685	-	27,311	1,716	(6,610)	74,308	2,587	4,200	1,729	105,241	2,492	120,418
Net surplus earnings for 2014 after member dividends	-	11,334	-	-	-	-	-	-	-	-	-	11,334
Other comprehensive income for the year	-	(5,260)	-	-	-	-	-	-	-	-	1,084	(4,176)
Statutory transfer	-	(1,478)	2,774	1,224	(2,520)	-	-	-	-	1,478	-	-
Net amounts used during the year	-	684	-	-	-	-	-	-	(684)	(684)	-	-
Equity transactions related to other investments in the Federation	-	-	143	-	-	-	-	-	-	143	-	143
Change in shares held in the Federation's investment funds	-	-	10	-	-	-	-	-	-	10	-	10
Issuance of permanent shares	240	-	-	-	-	-	-	-	-	-	-	240
Repurchase of permanent shares	(734)	-	-	-	-	-	-	-	-	-	-	(734)
Other net change in capital stock	180	-	-	-	-	-	-	-	-	-	-	180
Net adjustment related to member dividends	-	(16)	-	-	-	-	-	-	-	-	-	(16)
Balance as at December 31, 2014	$12,371	$5,264	$30,238	$2,940	$(9,130)	$74,308	$2,587	$4,200	$1,045	$106,188	$3,576	$127,399

(1) "Accumulated other comprehensive income" mainly consists of the share of other comprehensive income from investments in the Federation's investment funds.

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

Caisse Desjardins de Vaudreuil-Soulanges
Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)	**2015**	2014
Cash flows from (used in) operating activities		
Surplus earnings before taxes and member dividends	**$15,837**	$14,391
Non-cash adjustments:		
Net provision for credit losses	**825**	232
Depreciation of property, plant and equipment	**933**	1,031
Net defined benefit plan liabilities	**1,568**	1,499
Income related to recognition of derivative financial instruments at fair value	**(1,361)**	(1,681)
Income on investments in the Federation's investment funds	**(8,065)**	(6,906)
Changes in operating assets and liabilities:		
Net change in loans	**(83,971)**	(47,556)
Net change in member deposits	**84,285**	(4,589)
Other changes	**(4,194)**	(30)
Income taxes paid on surplus earnings during the year	**(1,074)**	(2,127)
Member dividends paid	**(973)**	(981)
	3,810	(46,717)
Cash flows from (used in) financing activities		
Transactions related to borrowings:		
Net change in line of credit	**(13,578)**	18,310
Net change in term borrowings	**7,236**	30,281
Issuance of permanent shares	**-**	240
Repurchase of permanent shares	**(2,274)**	(734)
Other net change in capital stock	**(416)**	180
Remuneration on permanent shares and surplus shares	**(536)**	(526)
	(9,568)	47,751
Cash flows from (used in) investing activities		
Acquisition of other investments in the Federation	**(2,594)**	(6,383)
Amount received from the Federation's investment funds	**1,832**	1,691
Proceeds from the disposal of other investments in the Federation	**9,821**	1,582
Net change in investments	**(6,977)**	1,661
Acquisition of property, plant and equipment	**(114)**	(122)
Proceeds from disposal of property, plant and equipment	**2**	-
	1,970	(1,571)
Net decrease in cash	**(3,788)**	(537)
Cash at beginning of year	**19,493**	20,030
Cash at end of year	**$15,705**	$19,493
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$18,002**	$18,503
Interest received	**45,917**	46,536

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

Note 1. Applicable legislation and types of operations

The Caisse is a cooperative whose purpose is to receive the savings of its members in order to invest them profitably and to extend credit as well as to supply other financial products and services to its members. Its mission also includes fostering cooperation and promoting economic, social and cooperative education. It is governed by the *Act respecting financial services cooperatives* (the "Act").

The Caisse is registered with the *Autorité des marchés financiers* (AMF) in Quebec. It is also a member of the *Fonds de sécurité Desjardins*, whose main purpose is to establish and administer a security, liquidity or mutual benefit fund for the benefit of the Desjardins caisses in Quebec.

The Caisse is a member of the *Fédération des caisses Desjardins du Québec* (the Federation), which controls other components that form Desjardins Group.

The address of the head office of the Caisse is 100, boulevard Don Quichotte, bureau 1, L'Île-Perrot (Québec).

The Board of Directors of the Caisse approved its Financial Statements for the year ended December 31, 2015 on April 6, 2016.

Note 2. Basis of presentation and significant accounting policies

Basis of presentation

Statement of compliance

Pursuant to the Act, these Financial Statements have been prepared by the Caisse in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the accounting requirements of the AMF, which do not differ from IFRS.

Some figures from the prior year were reclassified to be consistent with the presentation of the financial statements of the current year. This reclassification did not affect the Caisse's surplus earnings or total assets and liabilities.

Scope of the Caisse

On January 1, 2015, the administrative and loan collection activities of the Administrative Centre and Collection Centre in the caisse network in which the Caisse participated were transferred to a new component of the Federation, Desjardins Shared Services Group Inc. (DSSG).

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of certain assets, liabilities, income and expenses, as well as related information. The significant accounting policies that have required that management make difficult, subjective or complex judgments, often with regard to matters of an uncertain nature, concern determination of the fair value of financial instruments, derecognition of financial assets, the allowance for credit losses, objective evidence of impairment of available-for-sale securities, member dividends, provisions, impairment of non-financial assets including investments in the Federation's investment funds, income taxes on surplus earnings and employee benefits. Consequently, actual results could differ from these estimates and assumptions.

Functional and presentation currency

These financial statements are presented in Canadian dollars, the Caisse's functional currency. The figures presented in the Notes to the Financial Statements are in thousands of dollars, unless otherwise indicated.

Note 2. Basis of presentation and significant accounting policies (continued)

Significant accounting policies

Financial assets and liabilities

Financial assets and liabilities are recognized on the date the Caisse becomes a party to their contractual provisions.

Classification and measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Their classification in the categories defined by financial instrument standards is presented in Note 3, "Carrying amount of financial instruments". Initial recognition refers to when the financial assets and liabilities are recorded in the Caisse's accounting records for the first time. Subsequent recognition is the accounting treatment applied in subsequent periods during which these assets and liabilities are recorded on the Balance Sheets.

The classification of the financial assets held by the Caisse can be summarized as follows:

	Recognition	
Categories	**Initial**	**Subsequent**
Financial assets held for trading[i]	Fair value	Fair value
Loans and receivables[ii]	Fair value	Amortized cost
Available-for-sale financial assets[iii]	Fair value	Fair value

(i) Financial assets classified as "Held for trading" consist only of derivative financial instruments.

(ii) Assets classified in the "Loans and receivables" category are measured at amortized cost using the effective interest method. Income recognized on these assets is presented under "Interest income" in the Statements of Income. Financial assets classified in this category include:

- cash;
- term deposits;
- loans.

(iii) The "Available-for-sale financial assets" category is composed of the investment in the liquidity fund under management and investments in the Federation's General Fund. These investments are recognized at fair value, which corresponds to cost, taking into account the specific terms and conditions of the instruments.

Note 2. Basis of presentation and significant accounting policies (continued)

The classification of financial liabilities can be summarized as follows:

	Recognition	
Categories	**Initial**	**Subsequent**
Financial liabilities held for trading(iv)	Fair value	Fair value
Financial liabilities at amortized cost(v)	Fair value	At amortized cost

(iv) Financial liabilities classified as "Held for trading" consist only of derivative financial instruments.

(v) Financial liabilities classified in the "At amortized cost" category are measured at amortized cost using the effective interest method. Interest expense on these liabilities is recognized under "Interest expense" in the Statements of Income. Financial liabilities classified in this category include:

- deposits;
- borrowings.

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date.

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

Loans

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by the Caisse, which results in a favourable or unfavourable difference compared to their carrying amount. The fair value of impaired loans is assumed to be equal to their carrying amount, in accordance with the valuation methods described below under "Loans".

Note 2. Basis of presentation and significant accounting policies (continued)

Deposits and borrowings

The fair value of fixed-rate deposits and borrowings is determined by discounting expected cash flows using market interest rates currently being offered for deposits and borrowings with substantially the same term and takes estimated prepayments into account. The fair value of deposits and borrowings with floating-rate features or with no stated maturity is assumed to be equal to their carrying amounts.

Derivative financial instruments

The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves and volatility factors.

Financial instruments whose fair value equals the carrying amount

The carrying amount of certain financial instruments that mature within the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash", some "Other assets" and some "Other liabilities".

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, except if such instruments are classified in the "Financial assets held for trading" category, in which case these costs are expensed as incurred.

Offsetting financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is an unconditional and legally enforceable right to set off the recognized amounts and the Caisse intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognized on the Balance Sheets when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the asset are retained but the Caisse has the obligation to pay these cash flows to a third party, under certain conditions, or when the contractual rights to the cash flows from the asset are transferred and substantially all risks and rewards incidental to ownership of the asset have been transferred.

When the Caisse has retained substantially all the risks and rewards incidental to ownership of the financial asset transferred, the asset continues to be recognized on the Balance Sheets and, if required, a financial liability is recognized.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

The Caisse's management must use its judgment to determine if the contractual rights to the cash flows from the asset have expired, have been transferred or have been retained with the obligation to pay these cash flows to a third party. In the event of the transfer of substantially all the risks and rewards, management will assess the Caisse's exposure before and after the transfer, as well as the change in the amount and timing of the net cash flows related to the transferred asset. Lastly, the Caisse's management must exercise judgment in measuring the rights retained.

Note 2. Basis of presentation and significant accounting policies (continued)

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the financial liability transferred and the consideration paid is recognized in the Statements of Income.

Cash

"Cash" includes cash on hand and other amounts used in current operations. These financial instruments are classified as "Loans and receivables".

Investments

Investments may include the investment in the liquidity fund under management and term deposits. To manage liquidity risk, the Caisse keeps the amounts necessary to maintain a minimum level of liquidity in a fund under management designed specifically for this purpose. The amounts paid into this fund are excluded from cash because regulations prohibit their use in current operations. The investment in the liquidity fund is therefore classified in the "Available-for-sale financial assets" category. Term deposits are classified as "Loans and receivables".

Loans

Loans are recorded at amortized cost using the effective interest method, net of the allowance for credit losses.

The fees collected and the direct costs related to the origination, restructuring, and renegotiation of loans are treated as being an integral part of the return on the loan. They are deferred and amortized using the effective interest method, and amortization is recognized under interest income for the term of the loan.

Other investments in the Federation

Investments in the Federation's investment funds

The Caisse holds various participating securities of the Federation. It holds securities in a number of investment funds issued by the Federation which entitle the Caisse to the return from Desjardins Group subsidiaries. Since the Caisse is able to exercise significant influence over the Federation's financial and operational policy decisions, the investments are accounted for using the equity method. Under this method, the investments are initially recognized at cost and subsequently adjusted to reflect the changes in the Caisse's share of the equity of the Federation's investment funds that occur after the investments are acquired. The income from these investments is presented in the Statements of Income under "Income on other investments in the Federation".

Investments in the Federation's General Fund

The Caisse has shares of capital stock as well as Series A, B, C and D capital shares issued by the Federation, which are investments in the Federation's General Fund. Since these shares do not entitle holders to any return from the Federation, holdings of these securities are classified as available-for-sale financial assets, and are therefore recognized at fair value. Given the specific characteristics of these shares, fair value corresponds to cost. Interest income from these investments is recorded when the right to such income is established by the Federation. This income is presented in the Statements of Income under "Income on other investments in the Federation".

Note 2. Basis of presentation and significant accounting policies (continued)

Impairment of financial assets

Impaired loans

At the reporting date, the Caisse assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A loan is considered impaired if there is evidence of impairment, more specifically if one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest will not be able to be collected.
- The interest or principal is contractually 90 days past due, unless the loan is fully secured and in the process of collection.
- The interest or principal is more than 180 days past due.

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency.

A loan is considered past due as soon as the borrower has failed to make a payment by the contractual due date.

When a loan becomes impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to the collection of the loan or when it is restructured, in which case it is treated as a new loan, and there is no longer doubt as to the collection of the principal and interest.

Assets foreclosed to settle impaired loans are recognized on the date of foreclosure at their fair value less costs of disposal. The fair value of foreclosed assets is determined by using a comparative market analysis, based on the optimal use of the assets, as well as the characteristics, location and market of each foreclosed asset. Transaction prices for similar assets are used and certain adjustments are made to take into account the differences between assets on the market and the foreclosed assets measured. If the fair value of the acquired assets is less than the carrying amount of the loan, the loss is recognized under "Provision for credit losses". In the opposite case, the difference is accounted for under "Provision for credit losses" up to the allowance already recognized, and any surplus is recognized under "General expenses".

A loan is written off when all possible attempts at restructuring or collection have been made and the likelihood of future collection is remote. When a loan is written off completely, any subsequent payments are recognized under "Provision for credit losses" in the Statements of Income.

Allowance for credit losses

Objective evidence of impairment results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans. The impairment of a loan or a group of loans is determined by estimating the recoverable amount of these financial assets. The allowance is equal to the difference between this estimate and the carrying amount. This allowance is presented in deduction of loans under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, the Caisse uses the value of the expected future cash flows discounted at the loan's original effective interest rate. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the securities underlying the loan, net of expected costs of realization.

Note 2. Basis of presentation and significant accounting policies (continued)

The allowance for credit losses is Caisse management's best estimate of impaired loans as at the reporting date. In measuring the allowance for credit losses, Caisse management must exercise judgment in order to determine the inputs, assumptions and estimates to be used, including the timing when a loan is considered impaired and the recoverable amount. A change in these estimates and assumptions would affect the allowance for credit losses, as well as the provision for credit losses for the year.

The allowance for credit losses relating to impaired loans is measured on an individual basis, while the allowance for credit losses is measured on a collective basis for unimpaired loans.

Individual allowances

The Caisse reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the Statements of Income.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income", while those that are due to a revision of expected receipts are recognized under "Provision for credit losses" in the Statements of Income.

Collective allowance

Loan portfolios for which there is no objective evidence of impairment are included in groups of financial assets with similar credit risk characteristics and are subject to a collective allowance.

The method used by the Caisse to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance models take into account certain factors such as probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and the risk rating of each loan. The measurement of the collective allowance also depends to a large extent on management's judgment and its assessment of current credit quality trends with respect to business segments, the impact of changes to its credit policies and economic conditions.

Finally, the allowance related to off-balance sheet exposures, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities" on the Balance Sheets and under "General expenses" in the Statements of Income.

Property, plant and equipment

Property, plant and equipment may include land, buildings, equipment, furniture and other items as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any impairment losses, and are depreciated based on the estimated useful life of each of their significant parts, using the straight-line method.

Note 2. Basis of presentation and significant accounting policies (continued)

Depreciation

Property, plant and equipment are depreciated using the following depreciation periods.

	Depreciation periods
Land	Non-depreciable
Buildings	15 to 60 years
Equipment, furniture and other	3 to 20 years
Leasehold improvements	2 to 10 years

Depreciation expense is recognized under "Other expenses" in the Statements of Income.

Assets held for sale

An asset is classified as held for sale if its carrying amount is expected to be recovered primarily through a sale transaction rather than through continuing use, and such a sale transaction is highly probable. An asset held for sale is measured at the lower of its carrying amount and its fair value less costs of disposal.

The fair value of assets held for sale is determined by using a comparative market analysis, based on the optimal use of the assets, as well as the characteristics, location and market of each asset. Transaction prices for similar assets are used and certain adjustments are made to take into account the differences between assets on the market and assets held for sale.

Impairment of non-financial assets

The Caisse assesses at the reporting date whether there is evidence that an asset must be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. Fair value corresponds to the best estimate of the amount that may be obtained from the disposal of an asset during an arm's length transaction between knowledgeable, willing parties. The value in use is calculated according to the most appropriate method, generally by discounting recoverable future cash flows. Impairment losses on that asset may be subsequently reversed and are recognized in the Statements of Income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine if it is impaired requires also that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test.

Deposits and borrowings

Deposits and borrowings are financial liabilities classified as "Financial liabilities at amortized cost". Interest expense calculated using the effective interest rate is recognized in profit or loss for the year under "Interest expense".

Note 2. Basis of presentation and significant accounting policies (continued)

Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognized when the Caisse has an obligation (legal or constructive) as a result of past events, the settlement of which should result in a disbursement by the Caisse and when a reliable estimate can be made of this amount. The amount of the expected disbursement is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts that will be necessary to settle the obligation at the end of the reporting period, in view of relevant risk and uncertainties. Given the prospective nature of these estimates, management must use its judgment to determine the timing and the amount of future cash flows. Actual results could be significantly different from forecasts.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates and other financial indexes. Derivative financial instruments are negotiated by mutual agreement between the Caisse and the counterparty and include interest rate swaps, foreign exchange contracts and stock index options.

The Caisse recognizes derivative financial instruments at fair value, whether they are stand-alone or embedded. Stand-alone derivative financial instruments are recognized on the Balance Sheets under other assets and liabilities, while embedded derivative financial instruments are presented with their host contract depending on the type of instrument, under "Term savings". Changes in the fair value of stand-alone derivative financial instruments are recognized under "Income related to fair value of derivative financial instruments" in the Statements of Income. Moreover, changes in the fair value of embedded derivative financial instruments are recognized as interest expense adjustments.

The Caisse essentially uses derivative financial instruments for purposes of asset and liability management.

Derivative financial instruments are mainly used to manage the interest rate risk exposure of the assets and liabilities recorded on the Balance Sheets, firm commitments and forecasted transactions.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

The foreign exchange contracts to which the Caisse is a party are forward exchange contracts. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed upon by both parties at the inception of the contract.

The Caisse has elected not to apply hedge accounting for these derivative financial instruments, given the complexity of documentation requirements.

Distributable surplus earnings

Distribution comes under the jurisdiction of the general meeting. However, according to the standards of the Federation, distributable surplus earnings must be applied first for the purpose of ensuring the payment of interest on permanent shares, as well as for the purpose of establishing or maintaining the required level of capitalization through transfers to the stabilization reserve and the general reserve.

Note 2. Basis of presentation and significant accounting policies (continued)

Reserves

The appreciation reserve consists of the following three components:

- The "Appreciation reserve – Investments in the Federation's investment funds" is comprised of uncollected income generated by shares of Desjardins subsidiaries accounted for using the equity method.
- The "Appreciation reserve – Derivative financial instruments" comprises gains and losses resulting from the change in net fair value of derivative financial instruments.
- The "Appreciation reserve – Employee benefit plans" includes the Caisse's share of the actuarial deficit of the common pension and group insurance plans.

The general reserve is made up of amounts appropriated by the Caisse, according to the conditions stipulated in the standards. This reserve can be used only to eliminate a deficit and cannot be divided amongst members or used to pay a member dividend.

The stabilization reserve consists of amounts appropriated by the Caisse. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares when the surplus earnings of the Caisse are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the Caisse. This reserve allows it to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The community development fund is a reserve that includes the amounts allocated by the general meeting. The amounts recorded in these accounts are to be used to assist in community development, according to the conditions stipulated in the Caisse's normative framework.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Caisse and that they can be measured reliably. In addition to the items mentioned previously in "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenues can be recognized.

Net interest income

Interest income and expense are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that accurately discounts future cash payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period to obtain the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Caisse estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file set-up fees and finders' fees, are assimilated to supplemental interest.

Note 2. Basis of presentation and significant accounting policies (continued)

Other income

The Caisse collects income from deposit administration, administration of other services and distribution of Desjardins products and services.

Income from deposit administration consists mainly of service charges and charges related to payment orders issued without sufficient funds, while income from the administration of other services is made up of charges relating to collections made on behalf of various organizations, and of income from intercaisse transactions. This income is recognized when the transaction is carried out based on the agreement in effect with the member.

Income from the distribution of Desjardins products and services comprises fees for the financial activities carried on by Desjardins Group subsidiaries through the Caisse. This income is recognized when the service is rendered, based on the agreements in effect with the various Desjardins Group subsidiaries.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical rates. Income and expenses are translated at the average exchange rate for the period. Realized and unrealized gains and losses resulting from the translation are recognized in the Statements of Income under "Other income".

Leases

Leases under which the lessor retains substantially all the risks and rewards incidental to ownership of an asset are known as operating leases. However, leases under which there is a transfer of substantially all the risks and rewards incidental to ownership of an asset are known as finance leases.

Lessee

Lease payments made under operating leases are recognized as an expense on a straight-line basis until the end of the lease.

Under a finance lease, an asset and a liability of an equivalent amount are recognized at the lower of the fair value of the asset acquired or the present value of minimum lease payments. The asset is presented on the Balance Sheets under "Other assets", while the corresponding liability is presented on the Balance Sheets under "Other liabilities". A depreciation expense is recognized in profit or loss on a straight-line basis over the lease period, while an interest expense is recognized in profit or loss under "General expenses" based on the lease's effective interest rate.

Lessor

Lease income from operating leases is recognized as income on a straight-line basis until the end of the lease.

Note 2. Basis of presentation and significant accounting policies (continued)

Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Statements of Income includes the current and deferred income tax expense on operating surplus earnings as well as the tax consequences of remuneration on capital stock when certain conditions are met. The total income tax expense includes the income tax expense on surplus earnings in the Statements of Income and the current and deferred income tax expense related to items that are not recognized in profit or loss but directly in the Statements of Comprehensive Income or the Statements of Changes in Equity.

The total of income tax expense is based on the expected tax treatment of the transactions. To determine the current and deferred portions of income taxes on surplus earnings, management must exercise its judgment to make assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be exercised to interpret the relevant tax legislation to determine the income tax expense. If the Caisse's interpretation differs from that of the taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Tax rules and tax rates applied to determine these amounts are those that have been enacted or substantively enacted as at the reporting date.

Deferred income taxes

Deferred taxes are recognized, using the liability method, for all temporary differences existing as at the reporting date between the tax basis of assets and liabilities and their carrying amount on the Balance Sheets.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it no longer seems probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilized. Unrecognized deferred tax assets are remeasured at each reporting date and are recognized to the extent that a future taxable benefit may likely allow them to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax rules) that have been enacted or substantively enacted as at the reporting date.

Member dividends

The Board of Directors of the Caisse recommends for approval the surplus earnings distribution plan at the annual general meeting, which is held within four months following year-end. The amount of member dividends to be paid is part of this plan. The amount of the provision is determined in particular based on the surplus earnings recorded for the year taking the normative framework into consideration. The difference between the amounts of member dividends actually paid in cash following the general meeting held by the Caisse, and the estimated amount of the provision is charged to profit or loss for the period in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, Accord D financing obtained by the member through the Caisse, and the various service charges collected from the member depending on the services used.

Note 2. Basis of presentation and significant accounting policies (continued)

Employee benefits

Short-term benefits

Short-term benefits include salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recognized for these short-term benefits in the period during which the services giving right to these benefits were rendered.

Post-employment benefits

Pension and post-retirement benefit plans

The Caisse offers the majority of its employees a pension plan as well as a supplemental pension plan that are defined benefit plans. The Caisse also offers a post-retirement benefit plan, including medical, dental and life insurance coverage to retiring employees and their dependants.

The cost of these plans is recognized in the Statements of Income and consists of current service cost, past service cost and net interest on net defined benefit plan liabilities. Past service cost arising from an amendment to or reduction in the plans is recognized immediately in the Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in other comprehensive income that will not be subsequently reclassified to the Statements of Income and are recorded immediately in distributable surplus earnings. Remeasurements of net defined benefit plan liabilities include actuarial gains and losses as well as the difference between the actual return on plan assets and the interest income generated by the assets recognized in the Statements of Income. Actuarial gains and losses result from the changes made to the actuarial assumptions used to determine the defined benefit plan obligation and the experience gains or losses with regard to this obligation.

The net defined benefit plan assets or liabilities correspond to the present value of the obligation of these plans, computed according to the projected unit credit method, less the fair value of plan assets. The value of any defined benefit plan asset, when appropriate, is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The pension plan net liabilities and the net liabilities related to the post-retirement benefit plan are recognized under "Net defined benefit plan liabilities" or "Other liabilities" on the Balance Sheets.

The Caisse participates in group defined benefit pension plans of which the risks are shared by entities under common control. The Caisse's share of the recognized costs and of Desjardins Group's net group defined benefit plan liabilities is mainly determined by funding rules, as described in the Desjardins Group Pension Plan Regulation. Desjardins Group's main pension plan is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employer contributions are determined using a percentage of the assessable payroll for their employees participating in the plan.

The Caisse's share of the cost of Desjardins Group's group post-retirement benefit plan is based on the number of the Caisse's active insureds as a percentage of the total number of active insureds for Desjardins Group as a whole.

Note 2. Basis of presentation and significant accounting policies (continued)

Future accounting changes

Accounting standards that have been issued by the IASB but not yet effective as at December 31, 2015 are listed below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they advise otherwise.

IAS 16, "Property, Plant and Equipment" – Clarification of Acceptable Methods of Depreciation

In May 2014, the IASB issued amendments to IAS 16, "Property, Plant and Equipment". These amendments clarify that the use of a revenue-based depreciation method for property, plant and equipment is not appropriate.

The amendments to these standards, which will be effective for annual periods beginning on or after January 1, 2016, will not have any effect on the Caisse's results or financial position.

IFRS 15, "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which introduces a single, comprehensive revenue recognition model for all contracts with customers other than those within the scope of other standards, such as financial instruments, insurance contracts and leases. IFRS 15 therefore supersedes the two main revenue recognition standards, IAS 18, "Revenue", and IAS 11, "Construction Contracts", as well as related interpretations. The core principle of this new standard is that revenue recognition should depict the transfer of goods or services in an amount that reflects the consideration received or expected to be received in exchange for these goods or services. The new standard also provides more guidance on certain types of transactions and will result in an increase in disclosures related to revenue.

In September 2015, the IASB issued an amendment to IFRS 15 to postpone its effective date to January 1, 2018. The Caisse is currently assessing the impact of adopting this standard.

IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the complete and final version of IFRS 9, "Financial Instruments", which will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 includes the equirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets, as well as general requirements for hedge accounting.

IFRS 9 establishes a new classification and measurement model for financial assets to determine whether a financial asset must be classified as measured at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. This model is based on the contractual cash flow characteristics of the financial asset and on the business model under which it is held. For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements under IAS 39.

The standard also introduces a single financial asset impairment model requiring recognition of expected credit losses instead of incurred losses, as the current impairment model requires. The model provides for the recognition of the 12-month expected credit losses from the date of initial recognition of a financial asset, and then the recognition of the lifetime expected credit losses if the credit risk on the relevant financial instrument has increased significantly since initial recognition.

Note 2. Basis of presentation and significant accounting policies (continued)

Lastly, IFRS 9 includes a new hedge accounting model in order to align hedge accounting more closely with risk management activities. However, the standard permits maintaining the application of the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9.

The Caisse will have to adopt IFRS retrospectively on or after January 1, 2018. However, the restatement of comparative periods is not mandatory. The Caisse is currently assessing the impact of adopting IFRS 9, except for hedge accounting, which it does not apply.

Note 3. Carrying amount of financial instruments

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in Note 2 "Basis of presentation and significant accounting policies" concerning financial instruments.

2015

	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets				
Cash	**$-**	**$-**	**$15,705**	**$15,705**
Investments	**-**	**76,053**	**-**	**76,053**
Loans	**-**	**-**	**1,414,544**	**1,414,544**
Investments in the Federation's General Fund	**-**	**591**	**-**	**591**
Derivative financial instruments	**14,850**	**-**	**-**	**14,850**
Other financial assets	**-**	**-**	**3,354**	**3,354**
Total financial assets	**$14,850**	**$76,644**	**$1,433,603**	**$1,525,097**
Financial liabilities				
Deposits	**$-**	**$-**	**$1,175,858**	**$1,175,858**
Borrowings	**-**	**-**	**280,835**	**280,835**
Derivative financial instruments	**326**	**-**	**-**	**326**
Other financial liabilities	**-**	**-**	**8,864**	**8,864**
Total financial liabilities	**$326**	**$-**	**$1,465,557**	**$1,465,883**

Note 3. Carrying amount of financial instruments (continued)

2014

	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets				
Cash	$-	$-	$19,493	$19,493
Investments	-	69,076	-	69,076
Loans	-	-	1,331,398	1,331,398
Investments in the Federation's General Fund	-	10,412	-	10,412
Derivative financial instruments	15,458	-	-	15,458
Other financial assets	-	-	3,146	3,146
Total financial assets	$15,458	$79,488	$1,354,037	$1,448,983
Financial liabilities				
Deposits	$-	$-	$1,094,324	$1,094,324
Borrowings	-	-	287,177	287,177
Derivative financial instruments	57	-	-	57
Other financial liabilities	-	-	9,709	9,709
Total financial liabilities	$57	$-	$1,391,210	$1,391,267

Note 4. Fair value measurement

The fair value measurement of assets and liabilities is determined according to the following three levels of the fair value hierarchy:

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

At year-end 2015 and 2014, the fair value hierarchy of assets and liabilities recognized at fair value on the Balance Sheets is Level 2.

Note 4. Fair value measurement (continued)

During the current year and the previous year, no transfer was made between the levels of the fair value hierarchy.

The following tables present the carrying amount and fair value, classified by hierarchical level, for the items including financial instruments whose carrying amount is not equal to fair value.

2015	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$1,414,544**	**$1,415,283**	**$-**	**$-**	**$1,415,283**
Financial liabilities					
Deposits	**1,175,858**	**1,180,276**	**-**	**1,180,276**	**-**
Borrowings	**280,835**	**281,606**	**-**	**281,606**	**-**

2014	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans	$1,331,398	$1,335,837	$-	$-	$1,335,837
Financial liabilities					
Deposits	1,094,324	1,098,657	-	1,098,657	-
Borrowings	287,177	289,098	-	289,098	-

Note 5. Loans and allowance for credit losses

Loans by borrower category

	2015	2014
Personal		
Mortgages	**$781,537**	$759,942
Consumer and other	**198,955**	193,814
Business		
Commercial and industrial	**207,705**	184,167
Agriculture, forestry and fishing	**197,236**	164,902
Public administrations and institutions	**32,313**	31,403
	$1,417,746	$1,334,228

Note 5. Loans and allowance for credit losses (continued)

Loans, impaired loans and allowance for credit losses

The following tables present the credit quality of loans.

2015

	Personal	Business	Collective allowance	Total
Gross loans neither past due nor impaired	**$959,428**	**$426,506**	**$-**	**$1,385,934**
Gross loans past due but not impaired	**19,970**	**7,522**	**-**	**27,492**
Gross impaired loans	**1,094**	**3,226**	**-**	**4,320**
Total gross loans	**980,492**	**437,254**	**-**	**1,417,746**
Individual allowances	**(86)**	**(1,755)**	**-**	**(1,841)**
Collective allowance	**-**	**-**	**(1,361)**	**(1,361)**
Total net loans	**$980,406**	**$435,499**	**$(1,361)**	**$1,414,544**

2014

	Personal	Business	Collective allowance	Total
Gross loans neither past due nor impaired	$934,709	$375,439	$-	$1,310,148
Gross loans past due but not impaired	18,778	2,993	-	21,771
Gross impaired loans	269	2,040	-	2,309
Total gross loans	953,756	380,472	-	1,334,228
Individual allowances	(254)	(1,225)	-	(1,479)
Collective allowance	-	-	(1,351)	(1,351)
Total net loans	$953,502	$379,247	$(1,351)	$1,331,398

Gross loans past due but not impaired

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

2015

	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Personal	**$15,779**	**$2,105**	**$162**	**$1,924**	**$19,970**
Business	**272**	**201**	**3,338**	**3,711**	**7,522**
	$16,051	**$2,306**	**$3,500**	**$5,635**	**$27,492**

Note 5. Loans and allowance for credit losses (continued)

2014	1 to 29 days	30 to 59 days	60 to 89 days	90 days or more	Total
Personal	$13,268	$2,031	$1,579	$1,900	$18,778
Business	978	488	115	1,412	2,993
	$14,246	$2,519	$1,694	$3,312	$21,771

Change in the allowance for credit losses

2015	**Individual allowances**			
	Personal	**Business**	**Collective allowance**	**Total**
Balance at beginning of year	**$254**	**$1,225**	**$1,351**	**$2,830**
Provision for credit losses recognized in the Statements of Income	**431**	**683**	**10**	**1,124**
Write-offs and other	**(599)**	**(153)**	**-**	**(752)**
Balance at end of year	**$86**	**$1,755**	**$1,361**	**$3,202**

2014	Individual allowances			
	Personal	Business	Collective allowance	Total
Balance at beginning of year	$631	$1,478	$1,312	$3,421
Provision for credit losses recognized in the Statements of Income	307	27	39	373
Write-offs and other	(684)	(280)	-	(964)
Balance at end of year	$254	$1,225	$1,351	$2,830

Transferred loans

Transferred loans that are not derecognized

Mortgage loans transferred for securitization purposes

As part of its liquidity and capital management strategy, Desjardins Group participates in the *National Housing Act* Mortgage-Backed Securities Program. Under this program, the Caisse transfers securitization interests in mortgage loans guaranteed by Canada Mortgage and Housing Corporation (CMHC) to a Desjardins Group subsidiary. Once the loans covered by the securitization interests are converted into pools of loans by the subsidiary, the loans in the pool are then transferred from the caisses to CMHC. However, the Caisse retains substantially all the risks and rewards, in particular prepayment risk, interest rate risk, credit risk and counterparty risk, while the rewards include the cash flows from the assets. The legal guarantee on these transactions is limited to the transferred assets.

Note 5. Loans and allowance for credit losses (continued)

Consequently, the loans continue to be recognized on the Caisse's Balance Sheets.

No significant loss is expected on the mortgage loans because they are guaranteed by CMHC. Income related to securitization transactions is recognized under "Interest income" and "Other income – Related to the administration of other services".

Mortgage loans transferred for the covered bond programs

The Caisse transferred to a Desjardins Group subsidiary residential mortgage loans under covered bond issuance programs. The mortgage loans are then legally transferred to a consolidated structured entities by this Desjardins Group subsidiary. The Caisse retains substantially all the risks and rewards related to the loans concerned, in particular prepayment risk, interest rate risk, credit risk and counterparty risk, while the rewards include the cash flows from the assets. Consequently, these loans continue to be recognized on the Caisse's Balance Sheets. The Caisse furthermore undertook to make its mortgage loans available to the Desjardins Group subsidiary, to a maximum of the eligible loans for the covered bond programs.

Income related to the covered bond programs is recognized under "Interest income" and "Other income – Related to the administration of other services".

The table below presents the carrying amount of mortgage loans legally transferred by the Caisse, but still recognized in the Balance Sheets.

	2015	2014
Mortgage loans transferred for securitization purposes	**$110,392**	$118,801
Mortgage loans transferred for the covered bond programs	**75,107**	69,720

Note 6. Other investments in the Federation

Other investments in the Federation presented on the Balance Sheets comprise:

	2015	2014
Investments in the Federation's investment funds accounted for using the equity method	**$78,875**	$70,943
Investments in the Federation's General Fund recognized at fair value	**591**	10,412
	$79,466	$81,355

Income on other investments in the Federation comprises:

	2015	2014
Share of net surplus earnings from the Federation's investment funds	**$8,065**	$6,906
Interest income from investments in the Federation's General Fund	**224**	283
	$8,289	$7,189

Note 6. Other investments in the Federation (continued)

Investments in the Federation's investment funds

The Caisse has a significant influence over the Federation. The Federation is the cooperative entity responsible for assuming orientation, framework, coordination and development activities for Desjardins Group. It provides the Caisse with services of strategic importance, such as services of a technical, financial or administrative nature. In addition, the Federation is the parent company of a number of subsidiaries that offer complementary financial services to the caisses and their members.

The Caisse considers that it can have significant influence over the Federation, even though it holds less than 20% of the voting rights, given that it is able to exert influence by participating in various bodies and commissions and advisory groups mandated to establish operating policies, and by the extent of intercompany transactions disclosed in Note 17 "Related party transactions" and the numerous exchanges of a technical and other nature with these subsidiaries and their parent, the Federation.

The following tables present summary financial information on the investment funds from the non-consolidated financial statements of the Federation:

	2015	2014
Percentage of equity securities(1)	**0.99%**	0.99%
Equity	**$8,030,402**	$7,184,010
Investments in the Federation's investment funds(2)	**78,875**	70,943

(1) Each caisse has one voting right in the Federation.

(2) The carrying amount of investments in the Federation's investment funds reported on the Balance Sheets corresponds to the Caisse's share of the equity of the Federation's investment funds as well as adjustments made by the Caisse in applying the equity method.

	2015	2014
Net surplus earnings	**$825,136**	$705,616
Other comprehensive income	**(125,429)**	113,296
Comprehensive income for the year	**699,707**	818,912
Amount received by the Caisse from the Federation's investment funds	**1,832**	1,691

The Federation may, upon a decision of the Board of Directors, finance an investment in an investment fund by way of a call for capital to the caisses. The Board determines the number of shares of the investment fund to be acquired by each of the caisses, by choosing one or another of the allocation bases provided in the regulation of the Federation.

Note 7. Other assets

Other assets presented on the Balance Sheets were primarily composed of:

	Note	**2015**	2014
Interest receivable		**$3,354**	$3,146
Derivative financial instruments		**14,850**	15,458
Prepaid expenses		**4,441**	4,663
Accounts receivable		**4,397**	3,021
Property, plant and equipment	8	**7,334**	8,155
Other		**1,636**	2,659
		$36,012	$37,102

Note 8. Property, plant and equipment

The following tables present changes in property, plant and equipment.

	Land	Buildings	Equipment, furniture and other	Leasehold improvements	Total
Cost					
As at December 31, 2013	$1,304	$10,240	$6,798	$2,647	$20,989
Acquisitions	-	-	122	-	122
Disposals	-	-	(191)	-	(191)
As at December 31, 2014	1,304	10,240	6,729	2,647	20,920
Acquisitions	**-**	**79**	**9**	**26**	**114**
Disposals	**-**	**(53)**	**-**	**(24)**	**(77)**
As at December 31, 2015	**$1,304**	**$10,266**	**$6,738**	**$2,649**	**$20,957**
Accumulated depreciation					
As at December 31, 2013	$-	$4,609	$5,769	$1,547	$11,925
Depreciation	-	405	445	181	1,031
Disposals	-	-	(191)	-	(191)
As at December 31, 2014	-	5,014	6,023	1,728	12,765
Depreciation	**-**	**406**	**348**	**179**	**933**
Disposals	**-**	**(51)**	**-**	**(24)**	**(75)**
As at December 31, 2015	**$-**	**$5,369**	**$6,371**	**$1,883**	**$13,623**
Net carrying amount					
As at December 31, 2014	$1,304	$5,226	$706	$919	$8,155
As at December 31, 2015	**1,304**	**4,897**	**367**	**766**	**7,334**

Note 9. Borrowings

	2015	2014
Line of credit, bearing interest at a rate ranging from 0.78% to 1.81%	**$70,362**	$83,940
Term loans, bearing interest at rates ranging from 1.15% to 1.90%, renegotiable quarterly, repayable at their respective maturity dates until March 2020	**185,500**	172,500
Term loan, bearing interest at 3.50%, renegotiable annually, repayable at maturity in November 2016	**875**	1,750
Subtotal	**$256,737**	$258,190

Note 9. Borrowings (continued)

			2015	2014
Subtotal carried forward			**$256,737**	$258,190
Term loans, bearing interest at fixed rates or rates renegotiable quarterly, some of which include an early repayment clause				
Fixed rate	**Maturity**	**Repayable**		
5.79%	June 2021	At any time(1)	**5,335**	5,335
5.39	May 2020	May 2015(2)	**9,766**	9,766
4.05	November 2020	November 2015(2)	**-**	7,726
5.15	December 2026	December 2021(2)	**5,536**	5,536
Term loan, bearing interest at 4.25%, renegotiable by the holder under certain conditions, repayable at maturity in 2054(3)			**3,461**	624
			$280,835	$287,177

(1) This term loan is a subordinated security with a related company and is repayable before maturity at the holder's option under certain conditions and for specified purposes.

(2) The term loans are subordinated securities with a related company and are repayable at the holder's option after these dates under certain conditions and for specified purposes.

(3) This term loan is subordinated with a related company and is repayable before maturity at the holder's option under certain conditions and for specified purposes.

Note 10. Other liabilities

The other liabilities presented on the Balance Sheets are primarily composed of:

	Note	2015	2014
Accrued interest		**$8,864**	$9,709
Accounts payable		**5,726**	3,913
Net defined benefit plan liabilities	11	**9,481**	12,468
Other		**3,108**	3,434
		$27,179	$29,524

Note 11. Defined benefit plans

Group plans

This note should be read in conjunction with Note 16 to the Desjardins Group audited Combined Financial Statements for the year ended December 31, 2015, approved on February 25, 2016, which presents the defined benefit group plans.

Pension plan

The Caisse participates in the pension plan and the supplemental pension plan, which are defined benefit group plans of Desjardins Group. Consequently, the Caisse recognizes its share of the plan liabilities on the Balance Sheets under "Other liabilities".

Note 11. Defined benefit plans (continued)

The Caisse's share represents 0.41% of the defined benefit group plans of Desjardins Group (0.47% in 2014). The share of the pension expense related to these plans attributable to the Caisse and recognized in profit or loss for the year, is $1,452 ($1,281 in 2014) and the share of the remeasurement of net defined benefit plan liabilities recognized in other comprehensive income is $2,310 ($(3,534) in 2014). The Caisse's share of the plan liabilities recognized on the Balance Sheets amounts to $5,790 ($8,534 in 2014).

Post-retirement benefit plan

The Caisse offers a post-retirement benefit plan, including medical, dental and life insurance coverage, to retiring employees and their dependents through the group defined benefit plan of Desjardins Group. The Caisse's share represents 0.49% of the group defined benefit plan of Desjardins Group (0.54% in 2014). An amount of $3,691 ($3,934 in 2014) was recognized as a liability, representing the Caisse's share in the plan. The expense for the year related to this plan totalled $115 ($218 in 2014), while the remeasurement of net defined benefit plan liabilities recognized in other comprehensive income was $276 ($(327) in 2014).

Note 12. Income taxes on surplus earnings

Income tax expense on surplus earnings

The income tax expense on surplus earnings recognized in the financial statements is detailed as follows:

	2015	2014
Statements of Income		
Current income taxes		
Current income tax expense on surplus earnings	**$1,802**	$2,066
Current tax recovery on remuneration on capital stock	**(145)**	(138)
Other	**24**	4
	1,681	1,932
Deferred income taxes		
Deferred income tax expense related to origination and reversal of temporary differences	**444**	169
Deferred income tax expense related to changes in tax rates	**(2)**	(23)
	442	146
	2,123	2,078
Statements of Comprehensive Income		
Current income taxes	**(116)**	(142)
Deferred income taxes	**814**	(887)
	698	(1,029)
Total income tax expense	**$2,821**	$1,049

Note 12. Income taxes on surplus earnings (continued)

The income taxes on surplus earnings presented in the Statements of Income are as follows:

	2015	2014
Income taxes on surplus earnings before member dividends	**$2,385**	$2,342
Tax recovery on member dividends	**(262)**	(264)
	$2,123	$2,078

The income tax expense for surplus earnings recognized in the Statements of Income differs from the income tax expense determined using the statutory rate for the following reasons:

	2015	2014
Income taxes at the statutory rate of 26.9% (26.9% in 2014)	**$3,998**	$3,608
Eligible small business deduction	**(98)**	(40)
Non-taxable investment income and other items	**(1,690)**	(1,420)
Recovery of current income tax related to remuneration on capital stock	**(145)**	(138)
Other differences	**58**	68
	$2,123	$2,078

Income tax expense on other comprehensive income

An income tax expense of $698 ($(1,029) in 2014) was recognized in comprehensive income in relation to the remeasurement of net defined benefit plan liabilities.

Note 13. Capital stock

The figures in the following three paragraphs are not presented in thousands of dollars.

Authorized

Capital stock comprises qualifying shares, permanent shares and surplus shares.

The Caisse may issue an unlimited number of qualifying shares with a par value of $5, redeemable at the Caisse’s option under certain conditions stipulated by the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issue of an unlimited number of permanent shares and surplus shares with par values of $10 and $1, respectively. These shares do not carry any voting rights and cannot be redeemed except under certain conditions stipulated by the Act. Their rate of interest is determined at the general meeting of the Caisse.

Note 13. Capital stock (continued)

Issued and paid-up shares

Issued and paid-up shares are as follows:

	2015	2014
Qualifying shares	**$254**	$245
Permanent shares	**7,580**	9,854
Surplus shares	**1,847**	2,272
	$9,681	$12,371

Repurchase of shares

During the year and the previous year, the AMF authorized, for the caisse network as a whole, the repurchase for cancellation of a predetermined amount of permanent shares, under certain conditions, for the period ending December 31, 2016. The Caisse repurchased 227,434 permanent shares for cancellation (73,422 permanent shares in 2014), for a cash consideration of $2,274 ($734 in 2014).

During the previous year, the AMF authorized the repurchase for cancellation of all of the surplus shares under certain conditions. The Caisse repurchased 690,608 surplus shares for cancellation (38,899 surplus shares in 2014), for a cash consideration of $691 ($39 in 2014).

Note 14. Other income

	2015	2014
Related mainly to deposit administration	**$4,816**	$4,846
Related to distribution of Desjardins products and services	**5,091**	4,590
Related to administration of other services	**2,458**	2,510
	$12,365	$11,946

Note 15. General expenses

	2015	2014
Premises	**$2,683**	$2,572
Office and communications expenses	**874**	982
Intercaisse transactions	**483**	483
Other	**4,180**	3,552
	$8,220	$7,589

Note 16. Member dividends

Member dividends recognized in the Statements of Income are detailed as follows:

	2015	2014
Amounts based on a decision recommending that the general meeting approve this payment of member dividends	**$1,000**	$1,000
Difference between member dividends paid and recognized[1]	**(28)**	(21)
	$972	$979

(1) The amount recognized in the Statements of Changes in Equity as an adjustment to member dividends was $21 ($16 in 2014), because of the tax impact.

Note 17. Related party transactions

In the normal course of business, the Caisse carries out transactions with other Desjardins Group components. It may also carry out financial transactions with its officer members as well as with members of Desjardins Group's management personnel, made on terms equivalent to those that prevail in arm's length transactions. Transactions involving a financial instrument were initially recognized at fair value. In the normal course of business, the Caisse may have granted loans to related parties. No individual allowance was deemed necessary on these loans.

The table below shows the main financial transactions entered into with certain related parties and the main balances presented on the Balance Sheets, other than those separately identified elsewhere in the Financial Statements.

	2015		2014	
	Federation[1]	**Other related parties [2]**	Federation	Other related parties
Balance Sheets				
Cash	**$10,605**	**$-**	$14,102	$-
Investment in the liquidity fund under management	**76,053**	**-**	69,076	-
Other assets	**18,078**	**-**	18,780	26
Borrowings	**280,835**	**-**	287,177	-
Other liabilities	**1,103**	**9,481**	1,049	12,468
Statements of Income				
Interest income	**4,795**	**-**	4,023	-
Other income	**5,851**	**1,128**	5,341	1,163
Interest expense	**4,869**	**-**	5,303	-
Employees	**-**	**2,267**	-	2,220
Computer services	**4,512**	**-**	4,319	14
General expenses	**1,375**	**754**	992	772

(1) The Federation includes the *Fédération des caisses Desjardins du Québec* and its subsidiaries.

(2) Other related parties are chiefly composed of the caisses in Quebec, the caisses in Ontario, the *Fonds de sécurité Desjardins* and the employee benefit plan for employees of the Caisse.

Note 17. Related party transactions (continued)

The amounts maintained by the Caisse in the liquidity fund under management are administered by the Federation for the benefit of the Caisse.

Other income mainly comes from intercaisse transactions carried out by members and from fees related to the distribution of Desjardins products and services, while general expenses are mainly related to intercaisse transactions.

Key management personnel compensation

Key management personnel of the Caisse comprise the members of the Board of Directors, the general manager and the persons reporting directly to him. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Caisse.

The compensation of the Caisse's key management personnel was as follows:

	2015	2014
Short-term benefits	**$2,294**	$2,417
Post-employment benefits	**303**	244
Termination benefits	**70**	135

Note 18. Guarantees and other commitments

The significant guarantees that the Caisse has granted to third parties are described below.

Letters of guarantee

Letters of guarantee are an irrevocable commitment by the Caisse to make payments in the event that a member cannot meet its obligations to third parties. The Caisse's policy with respect to collateral received for these letters is generally the same as for loans. The term of these letters does not extend past April, 2020. At year-end, the maximum potential amount of future payments related to these letters was $3,214 ($2,994 in 2014).

Credit commitments

The Caisse's credit commitments represent unused portions of authorizations to extend credit in the form of loans or letters of credit and guarantee. The information on maximum credit risk exposure included in Note 21 "Financial instrument risk management" presents these credit commitments as at year-end.

Note 19. Leases

Lessee

Operating lease

Leases, whose maximum term is 10 years, can have renewal options over a period of 15 years. These leases include rent indexation clauses based on the Consumer Price Index.

Note 19. Leases (continued)

At year-end, future minimum payments for the lease of premises and equipment under non-cancellable operating leases were as follows.

	2015	2014
Under 1 year	**$703**	$687
1 to 5 years	**1,197**	1,629
Over 5 years	**766**	980
	$2,666	$3,296

Lease payments recognized as an expense were as follows:

	2015	2014
Minimum payments	**$679**	$652

Note 20. Offsetting of financial assets and liabilities

The Caisse trades derivatives on the over-the-counter market using International Swaps and Derivatives Association (ISDA) master agreements. No financial collateral is pledged or received to manage credit risk, since the counterparty for these agreements is a related party of the Caisse and, consequently, no credit support annex is deemed necessary.

These master agreements do not meet the criteria for offsetting on the Balance Sheets because they create a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.

The following tables present information on financial assets and financial liabilities not set off on the Balance Sheets that are the subject of a master netting arrangement:

2015

		Related amounts not set off on the Balance Sheets		
	Gross amounts presented on the Balance Sheets(1)(2)	**Financial instruments(3)**	**Financial collateral received/ pledged**	**Residual amounts not set off**
Financial assets				
Derivative financial instruments	**$5,552**	**$326**	**$-**	**$5,226**
Total financial assets	**$5,552**	**$326**	**$-**	**$5,226**
Financial liabilities				
Derivative financial instruments	**$326**	**$326**	**$-**	**$-**
Total financial liabilities	**$326**	**$326**	**$-**	**$-**

Note 20. Offsetting of financial assets and liabilities (continued)

2014

	Gross amounts presented on the Balance Sheets(1)(2)	Related amounts not set off on the Balance Sheets		Residual amounts not set off
		Financial instruments(3)	Financial collateral received/ pledged	
Financial assets				
Derivative financial instruments	$3,924	$57	$-	$3,867
Total financial assets	$3,924	$57	$-	$3,867
Financial liabilities				
Derivative financial instruments	$57	$57	$-	$-
Total financial liabilities	$57	$57	$-	$-

(1) The Caisse does not set off derivative financial instruments.

(2) The difference between the amounts presented in this column and the balances reported on the Balance Sheets represents the financial assets and financial liabilities that are not the subject of master netting arrangements.

(3) This is the carrying amount of derivative financial instruments that are the subject of master netting arrangements, but do not meet the criteria for offsetting.

Note 21. Financial instrument risk management

In the normal course of its operations, the Caisse is exposed to different types of financial instrument risk, including credit risk, liquidity risk and market risk.

The objective of the members of the Caisse's Board of Directors in risk management, working together with management and the Federation, is to optimize the risk-return trade-off by applying integrated risk management and control strategies, frameworks and procedures to all of the Caisse's activities.

With the aim of ensuring sound and prudent management of the Caisse's activities, the Caisse's Board of Directors has adopted frameworks and relies, among other things, on laws and regulations, the Desjardins Code of Professional Conduct and on Federation and Desjardins Group frameworks. This risk management approach is based on principles that encourage the Caisse to take responsibility for the quality of risk management.

Credit risk

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

The Caisse is exposed to credit risk mainly through its personal and business loans, which represented 87.42% of balance sheet assets as at December 31, 2015, compared to 86.73% a year earlier.

Credit risk management

The Caisse is responsible for the credit risk inherent in its lending activities. For this purpose, the Caisse and its centres, as applicable, have an approval limit assigned by the Desjardins Group Risk Management Office (RMO) as well as a management framework and tools.

Note 21. Financial instrument risk management (continued)

Framework

A set of policies and standards govern all aspects of credit risk management at Desjardins Group. This framework defines, among other things:

- The minimum framework for management and risk control.
- The roles and responsibilities of the main parties involved.

This framework is rounded out by the credit practices of the Federation. These credit practices, adopted by the Federation and applicable to the caisses and their centres, set out:

- The conditions relative to commitment, approval, review and delegation limits.
- The rules relative to management and control of credit activities.
- Financing terms and conditions applicable to borrowers.

Credit granting

The Caisse and its centres are primarily responsible for approving files. The RMO assigns them approval limits and approves loans for amounts above these limits.

Professionals are assigned to the two credit risk management divisions at the RMO according to client type. Their qualifications, their approval responsibilities and the depth of the analyses required depend on product features as well as the complexity and extent of transaction risk.

Personal loans

Retail loan portfolios consist of residential mortgages, personal loans and personal lines of credit. The Internal Ratings-Based Approach for credit risk is currently used for most of this clientele's portfolio.

Under the Internal Ratings-Based Approach, credit risk is measured according to three parameters: Probability of default (PD), loss given default (LGD) and exposure at default (EAD).

PD is the likelihood of a borrower defaulting on its obligations within a one-year time horizon. Behavioural segmentation models, estimated using logistic regressions, produce risk levels monthly. The predictive features of these models include in particular borrower- and account-specific features such as account age, loan size and delinquency. These models allow proactive management of the portfolio credit risk. However, note that for regulatory purposes, the PD from segmentation models are:

- Calibrated by groups of products according to the following drivers: residential mortgages, loans and lines of credit;
- Adjusted slightly upward (prudential margins) to compensate for the historic volatility of PD.

LGD measures the size of the possible economic loss in the event of the borrower's default. It is expressed as a percentage of EAD. LGD estimates reflect average economic losses by collateral or guarantee type input into an internal history. Economic losses include direct and indirect management costs as well as any recoveries adjusted for the delay between the time of default and the time of the transaction. LGD is adjusted upward to take into account the possible effects of an economic slowdown.

Note 21. Financial instrument risk management (continued)

EAD is an estimate of the amount outstanding for a given exposure at the time of default. For on-balance sheet exposures, EAD is equal to the balance at the time of observation. For off-balance sheet exposures, EAD includes an estimate of the additional drawdowns that may occur between the time of observation and the default. Estimates of such possible additional drawdowns reflect the internal history of the average drawdown on revolving credit products between the observation date and the time of default. Finally, EAD of off-balance sheet exposures is adjusted upward to take into account the possible effects of an economic slowdown.

In general, decisions concerning retail customers are based on risk ratings generated using predictive credit scoring models. Credit approval and portfolio management methodologies are designed to ensure consistent granting of credit and early identification of problem loans. Desjardins Group's automated risk rating system evaluates the creditworthiness of each member on a monthly basis. This process ensures the quick, valid identification and management of problem loans.

Monitoring performance of credit risk assessment models using the Internal Ratings-Based Approach

For portfolios assessed using the Internal Ratings-Based Approach, the RMO is responsible for the design, development and performance monitoring of models, in accordance with various guidelines on the subject.

Credit risk models are developed and tested by specialized teams supported by the business units and related credit risk management units concerned by the models.

The performance of credit risk parameters is analyzed on an ongoing basis through back testing. This testing is performed on out-of-time and out-of-sample inputs and aims to assess parameter robustness and adequacy. If necessary, i.e. where a statistically significant overage is observed, prudential upward adjustments are made to reflect an unexpected trend in a segment in particular. These adjustments, allowing a more adequate risk assessment related to the transactions and borrowers, are validated and approved by the units responsible.

For PD more specifically, such back testing takes the form of various statistical tests to assess the following criteria:

- Model's discriminating power;
- Calibration of the model;
- Stability of model results.

Independent validations are also performed on credit risk assessment models. The most critical aspects to be validated are factors allowing appropriate risk classification by level, the adequate quantification of exposures and the use of assessment techniques taking external factors into consideration, such as economic conditions and the credit situation, and lastly, alignment with internal policies and regulatory provisions.

Business loans

The business loan category includes the small business loan portfolio (retail loans – Business) and the medium-sized business loan portfolio (Business). The Standardized Approach is currently used for these portfolios but work has been initiated to switch to the Internal Ratings-Based Approach.

For the main portfolios, the scoring system used has 17 ratings, broken down into 10 levels, each representing a probability of default.

Note 21. Financial instrument risk management (continued)

Retail clients – Business

To assess the risk of credit activities involving small businesses, credit scoring systems based on proven statistics are used.

These systems were designed using the behavioural history of borrowers with a profile or characteristics similar to those of the applicant and based on the products used, to estimate the transaction risk.

Such systems are used for initial approval as well as subsequently when behavioural ratings, calculated using member-borrowers' transaction data, are used to assess portfolio risk on an ongoing basis. A monthly update of borrowers' risk level allows proactive management of the portfolios' credit risk.

The performance of these systems is continually assessed and adjustments are made regularly with a view to determining transaction and borrower risk as adequately as possible. The units responsible for the process of developing scoring systems and models ensure that adequate controls are in place to guarantee the stability and performance of these systems and models.

Business

The granting of credit to medium-sized businesses is based on a detailed analysis of the file. Each borrower's financial, market and management characteristics are analyzed using a credit risk assessment model. A quantitative analysis based on financial data is supplemented by a professional judgment of the other file characteristics by the person in charge of the file. Once this analysis is finished, each borrower is assigned a risk rating.

The model used for the analysis varies depending on the economic sector and the size of the commitments of the business and of its entities exposed to common risks. The models designed from internal and external historical data take into account the size of the business, the special characteristics of the main industry in which it operates, and the performance of comparable businesses.

The use of ratings and estimates has been expanded to other risk management and governance activities such as establishing file analysis and authorization level requirements, determining the different types of follow-up activities, as well as assessing and disclosing portfolio risk quality.

Credit risk mitigation

The terms and conditions of credit risk mitigation are set out in the Federation's credit practices.

When a loan is granted to a member, the Caisse generally obtains, directly or through its centre, collateral to mitigate the borrower's credit risk. Such collateral may take the form of movable property, real estate or a guarantee. For some portfolios, programs offered by various organizations, including Canada Mortgage and Housing Corporation (CMHC) and *La Financière agricole du Québec* are used in addition to usual collateral. As at December 31, 2015, guaranteed and/or insured loans represented 34.68% of the Caisse's total gross loans, compared to 35.43% at the end of 2014.

Note 21. Financial instrument risk management (continued)

Practices and procedures adapted to each of the products contain the requirements for appraising collateral, its legal validity and follow-up. The type of collateral as well as the value of the assets encumbered by such collateral are established on the basis of a credit risk assessment of the transaction and the borrower, particularly depending on the borrower's PD. Such an assessment is required whenever any new financing is granted in accordance with the frameworks. When an outside professional, such as a chartered appraiser or an environmental assessment firm, is required to determine the value of the collateral, the selection of the professional and the mandate must comply with the necessary requirements in the frameworks. Considering that the collateral is used to cover all or part of the unpaid balance of a loan in the event of the borrower's default to make payment, the quality, the legal validity and the ease with which the collateral can be realized are determining factors in obtaining financing.

In order to ensure that the value of the collateral remains adequate, it must be regularly updated. The frequency of reappraisals depends on the risk level, the type of collateral or certain triggering events such as a deterioration in the borrower's financial position or the disposal of an asset held as collateral. The decision-making level is responsible for approving the updated value of the collateral, if applicable.

Where required, the Caisse uses mechanisms for sharing risk, mainly with other caisses or certain Desjardins Group components.

The large number of borrowers—for the most part individuals, but also small- and medium-sized businesses from many sectors of the economy—helps ensure the sound diversification of the financing portfolio. Note 5 "Loans and allowance for credit losses" to the financial statements presents the distribution of loans by borrower category.

File monitoring and management of higher risks

Credit practices regulate the monitoring of loan portfolios. Files are reassessed on a regular basis. In addition, business loan files are reviewed in more detail at least once a year. Requirements regarding review frequency and depth increase with a higher PD or the size of potential losses on receivables. The officer in charge of the file monitors high-risk loans using various intervention methods. A positioning to be authorized by the appropriate decision-making level must be performed for files with irregularities or increased risk.

The Caisse and the centre, as applicable, are primarily responsible for monitoring files and for managing the higher risks. However, certain tasks or files may be outsourced to the Federation's intervention units specialized in turnarounds or recovery. Supervision reports produced and submitted periodically allow monitoring the position of high-risk debtors as well as changes in the corrective measures formulated.

In addition, a report on credit activities covering developments in portfolio quality, financial issues and non-compliance with frameworks noted during internal controls is presented quarterly to the Board of Directors of the Caisse.

Maximum credit risk exposure

At year-end, the maximum credit risk exposure for loan commitments and for letters of credit and guarantee was $470,256 ($442,757 in 2014) and $3,214 ($2,994 in 2014), respectively.

Liquidity risk

Liquidity risk refers to the Caisse'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 Balance Sheets.

Note 21. Financial instrument risk management (continued)

Management of this risk and liquidity reserves

The Caisse 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, for the Caisse, involves maintaining a sufficient level of liquid securities. In addition, the Caisse ensures, through Desjardins Group, that it has stable and diversified sources of funding, that indicators are monitored and that there is a contingency plan to implement in the event of a liquidity crisis. For Desjardins as a whole, the implementation of Basel III has strengthened international minimum liquidity requirements through the application of regulatory liquidity ratios.

Liquidity risk management is a key component of the overall risk management strategy. Desjardins Group together with its components and the caisse network have established policies describing the principles, limits, risk appetite and tolerance thresholds, and 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 market conditions. They are also updated according to regulatory requirements and sound liquidity risk management practices.

The minimum liquidity reserves that a caisse must maintain are prescribed in a standard and a regulation. Day-to-day management of securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and monitoring of the risk management sector is supervised by the Desjardins Group Finance and Risk Management Committee. Securities eligible for the liquidity reserves must meet high security and negotiability standards and provide assurance of their adequacy in the event of a severe liquidity crisis. The securities held are largely Canadian government securities.

Furthermore, Desjardins Group Treasury is able to issue covered bonds and be active on the market for securitization of CMHC-insured loans.

Sources of funding and contingency plan

Desjardins Group 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.

Desjardins Group has developed a liquidity contingency plan. The Desjardins Group Finance and Risk Management Committee would act as a crisis committee should the contingency plan be put into action. The plan lists the sources of liquidity available in exceptional situations. It also sets out the decision-making and information process based on the severity level of a possible crisis.

The aim of this plan is to allow quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviours and potential disruptions in capital markets or economic conditions. In the event that a caisse experiences financial difficulties, Desjardins Group has set up certain financial intervention procedures to support it. In addition, the Act grants the Federation all the powers necessary to make up for the operating deficit of a caisse that does not have an adequate general reserve.

Contractual obligations

Contractual obligations are commitments with respect to future minimum payments and impact the Caisse's liquidity needs. Such contractual obligations are recognized on the Balance Sheets or are off-balance sheet.

Note 21. Financial instrument risk management (continued)

The following tables present financial liabilities as well as other obligations by remaining term to maturity. The amounts presented include principal and interest, if any.

	2015			
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities				
Deposits	**$948,781**	**$249,262**	**$-**	**$1,198,043**
Borrowings[1]	**79,628**	**191,986**	**20,782**	**292,396**
Derivative financial instruments with net settlement	**71**	**183**	**-**	**254**
Derivative fianncial instruments with gross settlement[2]	**8**	**-**	**-**	**8**
Other financial liabilities	**5,550**	**-**	**-**	**5,550**
Off-balance sheet items				
Loan commitments	**470,256**	**-**	**-**	**470,256**
Letters of guarantee and credit	**3,214**	**-**	**-**	**3,214**

	2014			
	Less than1 year	1 to 5 years	Over 5 years	Total
Financial liabilities				
Deposits	$846,870	$270,385	$-	$1,117,255
Borrowings[1]	142,864	127,999	31,529	302,392
Derivative financial instruments with net settlement	60	7	-	67
Derivative financial instruments with gross settlement[2]	4	-	-	4
Other financial liabilities	5,120	-	-	5,120
Off-balance sheet items				
Loan commitments	442,757	-	-	442,757
Letters of guarantee and credit	2,994	-	-	2,994

(1) Certain borrowings are repayable at the option of the holder before maturity under certain conditions and for specified purposes. Considering these conditions, these borrowings are presented by remaining term to maturity. Additional information can be found in Note 9, "Borrowings".

(2) The "Derivative financial instruments with gross settlement" category includes foreign exchange contracts for which the Caisse will receive a related cash flow of $8 ($4 in 2014).

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments as a result of changes in parameters affecting this value, in particular interest rates, exchange rates, credit spreads and their volatility.

The Caisse is exposed to market risk primarily through positions taken in the course of its traditional financing and savings recruitment activities. The Caisse along with the Federation and Desjardins Group have adopted policies and a standard that set out the principles, limits and procedures to use in managing market risk.

Note 21. Financial instrument risk management (continued)

Interest rate risk management

The Caisse is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Sound and prudent management is used to optimize net interest income while minimizing the negative incidence of interest rate movements. Interest rate risk is managed globally for the caisse network as well as individually for the Caisse.

Management of this risk for the caisse network

The policies and standard established by the Federation describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used at the caisse network level to measure the effect of different variables on changes in net interest income and the economic value of equity for all the caisses.

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

Management of this risk for the Caisse

The Caisse's interest rate risk is managed in accordance with a strategy that involves setting targets and action to be taken when the Caisse finds itself outside the guidelines set out in the standard for individual caisses.

The following table presents the impact before income taxes of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of the Caisse's equity.

	2015	2014
Impact of a 100 basis point increase in interest rates	**$67**	$(1,185)
Impact of a 100 basis point decrease in interest rates(1)	**980**	1,556

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

The tables below summarize the interest rate risk exposure of the Caisse's assets and liabilities at year-end.

	2015		
	Gap – Balance sheet items	**Gap – Derivative financial instruments**	**Total gap**
Non-interest-rate-sensitive items	**$(217,276)**	**$-**	**$(217,276)**
Interest-rate-sensitive items			
Floating rate	**(154,967)**	**-**	**(154,967)**
0 to 12 months	**452,605**	**(168,348)**	**284,257**
1 to 5 years	**(78,121)**	**162,812**	**84,691**
Over 5 years	**(2,240)**	**5,536**	**3,296**

Note 21. Financial instrument risk management (continued)

	2014		
	Gap – Balance sheet items	Gap – Derivative financial instruments	Total gap
Non-interest-rate-sensitive items	$(356,969)	$-	$(356,969)
Interest-rate-sensitive items			
Floating rate	32,302	-	32,302
0 to 12 months	188,860	(195,398)	(6,538)
1 to 5 years	161,291	180,097	341,388
Over 5 years	(17,714)	15,301	(2,413)

The gap – Balance sheet items is based on the earlier of the repricing or maturity dates of the interest rates on assets and liabilities. The gap – Balance sheet items represents the difference between total assets and total liabilities and equity for a given period.

Some balance sheet items are considered non-interest-rate-sensitive instruments, such as 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. Desjardins Group's management practices are based, as required by its policies, on prudent assumptions regarding the maturity profile used in its models in order to determine the interest rate sensitivity of these instruments.

The gap – Derivative financial instruments is based on notional amounts.

The situation presented reflects the position on the indicated date, based on certain management assumptions. This situation can change significantly in subsequent years depending on members' preferences and the application of interest rate risk management policies.

Note 22. Capital management

The goal of the Caisse's capital management is to ensure that a sufficient base capital is maintained for sound and prudent management.

The capital management of the caisses in Quebec is defined by a standard established by the Federation concerning the adequacy of capital, its components and their relative proportions. To a certain extent, this standard was based on the guideline on adequacy of capital base standards issued by the AMF. The guideline requires that a minimum amount of capital be maintained on a combined basis by a number of Desjardins Group components, including the caisses. Capital management is the responsibility of the Caisse's Board of Directors. The *Norme sur la suffisance des fonds propres des caisses* was revised and the amendments to it took effect on October 1, 2015. The changes mainly have to do with the composition of capital and the level of capital requirements.

The information on the Caisse's capital presented as at December 31, 2015 takes into account the regulatory frameworks defined by the Federation and applicable to the caisses.

The Caisse's regulatory capital differs from the equity disclosed on the Balance Sheets. It comprises Tier 1A, 1B and 2 capital.

Tier 1A capital comprises elements that are more permanent than those in Tier 1B and Tier 2. They consist, particularly, of qualifying capital shares, eligible capital investments, the general reserve, eligible appreciation reserves, the stabilization reserve, the reserve for future member dividends and eligible surplus earnings.

Tier 1B capital is comprised of additional capital, which will eventually include qualifying financial instruments and certain eligible borrowings. There are currently no financial instruments issued in Tier 1B.

Note 22. Capital management (continued)

Tier 2 capital consists in particular of eligible qualifying shares, eligible investment shares, certain eligible borrowings and the eligible portion of the collective allowance.

As prescribed by the current provisions of the Federation standard, the Caisse's total capital is reduced, among other things, by certain investments in the Federation's investment funds as well as regulatory adjustments.

The Caisse's expansion assets comprise its assets appearing on the Balance Sheets and its off-balance sheet commitments, reduced by certain of its investments in the Federation's investment funds accounted for using the equity method.

The Caisse's risk assets are determined by weighting assets appearing on the Balance Sheets and off-balance sheet items by the risk associated with each of these items, in accordance with the various approaches to credit risk and operational risk set out in the guideline on adequacy of capital base standards issued by the AMF.

The Caisse must at all times maintain capital in compliance with the following requirements:

- Tier 1A capital greater than or equal to 11% of its risk assets;
- Tier 1 capital greater than or equal to 3.5% of its expansion assets.

The following table presents the composition of the Caisse's regulatory capital, according to the *Norme sur la suffisance des fonds propres des caisses du Québec* which took effect on October 1, 2015, provided internally to the officers of the Caisse before the accounts were closed.

	2015[(1)]
Tier 1A capital	
Qualifying capital shares	**$7,716**
Eligible capital investments	**3,461**
Eligible operating reserves[(2)]	**86,371**
Eligible appreciation reserves	**27,042**
Eligible surplus earnings	**12,018**
Other Tier 1A capital	**875**
Deductions	**(53,413)**
Total Tier 1A capital	**84,070**
Tier 1B capital	
Financial instruments qualified as Tier 1B capital	**-**
Eligible borrowings	**-**
Other Tier 1B capital	**-**
Deductions	**32**
Total Tier 1B capital	**32**
Subtotal	**$84,102**

Note 22. Capital management (continued)

	2015(1)
Subtotal carried forward	**$84,102**
Tier 2 capital	
Eligible qualifying shares	**253**
Eligible investment shares	**-**
Eligible borrowings	**20,636**
Financial instruments qualified as Tier 2 capital	**-**
Eligible portion of the collective allowance	**998**
Other Tier 2 capital	**-**
Deductions	**(1,039)**
Total Tier 2 capital	**20,848**
Total capital	**$104,950**

(1) According to the guideline issued by the AMF under the Basel III Accord.

(2) The operating reserves correspond to the sum of the general reserve, the stabilization reserve, the reserve for future member dividends and the community development fund.

The following table presents the composition of the Caisse's regulatory capital, before the revision of the *Norme sur la suffisance des fonds propres des caisses du Québec* which took effect on October 1, 2015, provided internally to the officers of the Caisse before the accounts were closed.

The changes in the composition and proportion of regulatory capital and the level of minimum capital requirements mean that a comparative analysis cannot be done of changes in regulatory capital between December 31, 2015 and December 31, 2014.

	2014(1)
Tier 1 capital	
Eligible permanent shares and surplus shares	$12,126
General reserve, eligible appreciation reserve, stabilization reserve and reserve for future member dividends	101,850
Eligible surplus earnings	10,747
Other Tier 1 capital	2,374
Deductions	(50,891)
Total Tier 1 capital	76,206
Subtotal	$76,206

Note 22. Capital management (continued)

	2014[(1)]
Subtotal carried forward	$76,206
Tier 2 capital	
Qualifying shares and eligible investment shares	252
Eligible portion of the collective allowance	1,020
Eligible borrowings	28,363
Deductions	(8,753)
Total Tier 2 capital	20,882
Total capital	$97,088

(1) According to the guideline issued by the AMF under the Basel III Accord.

In compliance with Basel III requirements, capital instruments that no longer meet the eligibility criteria for capital tiers have been excluded from them since January 1, 2013. However, in accordance with the transitional provisions set out in the guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a 10-year period that began on January 1, 2013.

According to the transitional provision for the guideline issued by the AMF, the *Norme sur la suffisance des fonds propres des caisses*, established by the Federation, allowed the Caisse to mitigate the impact of the amendments to IAS 19, "Employee Benefits", over a two-year period ended December 31, 2014. As a result, for the purpose of calculating capital ratios, the Caisse amortized, since January 1, 2013, the eligible portion of the effect on IFRS related to the impact of IAS 19 of $3,028 on a straight-line basis, until December 31, 2014.

At year-end, the Caisse's capitalization ratios were in compliance with those required under the standard, as the normative framework stipulates that the ratios to be used are based on the internal data provided to the officers of the Caisse.