Financial Statements of Desjardins Capital Inc.

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Annual Report by the Audit Committee

The role of the Audit Committee (AC) is to support the Board of Directors of Desjardins Capital Inc. (Desjardins Capital) in its oversight responsibilities. Its mandate consists primarily of:

- Analyzing the financial statements and Management's Discussion and Analysis and their presentation
- Ensuring the quality and integrity of financial reporting and the use of accepted accounting practices
- Overseeing the management of significant financial risks
- Ensuring that an effective internal control system is in place
- Overseeing the work of the internal auditor and independent auditor
- Ensuring that a compliance management framework is applied

The AC reviews Desjardins Capital's interim and annual financial statements and Management's Discussion and Analysis, all prospectuses and its statement of executive compensation. The AC ensures that management has designed and implemented an effective internal control system with respect to the organization's business processes, financial reporting, safeguarding of assets, fraud detection and regulatory compliance. It also ensures that management has set up systems to manage the principal risks that may influence the financial results of Desjardins Capital. The AC analyzes the information resulting from this financial governance process every quarter.

The independent auditor is under the authority of the AC. To fulfill its responsibilities in this regard, the AC ensures and preserves the independent auditor's independence and objectivity by authorizing all of its non-audit services, by recommending its appointment or reappointment to Desjardins Capital's Board of Directors, by setting and recommending auditor compensation and by conducting annual auditor evaluations. In addition, the AC supervises the work of the independent auditor and examines its audit proposal, its mandate, its annual audit plan, its reports, its letter to management and management's comments. Desjardins Group has adopted a policy that governs the awarding of contracts for related services, which addresses the following issues: (a) services that can or cannot be provided by the independent auditor, (b) governance procedures that must be followed before mandates can be awarded, and (c) responsibilities of key stakeholders. Accordingly, the AC receives a quarterly report on the contracts awarded to the independent auditor by Desjardins Capital.

The AC ensures the independence and objectivity of the internal audit function, which is performed by the Desjardins Group Monitoring Office. The AC analyzes the annual internal audit plan as well as the internal audit team's responsibilities and objectivity. It ensures the plan is carried out, reviews the internal audit results and, if necessary, takes appropriate follow-up action. As part of these duties, the AC meets with the head of internal audit at Desjardins Group to discuss any major issues submitted to management.

With respect to Desjardins Capital's relations with the *Autorité des marchés financiers* (AMF) in Québec, the AC reviews and follows up on the inspection reports issued by the AMF and reviews the financial reports that are submitted each quarter to the AMF.

The AC meets privately with: the independent auditor; the General Manager of Desjardins Capital; the Vice-President and Chief Financial Officer of Desjardins Capital; and the Chief Monitoring Officer of Desjardins Group. It reports to the Board of Directors on a quarterly basis and, if necessary, makes recommendations. Lastly, in accordance with sound corporate governance practices, once a year the AC reviews the degree of efficiency and effectiveness with which it has executed the tasks set out in its charter.

The AC is made up of six independent directors, including one external director appointed on May 14, 2019, and one observer. The observer is a caisse general manager who sits on the Board of Directors of the *Fédération des caisses Desjardins du Québec* (the Federation). Except for this general manager, none of the AC members receives direct or indirect compensation from Desjardins Group for services other than those rendered as a member of the Board of Directors of the Federation or other Desjardins Group entities, including their committees and commissions.

In light of the significant changes made to accounting and financial reporting requirements, the AC members attended a number of presentations and one training session during the year. The subjects covered in these activities included changes to the International Financial Reporting Standards, the impact of changes to corporate governance standards and regulations, anti-money laundering measures and sound commercial practices. All AC members possess the knowledge required to read and interpret the financial statements of a financial institution, according to the criteria established in the AC's charter.

The AC held five meetings and one training session for its members in fiscal 2019. As at December 31, 2019, the six independent directors who are members of the AC are: Johanne Charbonneau, FCPA, FCGA; Lisa Baillargeon, CPA, CMA; Louis Babineau; Stéphane Corbeil; Jean-François Laporte and Pierre Perras. The observer is Michel Doré. During fiscal 2019, Mario Simard and Michel Tourangeau also participated in the AC's activities.

Johanne Charbonneau, FCPA, FCGA
Chair

Montréal, Québec
February 24, 2020

Management's Responsibility for Financial Reporting

The financial statements of Desjardins Capital Inc. (Desjardins Capital) and all information included in its annual Management's Discussion and Analysis are the responsibility of management, which is responsible for ensuring reporting integrity and accuracy.

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, and the accounting requirements of the Autorité des marchés financiers (AMF) in Québec, which do not differ from IFRS. The IFRS represents Canada's generally accepted accounting principles. These financial statements necessarily contain amounts established by management based on estimates which it deems fair and reasonable. All financial information in the annual Management's Discussion and Analysis is consistent with these audited financial statements.

Desjardins Capital management is responsible for the accuracy of its financial statements and related information, as well as the accounting systems from which they are derived, for which purpose it maintains controls over transactions and related accounting practices. These controls are designed to provide reasonable assurance that the financial accounts are complete and accurate, assets are protected and records are kept appropriately. Such controls include an organizational structure that ensures effective segregation of duties, a code of professional conduct, hiring and training standards, policies and procedure manuals, and regularly updated control methods, designed to ensure adequate supervision of operations. The internal control system is supported by a compliance team, which helps management ensure that all regulatory requirements are met, and a team from the Desjardins Group Monitoring Office, which has full and unrestricted access to the Audit Committee. Management has also implemented a financial governance structure based on market best practices. In our capacities as Chief Executive Officer and Chief Financial Officer of Desjardins Capital, we have overseen the process to assess financial information communication procedures and controls as well as internal control over financial reporting. As at December 31, 2019, we concluded that information communication procedures and controls and internal control over financial reporting were effective.

The AMF examines the affairs of Desjardins Capital on a regular basis.

For the purposes of approving the financial information contained in the annual report, the Board of Directors of Desjardins Capital relies on the recommendation of the Audit Committee. The Audit Committee is mandated by the Board of Directors to review Desjardins Capital's financial statements and its Management's Discussion and Analysis. In addition, the Audit Committee, comprising independent directors, including an external director appointed on May 14, 2019, and one observer who is neither management nor staff of Desjardins Capital, exercises an oversight role to ensure that management has developed and implemented adequate control procedures and systems to deliver quality financial reporting that includes all the required disclosures within the required timeframes.

The financial statements were audited by PricewaterhouseCoopers LLP, the independent auditor appointed by the General Meeting of the Fédération des caisses Desjardins du Québec, whose report follows. The independent auditor may meet with the members of the Audit Committee at any time to discuss its audit and any related issues, including the integrity of the financial information provided and the quality of internal control systems.

Guy Cormier
Chair of the Board of Directors
and Chief Executive Officer
Desjardins Capital Inc.

Alain Leprohon, CPA, CA
Interim Chief Financial Officer
Desjardins Capital Inc.

Montréal, Québec
February 26, 2020

Independent auditor's report

To the Shareholder of Desjardins Capital Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Desjardins Capital Inc. (the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the balance sheets as at December 31, 2019 and 2018;
- the statements of comprehensive income for the years then ended;
- the statements of changes in shareholder's equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the Management's Discussion and Analysis, rather than in the notes to the financial statements. These disclosures are cross-referenced from the financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.[1]
[1] CPA auditor, CA, public accountancy permit No. A111799

Montréal, Québec
February 26, 2020

Balance Sheets

(in thousands of Canadian dollars)	Notes	As at December 31, 2019	As at December 31, 2018
ASSETS			
Current assets			
Cash and deposits with financial institutions		**$ 19,843**	$ 18,006
Interest receivable		**8,727**	8,712
Subordinated notes issued by Desjardins caisses of Québec, series G, at cost		**900,000**	-
Total current assets		**928,570**	26,718
Non-current assets			
Subordinated notes issued by Desjardins caisses of Québec, at cost	3 and 5		
Series G		**-**	900,000
Series J		**500,000**	500,000
Total non-current assets		**500,000**	1,400,000
TOTAL ASSETS		**$ 1,428,570**	$ 1,426,718
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES			
Current liabilities			
Interest payable	5	**$ 8,363**	$ 8,363
Other accrued liabilities		**81**	27
Income taxes payable		**65**	25
Senior notes, Series G		**899,807**	-
Total current liabilities		**908,316**	8,415
Non-current liabilities			
Senior notes	5		
Series G		**-**	899,264
Series J		**499,358**	499,050
		499,358	1,398,314
Deferred tax liabilities	8	**221**	448
Total non-current liabilities		**499,579**	1,398,762
TOTAL LIABILITIES		**1,407,895**	1,407,177
SHAREHOLDER'S EQUITY			
Capital stock	6	**1,010**	1,010
Retained earnings		**19,665**	18,531
TOTAL SHAREHOLDER'S EQUITY		**20,675**	19,541
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**$ 1,428,570**	$ 1,426,718

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

On behalf of the Board of Directors of Desjardins Capital Inc.,

Guy Cormier
Chair of the Board of Directors and Chief Executive Officer

Serge Rousseau
Vice-Chair of the Board of Directors

Statements of Comprehensive Income

For the years ended December 31

(in thousands of Canadian dollars)	Note	2019	2018
INTEREST INCOME			
Subordinated notes issued by Desjardins caisses of Québec			
Series G		**$ 48,483**	$ 48,483
Series J		**25,770**	25,770
Cash		**347**	261
		74,600	74,514
INTEREST EXPENSE			
Senior notes			
Series G		**47,226**	47,199
Series J		**25,078**	25,063
		72,304	72,262
NET INTEREST INCOME		**2,296**	2,252
NON-INTEREST EXPENSE			
Professional fees		**697**	868
INCOME BEFORE INCOME TAXES		**1,599**	1,384
Income tax expense	8	**425**	370
NET INCOME AND COMPREHENSIVE INCOME FOR THE YEAR		**$ 1,174**	$ 1,014

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

Statements of Changes in Shareholder's Equity

For the years ended December 31

(in thousands of Canadian dollars)	Capital stock	Retained earnings	Total shareholder's equity
BALANCE AS AT DECEMBER 31, 2017	$ 1,010	$ 17,557	$ 18,567
Net income and comprehensive income for the year	-	1,014	1,014
Dividends on common shares	-	(40)	(40)
BALANCE AS AT DECEMBER 31, 2018	$ 1,010	$ 18,531	$ 19,541
Net income and comprehensive income for the year	**-**	**1,174**	**1,174**
Dividends on common shares	**-**	**(40)**	**(40)**
BALANCE AS AT DECEMBER 31, 2019	**$ 1,010**	**$ 19,665**	**$ 20,675**

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

Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)	2019	2018
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Income before income taxes	**$ 1,599**	$ 1,384
Non-cash adjustments:		
Net change in interest receivable and payable	**(15)**	(10)
Net change in other receivables and other accrued liabilities	**54**	(67)
Capitalized expenses on senior notes	**851**	809
Income taxes paid	**(612)**	(454)
	1,877	1,662
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Dividends paid on common shares	**(40)**	(40)
	(40)	(40)
Net increase in cash and cash equivalents	**1,837**	1,622
Cash and cash equivalents at beginning of year	**18,006**	16,384
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 19,843**	$ 18,006
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 71,453**	$ 71,453
Interest received	**74,585**	74,504

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

Notes to the Financial Statements

NOTE 1 – INFORMATION ON DESJARDINS CAPITAL INC.

Nature of operations

Desjardins Capital Inc. (Desjardins Capital), incorporated under Part 1A of the *Companies Act* (Québec) and continued under the *Business Corporations Act* (Québec), was established to issue its own senior notes on capital markets and invest the proceeds thereof in subordinated notes issued by the Desjardins caisses of Québec. The Desjardins caisses are governed by the *Act respecting financial services cooperatives* and are affiliated with the *Fédération des caisses Desjardins du Québec* (the Federation), the parent company of Desjardins Capital. The address of Desjardins Capital's head office is 100 Des Commandeurs Street, Lévis, Québec, Canada.

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

These Financial Statements have been prepared by Desjardins Capital's management in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec, which do not differ from IFRS.

The Financial Statements for the year ended December 31, 2019 were approved by the Board of Directors of Desjardins Capital on February 26, 2020.

The significant measurement and presentation rules applied to prepare these Financial Statements are described below.

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments and estimates and rely on assumptions which have an impact on the reported amount of certain assets, liabilities, income and expenses as well as related disclosures. The significant accounting policies that required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain are related to the determination of the fair value of financial instruments, the expected life of senior notes, income and expenses for the relevant years and income taxes. Consequently, actual results could differ from those estimates and assumptions.

Presentation and functional currency

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

SIGNIFICANT ACCOUNTING POLICIES

a) Financial assets and liabilities

Financial assets and liabilities are recognized on the date Desjardins Capital becomes a party to their contractual provisions, namely the date of acquisition or issuance of the financial instrument.

Classification and measurement

Financial assets are classified based on their contractual cash flow characteristics and the business model under which they are held.

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Business models

Desjardins Capital's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Capital manages its financial assets in order to generate cash flows. They therefore reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. All the financial assets of Desjardins Capital are held within a business model whose objective is achieved by collecting contractual cash flows.

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

The classification and measurement of the financial assets and liabilities of Desjardins Capital is summarized as follows:

	Classes	Recognition	
		Initial	Subsequent
Financial assets	Amortized cost (i)	Fair value	Amortized cost
Financial liabilities	Amortized cost (ii)	Fair value	Amortized cost

i) All the financial assets of Desjardins Capital are included in the "Amortized cost" class. Securities included in this class are financial assets that are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest.

   Securities included in this class are initially recognized at fair value in the Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Income recognized on securities included in the "Amortized cost" class is presented under "Interest income" in the Statements of Comprehensive Income.

ii) All financial liabilities are included in the "Amortized cost" class. They are initially recognized at fair value in the Balance Sheets and, at subsequent reporting dates, they are measured at amortized cost using the effective interest method. Interest expense on securities included in the "Amortized cost" class is recognized under "Interest expense" in the Statements of Comprehensive Income.

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 at the measurement date.

There is little subjectivity in the determination of the fair value of financial instruments obtained from quoted prices on active markets. This fair value is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

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

Subordinated notes

The fair value of subordinated notes is determined by discounting future cash flows using rates Desjardins Capital could obtain at period-end for securities with similar terms and maturities.

Senior notes

The fair value of senior notes is based on brokers' quotes.

Financial instruments whose fair value equals their carrying amount

The carrying amount of certain financial instruments that mature in the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash and deposits with financial institutions", "Interest receivable", "Interest payable" and "Other accrued liabilities".

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method.

b) Cash and deposits with financial institutions

"Cash and deposits with financial institutions" includes cash and cash equivalents. Cash equivalents correspond to deposits with financial institutions. These financial instruments mature in the short term, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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

c) Impairment of financial instruments

At each reporting date, Desjardins Capital recognizes a loss allowance for expected credit losses for financial assets classified as at "Amortized cost". This allowance is based on the general impairment approach, which consists in assessing whether credit risk has significantly increased since initial recognition to determine if 12-month expected credit losses or lifetime expected credit losses should be recognized. The financial assets of Desjardins Capital are not credit-impaired financial assets and are considered as not having had a significant increase in credit risk since initial recognition. Consequently, a loss allowance amounting to 12-month expected credit losses is recognized.

The loss allowance for expected credit losses reflects an unbiased amount, based on a probability-weighted present value of cash flow shortfalls, and takes into account reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Generally, the loss allowance for expected credit losses represents the present value of the difference between cash flows that are due under the terms and conditions of the contract and total cash flows that Desjardins Capital expects to receive. As at December 31, 2019 and 2018, the loss allowance for expected credit losses on the financial assets of Desjardins Capital amounted to nil.

d) Revenue recognition

In addition to the items mentioned in section a), "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenue can be recognized.

Net interest income

Interest income and expense are recognized using the effective interest method for all financial instruments measured at "Amortized cost".

The effective interest method is used in the calculation of the amortized cost of a financial asset or liability and in the allocation of interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

As all the financial assets of Desjardins Capital are not considered credit-impaired, interest income is calculated on the gross carrying amount of the financial asset.

e) Income taxes

The income tax expense recognized in the Statements of Comprehensive Income comprises the current and deferred tax expense.

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

Current income taxes

Current income tax assets and liabilities for the current year and prior years are measured based on the amount that Desjardins Capital expects to recover from or pay to the taxation authorities. Tax laws and tax rates applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

Deferred income taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences as well as all tax loss carryforwards and unused tax credits, to the extent that it is probable that a taxable profit will be available against which these deductible temporary differences, tax loss carryforwards and unused tax credits can be utilized.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities, and if these deferred taxes relate to the same taxable entity and the same taxation authority.

FUTURE ACCOUNTING CHANGES

As at December 31, 2019, there were no accounting standards issued by the IASB that were not yet effective as at such date that would have an impact on Desjardins Capital.

NOTE 3 – SUBORDINATED NOTES ISSUED BY THE DESJARDINS CAISSES OF QUÉBEC

	Series G	Series J
Carrying amount	$900.0 million	$500.0 million
Acquisition date	May 5, 2010	December 15, 2011
Maturity date	May 5, 2020	December 15, 2026
Fixed annual interest rate	5.387% May 5, 2010 to May 4, 2020	5.154% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until May 5, 2020	Biannual until December 15, 2021
Variable annual interest rate	N/A	90-day bankers' acceptance rate plus 2.867% December 15, 2021 to December 14, 2026
Variable interest payments	N/A	Quarterly, March 15, 2022 to December 15, 2026
Total or partial early redemption at the option of Desjardins Capital to finance the early redemption of the corresponding senior notes	Early redemption subject to prior approval from the AMF	No early redemption before December 15, 2021 On or after December 15, 2021, early redemption subject to prior approval from the AMF
Interest receivable	$7.5 million	$1.2 million

NOTE 4 – BANK LOAN

Just as it did one year earlier, Desjardins Capital had a subordinated operating line of credit with an authorized limit of $5 million as at December 31, 2019. The credit is repayable on demand and bears interest at the Federation's cost of funds, plus a rate equal to that of a two-year loan plus 0.75%. The Federation, an entity included in the group scope of Desjardins Group, is mandated to meet the funding requirements of the Desjardins Group entities. As at December 31, 2019 and 2018, no amount was drawn on this line of credit.

NOTE 5 – SENIOR NOTES

	Series G	Series J
Nominal value	$900.0 million	$500.0 million
Issuing date	May 5, 2010	December 15, 2011
Maturity date	May 5, 2020	December 15, 2026
Fixed annual interest rate	5.187% May 5, 2010 to May 4, 2020	4.954% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until May 5, 2020	Biannual until December 15, 2021
Variable annual interest rate	N/A	90-day bankers' acceptance rate plus 2.670% December 15, 2021 to December 14, 2026
Variable interest payments	N/A	Quarterly, March 15, 2022 to December 15, 2026
Early redemption	Early redemption in whole or in part subject to prior approval from the AMF	Not early redemption before December 15, 2021 On or after December 15, 2021, early redemption in whole or in part subject to prior approval from the AMF
Interest payable	$7.3 million	$1.1 million

These senior notes are secured by a first hypothec on the corresponding subordinated notes of each of the above-mentioned series.

NOTE 6 – CAPITAL STOCK

AUTHORIZED

Unlimited number of shares, without par value:

- Common shares, voting and participating;
- Class A preferred shares, non-voting and non-participating, with no dividend rights, redeemable at the paid-up capital amount;
- Class B preferred shares, non-voting and non-participating, with no dividend rights, redeemable at the paid-up capital amount.

ISSUED AND PAID SHARES

	As at December 31, 2019		As at December 31, 2018	
	Number of shares	**Amount**	Number of shares	Amount
Common shares	**10,000**	**$ 10**	10,000	$ 10
Class A preferred shares	**1,000,000**	**1,000**	1,000,000	1,000
		$ 1,010		$ 1,010

During fiscal 2019 and 2018, Desjardins Capital paid a dividend of $40,400 on its common shares, or $4.04 per common share.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following tables present, by hierarchy level, financial instruments whose carrying amount does not equal fair value.

As at December 31, 2019	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Subordinated notes	**$ 1,400,000**	**$ 1,433,894**	**$ -**	**$ 1,433,894**	**$ -**
Financial liabilities					
Senior notes	**1,399,165**	**1,434,006**	**-**	**1,434,006**	**-**

As at December 31, 2018	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Subordinated notes	$ 1,400,000	$ 1,454,246	$ -	$ 1,454,246	$ -
Financial liabilities					
Senior notes	1,398,314	1,454,390	-	1,454,390	-

NOTE 8 – INCOME TAXES

INCOME TAX EXPENSE FOR THE YEAR

The income tax expense recognized in the Statements of Comprehensive Income for the years ended December 31 is detailed as follows:

	2019	2018
Current income taxes		
Current income tax expense	**$ 651**	$ 586
Deferred income taxes		
Origination and reversal of temporary differences	**(226)**	(216)
Total income tax expense	**$ 425**	$ 370

The income tax expense recognized in the Statements of Comprehensive Income for the years ended December 31, 2019 and 2018 does not differ from the income tax expense that would be determined using the Canadian statutory rate of 26.6% (26.7% in 2018).

DEFERRED INCOME TAXES

The deferred income tax sources are as follows:

	Balance Sheets		Statements of Comprehensive Income	
	As at December 31, 2019	As at December 31, 2018	2019	2018
Deferred tax liabilities				
Senior notes	**$ 221**	$ 448	**$ (226)**	$ (216)
Net deferred income tax liabilities [1]	**$ 221**	$ 448	**$ (226)**	$ (216)

[1] Deferred income taxes will be reversed mainly in the long term.

NOTE 9 – FINANCIAL INSTRUMENT RISK MANAGEMENT

Desjardins Capital is exposed to different types of financial instrument risks in the normal course of operations, such as credit risk, market risk and liquidity risk. The manner in which Desjardins Capital assesses these risks as well as the objectives, policies and methods it uses to manage them are presented in the Section 4.1, “Risk Management”, of the Management’s Discussion and Analysis. The shaded areas and tables marked with an asterisk (*) presented in these pages are an integral part of these Financial Statements.

CONTRACTUAL OBLIGATIONS

Contractual obligations are commitments with respect to minimum future payments and impact Desjardins Capital’s liquidity needs. Such contractual obligations are recognized in the Balance Sheets or are off-balance sheet.

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

As at December 31, 2019	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities				
Senior notes	**$ 899,807**	**$ -**	**$ 499,358**	**$ 1,399,165**
Interest payable	**8,363**	**-**	**-**	**8,363**
Other accrued liabilities	**81**	**-**	**-**	**81**

As at December 31, 2018	Less than 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities				
Senior notes	$ 79,816	$ 1,004,692	$ 558,077	$ 1,642,585
Interest payable	8,363	-	-	8,363
Other accrued liabilities	27	-	-	27

NOTE 10 – CAPITAL MANAGEMENT

The goal of capital management at Desjardins Capital is to ensure that a sufficient level of high-quality capital is maintained to ensure the continuity of its operations, to pay regular dividends to its shareholder, and to maintain favourable credit ratings and the confidence of financial markets.

As a wholly-owned subsidiary of the Federation, Desjardins Capital is not itself bound by regulatory requirements regarding its capital, such requirements applying first to the Federation and then to Desjardins Group as a whole. Desjardins Capital's assets are consolidated for the purposes of evaluating the composition and adequacy of capital for both the Federation and Desjardins Group, which is conducted according to the guideline on adequacy of capital base standards applicable to financial services cooperatives issued by the AMF.

NOTE 11 – RELATED PARTY DISCLOSURES

Desjardins Capital's related parties mainly include its parent company, the Federation, other entities included in the group scope of Desjardins Group and entities for which the substance of the relationship indicates that they are related to Desjardins Capital. They also include Desjardins Capital's key management personnel and close members of their family, as well as entities over which these persons exercise, directly or indirectly, control, joint control or significant influence.

TRANSACTIONS WITH DESJARDINS CAPITAL'S RELATED PARTIES

Transactions with Desjardins Capital's related parties were entered into under normal market terms and conditions and were initially recognized at fair value.

The main transactions are associated with interest income on the subordinated notes issued by Desjardins caisses of Québec and interest expense on borrowings. They are also associated with professional fees. The main assets with related parties include the subordinated notes issued by Desjardins caisses of Québec and interest receivable, while the main liabilities include the senior notes and other accrued liabilities.

These transactions and balances as at the reporting dates are as follows:

	2019				2018			
	Federation	**Desjardins caisses**	**Other related parties**	**Total**	Federation	Desjardins caisses	Other related parties	Total
Statements of Comprehensive Income								
Interest income on subordinated notes issued by Desjardins caisses of Québec	**$ -**	**$ 74,253**	**$ -**	**$ 74,253**	$ -	$ 74,253	$ -	$ 74,253
Interest income on cash and deposits with financial institutions	**347**	**-**	**-**	**347**	261	-	-	261
Interest expense on senior notes	**-**	**-**	**512**	**512**	-	-	1,967	1,967
Professional fees	**618**	**-**	**-**	**618**	790	-	-	790
Balance Sheets								
Cash and deposits with financial institutions	**$ 19,843**	**$ -**	**$ -**	**$ 19,843**	$ 18,006	$ -	$ -	$ 18,006
Interest receivable	**40**	**8,687**	**-**	**8,727**	25	8,687	-	8,712
Subordinated notes issued by Desjardins caisses of Québec, at cost	**-**	**1,400,000**	**-**	**1,400,000**	-	1,400,000	-	1,400,000
Interest payable	**-**	**-**	**6**	**6**	-	-	172	172
Senior notes	**-**	**-**	**776**	**776**	-	-	21,268	21,268
Other								
Credit commitments received	**$ 5,000**	**$ -**	**$ -**	**$ 5,000**	$ 5,000	$ -	$ -	$ 5,000

KEY MANAGEMENT PERSONNEL COMPENSATION

Desjardins Capital's key management personnel comprises the members of its Board of Directors and its Management Committee. These individuals have the authority and responsibility for planning, directing and controlling the activities of Desjardins Capital. In the normal course of operations, Desjardins Capital does not carry out financial transactions with its management personnel. Management personnel's compensation is paid by the Federation.