Management's Discussion and Analysis Desjardins Capital Inc.

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Note to the reader

Desjardins Capital Inc. (Desjardins Capital) is a wholly owned subsidiary of the *Fédération des caisses Desjardins du Québec* (the Federation), and is responsible for issuing securities on capital markets and investing the proceeds thereof in subordinated notes issued by the Desjardins caisses of Quebec (Desjardins caisses).

The Management's Discussion and Analysis (MD&A), dated February 26, 2018, presents the analysis of the results of and main changes to the balance sheet of Desjardins Capital for the year ended December 31, 2017, in comparison to previous years. Desjardins Capital reports financial information in compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators (CSA). Information on Desjardins Capital's controls and procedures is presented in the "Additional information" section of this MD&A.

This MD&A should be read in conjunction with the Financial Statements, including the Notes thereto, as at December 31, 2017.

Additional information on Desjardins Capital is available on the website of the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com**. More information is also available on Desjardins Group's website at **www.desjardins.com/ca/about-us/investor-relations**. None of the information presented on these sites is incorporated by reference into this MD&A.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Capital's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements in this MD&A include, but are not limited to, comments about Desjardins Capital's objectives regarding financial performance, priorities, operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. These forward-looking statements include those appearing under section 1.0, "Changes in the economy", section 2.0, "Review of financial results", section 3.0, "Balance sheet review" and section 5.0, "Additional information" of this MD&A. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan", and "may"; words and expressions of similar import; and future and conditional verbs.

By their very nature, such statements involve assumptions, inherent risks and uncertainties, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or that the predictions, forecasts or other forward-looking statements as well as Desjardins Capital's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Desjardins Capital cautions readers against placing undue reliance on these forward-looking statements since actual results, conditions, actions and future events could differ significantly from the explicit or implicit targets, expectations, estimates or intents in the forward-looking statements.

A number of factors, many of which are beyond Desjardins Capital's control and which impact Desjardins Capital would have difficulty predicting, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0 "Risk management," such as credit, market, liquidity and operational risk. Additional factors include legal and regulatory environment risk, including legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance, liquidity regulatory guidance, and capital guidelines, or interpretations thereof.

Additional factors that may affect the accuracy of the forward-looking statements contained in this report also include factors related to the critical accounting estimates and accounting standards applied by Desjardins Capital, and to credit ratings.

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

Significant economic assumptions underlying the forward-looking statements in this MD&A are described in the section "Economic outlook for 2018" of this MD&A. These assumptions may also be updated in the quarterly MD&As. Any forward-looking statements contained in this report represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Capital's balance sheets as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives. These statements may not be appropriate for other purposes. Desjardins Capital does not undertake to update any written or verbal forward-looking statements that could be made from time to time by or on behalf of Desjardins Capital, except as required under applicable securities legislation.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Financial Statements have been prepared by Desjardins Capital's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. The accounting policies used did not differ from those used in 2016. For further information about the accounting policies applied, see the Financial Statements.

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

REGULATORY ENVIRONMENT

Regulatory environment

Desjardins Capital's activities are governed by the *Business Corporations Act* (Quebec) and *An Act respecting financial service cooperatives*. The AMF is the main government agency that oversees and monitors deposit-taking institutions (other than banks) that conduct business in Quebec and are governed by a Quebec law, including Desjardins Capital. Desjardins Capital manages financial reporting in compliance with the AMF's *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* presented in the annual and interim documents of AMF issuers.

Changes in the regulatory environment

This section presents items related to changes in the regulatory environment that apply to Desjardins Capital.

Desjardins Group, including Desjardins Capital, closely monitors regulations as well as new developments relating to financial products and services in order to mitigate any negative impact on its operations, and aims to comply with best practices in this regard.

The *Act respecting financial services cooperatives* and the *Act respecting the Mouvement Desjardins*

On October 5, 2017, the Quebec Minister of Finance tabled Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions* (the Bill) in the National Assembly. The Bill will have significant impacts on all institutions and intermediaries operating in Quebec's financial sector. Bill 141 is intended to update and modernize the legislative framework for Quebec's financial sector so that the financial institutions that it governs will have all the levers they need to operate in a very competitive environment and governance that is consistent with best practices. The Bill will have impacts on a series of laws, including the *Act respecting insurance*, the *Act respecting financial services cooperatives*, the *Act respecting the distribution of financial products and services* and the *Deposit Insurance Act*. The *Act respecting financial service cooperatives* will be amended to, among other things, prescribe the rules for organizing a network of financial services cooperatives and a financial group, as well as the rules for issuing capital shares and investment shares.

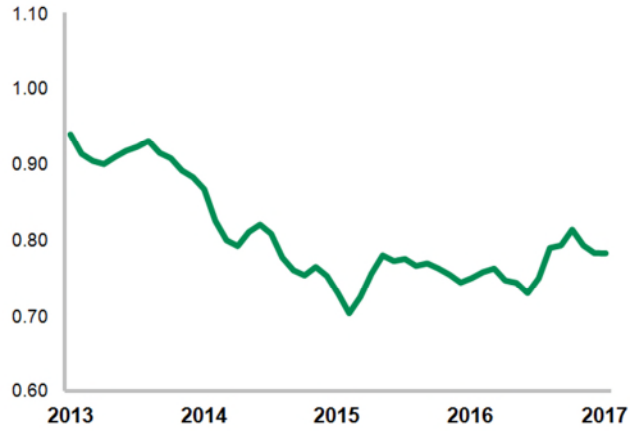
The Bill will also add a chapter concerning the *Groupe coopératif Desjardins* to replace the *Act respecting the Mouvement Desjardins* and strengthen financial solidarity mechanisms within Desjardins, among other things. In this way, the Bill will affirm the Federation's mission to manage Desjardins Group's risks and look after the financial health and sustainability of the cooperative group. The Federation and the *Fonds de sécurité Desjardins* will therefore be given additional special powers of supervision and intervention regarding the protection of creditors, including depositors, and the public interest. The proposed amendments to the *Deposit Insurance Act* include a proposal to have this Act govern the supervision and control of deposit-taking activities and the activities of authorized deposit institutions, as well as recovery and resolution mechanisms in the event of failure of deposit institutions. Furthermore, the Bill will provide for revised supervision for Quebec insurers, including the introduction of a modern regime for selling insurance over the Internet. The government's parliamentary leader has not provided a specific timeline for passage of the Bill in its definitive version. Desjardins Group continues to closely monitor the legislative process and analyze the impacts of this Bill.

Data confidentiality and security

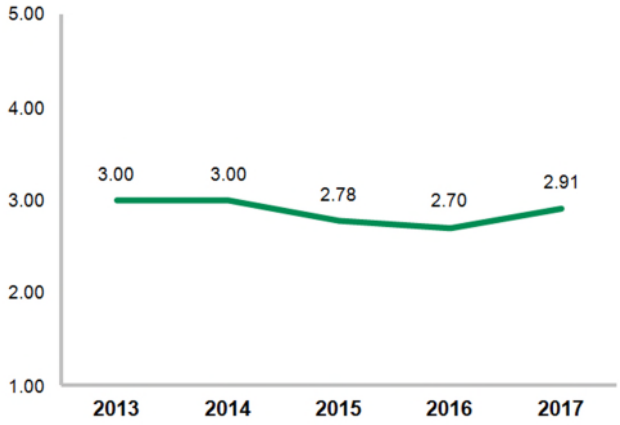
Data confidentiality and security is a rapidly changing area. In Canada, new provisions of the *Personal Information Protection and Electronic Documents Act* (PIPEDA) will soon come into force. They will, in particular, require businesses to give notice of any breaches of security safeguards and impose the keeping of a register. Failure to give notice will result in a fine. It should be noted that in Europe, the *General Data Protection Regulation* (GDPR), which will enter into force in May 2018, provides for new obligations that will apply internationally to entities that control or process the personal data of citizens of the European Union. Several of these obligations, if applicable, could require changes to the processes used by Desjardins Group. In Quebec, consultations are currently underway concerning amendments to *An Act respecting the protection of personal information in the private sector* (ARPPIPS). Desjardins Group can expect that stricter rules will be adopted, and it is closely monitoring developments to assess the impacts on its operations.

1.0 Changes in the economy

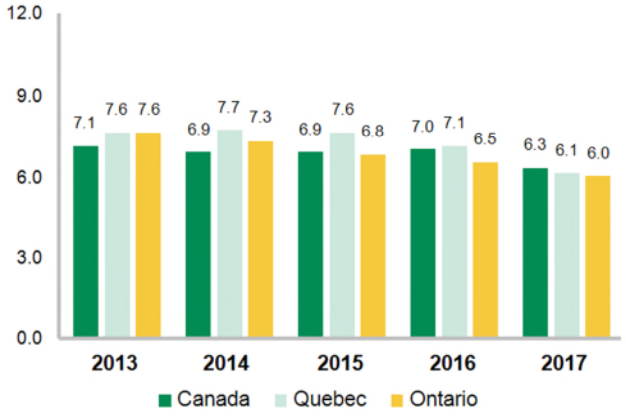
Changes in the Canadian dollar vs. the U.S. dollar (monthly average)
(Canadian dollars/U.S. dollars)



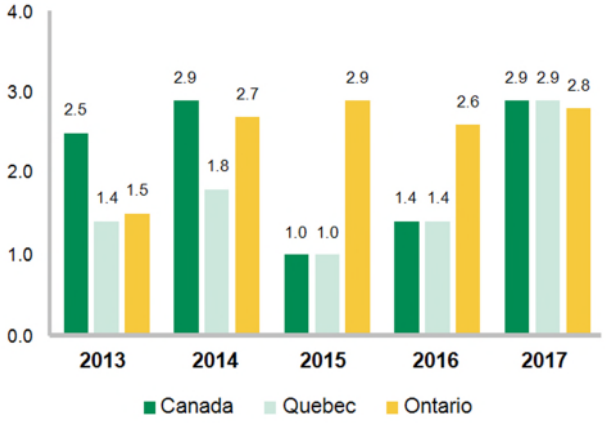
Changes in the prime rate (annual average)
(as a percentage)



Changes in the unemployment rate (annual average)
(as a percentage)



Annual growth in GDP
(as a percentage)



ECONOMIC ENVIRONMENT IN 2017

Global economy

The global economy grew at an accelerating pace in 2017. The gain in real GDP is estimated at 3.6%, compared to 3.1% in 2016. International trade also gathered momentum. The best economic growth was in the advanced countries (2.3% compared to 1.6% in 2016) and the emerging countries (4.4% compared to 4.1%). Real GDP growth in China even picked up slightly, from 6.7% to 6.9%. In Europe there was a marked improvement in the household and business confidence indexes, which was reflected in accelerating real GDP growth in the eurozone. The annual change is estimated at 2.5% in 2017 compared to 1.8% in 2016. The uncertainties surrounding the United Kingdom's withdrawal from the European Union (Brexit) ultimately had an impact on the UK economy in 2017, while Britain's production was relatively resilient in 2016.

The improved economic environment in 2017 was good for the financial markets. The main North American indexes climbed by more than 15%, and the performance of several exchanges overseas was as impressive. In Canada, following a remarkable performance in 2016, the Toronto Stock Exchange posted mixed results in 2017 as the major sectors related to commodities experienced difficulties in the first half of the year. The year nevertheless ended on a more positive note marked by a rebound in commodity prices, allowing the Toronto Stock Exchange to close 2017 at 6% growth. The strength of the economy led the Fed to announce three 0.25% hikes in U.S. key interest rates and to begin gradually reducing its bond holdings. However, low inflation rates in most countries helped keep long-term bond rates very low. The Bank of Canada (BoC) suddenly began monetary tightening, instituting two 0.25% increases to its key interest rate during the summer, which caused interest rates and the Canadian dollar to surge. Following these hikes the BoC nevertheless adopted a more cautious tone, which brought the Canadian dollar back down to just under US$0.80.

United States

Once again, the U.S. economy struggled in the first quarter of 2017. However, the following quarters rendered rather strong real GDP growth of close to 3.0%. Real GDP growth in 2017 has been estimated at 2.3%, a clear improvement over the 1.5% gain recorded for 2016. Even the devastating hurricanes in August and September had only a limited effect on growth, and the reconstruction and rebound in production took hold quickly in their wake. A recovery in the oil sector also supported investment. Despite the concerns engendered by Donald Trump's arrival in the White House, household and business confidence remained strong. The labour market performed well, and the unemployment rate fell to its lowest level since 2000. Salary growth, much like inflation, continued to be relatively modest.

Canada

The Canadian economy got off to a strong start in 2017 with cumulative real GDP growth of 4.0% (annual rate) in the first half of the year. It was the strongest start of the year since 2002. Domestic demand was particularly vigorous, in part due to sustained growth in consumer spending. It should be noted that several favourable factors helped buoy consumer spending in the first half of 2017. The labour market registered good growth. Household confidence improved in an environment characterized by extremely low interest rates. Non-residential business investment also began to recover, following major problems faced in 2015 and 2016 after the drop in oil prices. Average residential investment also grew in the first half of 2017. Lastly, the upward trend in exports continued on the strength of growing global demand. But such a strong expansion could not last, and the second half of 2017 was marked by growth that slowed toward a more sustainable level. Several factors contributed to the slowdown. Temporary problems, in particular in the auto industry, impeded foreign trade in the summer. The slight increase in key interest rates that began in July and September 2017 somewhat discouraged consumer spending, in particular for durable goods. The housing market also began to show signs of slowing in certain regions, with the combined effects of a slight increase in interest rates and the introduction of new measures to drag on the Toronto real estate market. Ultimately, the results for 2017 as a whole should show an increase in real GDP of approximately 2.9%. This is a net improvement from the 1.4% gain recorded for 2016.

Quebec

The Quebec economy grew much faster in 2017. Real GDP rose by approximately 2.9% for the year, posting the best results in 15 years. Economy activity was lifted by household spending, through consumption and the residential sector. Retail sales experienced strong growth due to improved conditions in the labour market. In December 2017, the monthly unemployment rate even fell to 5.0%, its lowest level in 40 years. This low rate was due to job creation and an aging population, which is driving a significant wave of retirements. The residential sector had a strong year. A high volume of sales of existing homes drove up prices by approximately 5% in 2017. Despite this improvement, there have been no signs of overheating in the Montreal market, even if there have been more foreign buyers in the market since a 15% tax was implemented in Vancouver and Toronto. Business investment remained weak and export performance was disappointing, including due to the uncertainties surrounding the renegotiation of the North American Free Trade Agreement (NAFTA).

ECONOMIC OUTLOOK FOR 2018

Global economy

The favourable outlook for the global economy suggests that the bullish trend in the stock exchanges could continue in 2018. Following their remarkable performance in 2017, world exchanges are nevertheless expected to post more modest growth. Commodity prices should still rise somewhat, and the Toronto Stock Exchange is expected to perform well in 2018. The good economic performance, combined with a gradual increase in inflation, should lead the Fed and the BoC to gradually raise their key interest rates over the next few quarters. In this environment, the rates on North American bonds are also expected to trend upwards in 2018, while remaining low in historical terms. Monetary tightening in Canada and a modest increase in oil prices should provoke a slight appreciation of the Canadian dollar.

The accelerating economic activity in the global economy in 2017 should continue in 2018, but the growth is expected to be even more pronounced in the emerging countries. Faster real GDP growth is expected in India and Brazil. The Chinese economy is expected to grow at a slightly slower pace, without straying too far from the recent trend. In the eurozone, economic growth should stabilize as the economy's production over-capacity dwindles. The British economy is expected to slow again as the consequences of the uncertainties surrounding Brexit continue to emerge. Global trade may change in response to the protectionist tendencies of the Trump administration.

United States

In the U.S., the recent momentum in the economy should continue in 2018. Of course economic conditions will depend on the President's actions and benefit from the tax reform bill adopted by Congress at the end of 2017, but vast infrastructure spending programs are not expected. In addition, it is too early to predict whether any trade agreements, such as NAFTA, will be revoked. Confidence remains high enough to ensure good growth in personal consumption and corporate investment. The key interest rates in the U.S. will continue to rise gradually, with three 25-basis-point increases expected in 2018.

Canada

In Canada, economic growth is expected to continue at a satisfactory pace in 2018. On average, real GDP may grow 2.2% during the year, faster than its potential growth rate for 2018, which the BoC pegs at approximately 1.4%. Good performance by the labour market will continue to stimulate consumer spending, and non-residential business investment should continue to recover. Exports are expected to maintain their upward trend due to vigorous global demand. The benefits of the new trade agreement between Canada and the European Union may also become increasingly apparent. That being said, there is considerable uncertainty over the future of Canadian foreign trade due to the NAFTA renegotiations. In theory, residential investment should slow in 2018 with the expected increases in interest rates and the presence of several restrictive measures, including the new rules introduced by the Office of the Superintendent of Financial Institutions (OSFI) Canada in January 2018. Despite it all, the housing market has often surprised market watchers over the last few years by showing great resilience.

Quebec

The outlook for Quebec in 2018 is good, but the economy is expected to grow at a slower pace than last year. Consumer spending is unlikely to grow as fast, since job creation is expected to abate. The government of Quebec, which has generated budget surpluses of $4.6 billion over the last two years, has announced an additional $1.1 billion in cuts to personal income taxes. Beginning in 2018, the cuts will apply retroactively to January 1, 2017. The provincial government also has sufficient flexibility in its budget to accelerate growth public spending. The residential sector is expected to lose some steam due to the cumulative effect of interest rate hikes and stricter mortgage rules. The outcome of the trade negotiations with the U.S. will play a crucial role in business investment and exports. Quebec's real GDP should increase by 2.0% in 2018, but there are downside risks if the talks do not lead to an agreement.

2.0 Review of financial results

2.1 Analysis of 2017 results

Table 1 – Financial results
For the years ended December 31

(in thousands of dollars)	2017	2016	2015
Interest income			
Subordinated notes issued by Desjardins caisses of Quebec	**$ 74,253**	$ 86,318	$ 128,546
Cash	**136**	95	85
	74,389	86,413	128,631
Interest expense			
Senior notes	**72,222**	83,919	124,690
	72,222	83,919	124,690
Net interest income	**2,167**	2,494	3,941
Non-interest expense			
Professional fees	**843**	933	1,038
Income before income taxes	**1,324**	1,561	2,903
Income tax expense	**347**	421	781
Net income for the year	**$ 977**	$ 1,140	$ 2,122

For fiscal 2017, Desjardins Capital recorded $977,000 in net income compared to $1,140,000 in 2016. Net interest income was $2,167,000, down $327,000 from 2016. This decline was essentially due to lower net interest income as a result of the prepayment of senior notes and the redemption of Series F subordinated notes on June 1, 2016. It should be recalled that net interest income arises from the spread between the interest rate on the subordinated notes and that on the senior notes used to finance Desjardins Capital's operating expenses.

COMPARISON OF 2016 AND 2015

Net income for fiscal 2016 was $1,140,000, compared to $2,122,000 in 2015. This change was primarily due to lower net interest income as a result of the prepayment of senior notes and the redemption of Series H and Series F subordinated notes on November 23, 2015 and June 1, 2016, respectively.

2.2 Analysis of fourth quarter results

Table 2 – Quarterly results for the previous eight quarters

(unaudited, in thousands of dollars)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	**$ 18,613**	$ 18,599	$ 18,588	$ 18,589	$ 18,589	$ 18,588	$ 23,410	$ 25,826
Interest expense	**18,060**	18,056	18,054	18,052	18,050	18,047	22,739	25,083
Net interest income	**553**	543	534	537	539	541	671	743
Non-interest expense	**208**	206	216	213	219	117	314	283
Income before income taxes	**345**	337	318	324	320	424	357	460
Income tax expense	**93**	91	86	77	87	115	95	124
Net income	**$ 252**	$ 246	$ 232	$ 247	$ 233	$ 309	$ 262	$ 336

For the fourth quarter ended December 31, 2017, Desjardins Capital recorded net income of $252,000 compared to $233,000 for the same quarter of 2016. Net interest income was $553,000 for the fourth quarter compared to $539,000 for the same period of 2016.

3.0 Balance sheet review

3.1 Total assets

As at December 31, 2017, Desjardins Capital had total assets of $1.4 billion, unchanged from December 31, 2016. These assets consisted primarily of subordinated notes issued by the caisses of Quebec.

As at December 31, 2017, the subordinated notes issued by the caisses of Quebec were comprised of:

	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 2.8665% 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

3.2 Total liabilities

As at December 31, 2017, Desjardins Capital's total liabilities stood at $1.4 billion, unchanged from December 31, 2016. These liabilities consisted mainly of senior notes.

As at December 31, 2017, Desjardins Capital's senior notes were comprised of:

	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 2.67% 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	No 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.

4.0 Risk management

4.1 Risk management

The shaded areas and tables marked with an asterisk (*) in this section contain information about credit, market and liquidity risks in accordance with IFRS 7, "Financial Instruments: Disclosures". They also contain an analysis of how Desjardins Capital assesses its risks as well as a description of its risk management objectives, policies and methods. IFRS 7 provides that risk disclosures may be included in the MD&A. Consequently, the shaded areas and tables marked with an asterisk (*) are an integral part of the Financial Statements, as explained in Note 9, "Financial instrument risk management," to the Financial Statements.

Desjardins Capital was created exclusively for the purpose of offering securities on the financial markets and investing the proceeds thereof in securities issued by the caisses of Quebec to meet their liquidity and capital needs. Desjardins Capital therefore acts as an intermediary between external investors and the caisses in order to provide the caisses of Quebec with easier access to institutional capital.

The Board of Directors of Desjardins Capital is responsible for guiding, planning, coordinating and monitoring all of its operations. The Board is supported in some of its responsibilities, specifically in the area of risk management, by its Management Committee and its Audit Committee.

Desjardins Capital is exposed to different types of risk in its normal course of operations, including credit risk, market risk, liquidity risk and operational risk.

Credit risk

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

Desjardins Capital is exposed to credit risk primarily through the subordinated notes issued to it by the caisses of Quebec. These notes represented 98.2% of assets on the Balance Sheets as at December 31, 2017, comparable to the ratio as at December 31, 2016.

The securities issued by the caisses of Quebec to Desjardins Capital are, in fact, subordinated, as to right of payment, to all the other obligations of the caisses of Quebec. However, this risk is considered minimal, given that Desjardins Group has implemented certain intervention mechanisms designed to help the caisses of Quebec in financial difficulty. Moreover, the *Act respecting financial services cooperatives* grants the Federation all the powers necessary to cover the operating deficits of any caisse whose general reserve is insufficient.

Market risk

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

Desjardins Capital is exposed to market risk primarily through to its positions resulting from its intermediation operations between the caisses of Quebec and institutional investors. More specifically, Desjardins Capital is exposed to interest rate risk, which corresponds to the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Desjardins Capital applies sound and conservative management practices in order to achieve intermediation between lenders and the caisses of Quebec with a view to achieving the matching required to mitigate interest rate risk. To avoid any sensitivity to changing interest rates, Desjardins Capital seeks to match the terms of the related senior notes with the terms of the subordinated notes. In addition, when debt securities are issued, Desjardins Capital sets a sufficient profit margin to finance its operating costs by fixing an interest rate on the subordinated notes. Moreover, Desjardins Capital has no trading portfolio.

Since the cash flows resulting from Desjardins Capital's operations are matched, the impact of interest rate changes on the economic value of capital is negligible.

Liquidity risk

Liquidity risk refers to Desjardins Capital'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.

Desjardins Capital carefully manages liquidity risk by matching maturities between senior notes and subordinated notes. Desjardins Capital can also require the caisses of Quebec to pay, in whole or in part, the subordinated notes in order to redeem senior notes in advance.

Furthermore, Desjardins Capital ensures that the contractual maturities of senior notes and subordinated notes are staggered in order to avoid an excessive concentration of these maturities on specific dates. Such concentration could lead to a liquidity risk when there is turbulence in financial markets.

FUNDING SOURCES

The borrowing programs of Desjardins Capital, which are established by prospectus, matured in previous years and were not renewed. Depending on changes in the regulatory environment, Desjardins Capital may at some time in the future launch issues of securities on capital markets in Canada, the U.S. and Europe.

BASEL III

Desjardins Capital's senior notes fully qualified, for Desjardins Group, as Tier 2 regulatory capital until December 31, 2012. On January 1, 2013, the AMF adopted the provisions stipulated by the Basel Committee with respect to requirements to ensure that losses are absorbed at the point of non-viability. Consequently, since January 1, 2013, these notes no longer fully qualify as Tier 2 regulatory capital since they do not satisfy the requirements for non-viability contingent capital.

As a result, Desjardins Capital's senior notes are being gradually eliminated from Desjardins Group's capital at a rate of 10% per year over a nine-year period that began on January 1, 2013 under the transitional measures set out in the AMF guideline.

CREDIT RATINGS OF SECURITIES ISSUED

The credit ratings of Desjardins Capital affect its ability to access sources of funding on capital markets, as well as the conditions of such funding.

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

During 2017, Moody's, Standard & Poor's (S&P), DBRS and Fitch all confirmed the credit ratings and related outlooks of the securities issued by Desjardins Capital. These credit ratings and related ratings outlooks were unchanged.

In addition, on May 10, 2017, Moody's lowered the long-term debt ratings of the six major Canadian banks by a notch due in part to expanding levels of private-sector debt that could weaken the asset quality and profitability of Canadian banks. In its press release, Moody's nevertheless affirmed the credit ratings of Desjardins Group, since it considers the Group's activities less exposed to the risks it has mentioned.

S&P's and Moody's ratings outlooks for Desjardins Capital were "stable", while the outlook from DBRS has been "negative" since May 20, 2015, like those for the Federation and several major Canadian banks. DBRS justified its decision to assign a negative outlook to the ratings of Desjardins Capital, the Federation and several major Canadian banks as due to uncertainty over continued government support to systemically important financial institutions related to the "bail-in" regime proposed by the Canadian government.

Desjardins Capital thus has credit ratings that are among the best of the major Canadian and international banking institutions.

Table 3 – Credit ratings of securities issued

	DBRS	STANDARD & POOR'S	MOODY'S	FITCH
Medium- and long-term, senior	AA (low)	A	A2	A+

CONTRACTUAL OBLIGATIONS

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

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

Table 4 – Contractual maturities*

As at December 31, 2017

(in thousands of dollars)	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities					
Senior notes	**$ -**	**$ 79,816**	**$ 1,056,495**	**$ 577,727**	**$ 1,714,038**
Other accrued liabilities	**-**	**94**	**-**	**-**	**94**

As at December 31, 2016[1]

(in thousands of dollars)	Payable on demand	Less than 1 year	1 to 5 years	Over 5 years	Total
Financial liabilities					
Senior notes	$ -	$ 79,816	$ 1,108,298	$ 597,377	$ 1,785,491
Other accrued liabilities	-	128	-	-	128

[1] Data for 2016 have been reclassified to reflect the current year's presentation.

Operational risk

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

Operational risk is inherent to all the activities of Desjardins Group, including the management and control practices used in other risk areas (credit, market, liquidity, etc.) as well as outsourced activities. This risk may lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems, cyberthreats, or problems or errors in process management. In order to maintain this risk at an acceptable level, an organization-wide operational risk management framework has been developed and deployed. This framework includes the usual practices for sound operations management based on the Three Lines of Defence model by clearly defining the roles and responsibilities related to operations management and their risks.

OPERATIONAL RISK MANAGEMENT FRAMEWORK

The operational risk management framework serves to identify, measure, mitigate and monitor this risk and is used to intervene in and communicate operational risk in accordance with the appetite for this risk and the controls adopted by the Board of Directors. It is supported by guidelines setting out operational risk management foundations. At the same time, the operational risk management framework is related to the other risk areas.

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

Legal and regulatory environment risk

Legal and regulatory environment risk is risk arising from noncompliance by Desjardins Group, including Desjardins Capital, with laws, regulations, standards and practices in effect wherever Desjardins Group operates, as well as its various internal codes of conduct, and its contractual commitments, which could lead in particular to financial losses, penalties, harm to its reputation, legal recourse or increased monitoring by the regulatory authorities.

Legal and regulatory environment risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory agency that could result in financial penalties or sanctions. Legal decisions as well as current and future legislative activity could increase Desjardins Capital's exposure to new sorts of litigation. Furthermore, certain legal proceedings against Desjardins Group may be very complex and address legal theories that are new or that have never been verified. The outcome of such proceedings may be difficult to predict or estimate until the proceedings are in an advanced stage, which may take several years. Class action or multi-party lawsuits may present an additional risk of decisions awarding substantial pecuniary, non-pecuniary or exemplary damages. The plaintiffs filing a class action or other lawsuit sometimes make claims for very substantial amounts, and it is impossible to determine Desjardins Capital's liability, if any, for a considerable period of time. Legal liability or a significant regulatory measure could have a negative impact on Desjardins Capital's current operations, operating results and financial position, in addition to tarnishing its reputation. Even if Desjardins Capital prevails before the courts or was no longer subject to the measures imposed by regulatory bodies, these situations could damage its reputation and have a negative impact on its financial position, particularly due to the costs associated with these procedures and its corporate image.

The financial services industry is one of the most strictly regulated and monitored sectors. In recent years, the regulations governing the industry have expanded significantly in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, financial fraud, the fight against money laundering and terrorist financing and the fight against tax evasion, to mention but a few. In addition to federal (Canada and the U.S.) and provincial government requirements, the regulatory environment also includes organizations such as the AMF, the Canadian Securities Administrators, and the Financial Transactions and Reports Analysis Centre of Canada. Complying with major statutory and regulatory provisions, such as those for the protection of personal information and in the *Foreign Account Tax Compliance Act*, the Standard for Automatic Exchange of Financial Information in Tax Matters, the *Dodd-Frank Wall Street and Consumer Protection Act* or the Basel accords, requires Desjardins Capital to make significant investments of technical, financial and human resources and also affects the way Desjardins Capital manages its current operations and implements its business strategies.

As an independent supervisory function, the Office of the Chief Compliance Officer of Desjardins Group promotes a pro-active compliance approach by fully integrating it into the organization's current operations. The Office is responsible for developing, updating and maintaining the compliance management framework, which is based on identifying and monitoring regulatory obligations and the functional units subject to them. Regulatory developments and their impact on operations are therefore monitored and evaluated on an ongoing basis by the compliance function in cooperation with the Office of the Chief Legal Officer, and strategies are implemented as required to mitigate them. The compliance function provides support to managers in charge of business segments and support functions so that they can effectively manage their risks, by developing an appropriate framework and documentation, acting in an advisory capacity, setting up training programs and conducting periodic inspections of operations. The Desjardins Group's monitoring office provides independent evaluations of the effectiveness of the compliance management framework. Lastly, Desjardins Capital has set up a formal reporting process related to compliance for its senior management and various decision-making bodies. In addition, to maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, Desjardins Group has developed a code of ethics and professional conduct that applies to all its officers and employees as well as all its components, including Desjardins Capital. This overall management of compliance provides reasonable assurance that Desjardins Capital's operations are carried out in compliance with applicable regulations. Despite all these efforts, Desjardins Capital may not be able to predict the exact impact of regulatory developments and appropriately implement strategies to respond. It could then sustain an adverse impact on its financial performance, its operations and its reputation. For further information, refer to the "Regulatory environment" section of this MD&A.

On October 5, 2017, the Quebec Minister of Finance tabled Bill 141, *An Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions*. The Bill will have significant impacts on all institutions and intermediaries operating in Quebec's financial sector. For more information, see page 4, under the "Changes in the regulatory environment" heading. This section presents regulatory changes applicable to Desjardins Group, including Desjardins Capital.

4.2 Other risk factors that could impact future results

As indicated in the caution concerning forward-looking statements, general or specific risks and uncertainties may cause Desjardins Capital's actual results to differ from those in these statements. Some of these risk factors are presented below.

Risk factor	Description
Accounting estimates and accounting policies	The financial statements have been prepared in accordance with IFRS. The accounting policies used by Desjardins Capital determine how it reports its financial position and results of operations, and may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Any change to these estimates and assumptions may have a significant impact on the financial position and operating results of Desjardins Capital.
Credit ratings	The credit ratings assigned to Desjardins Capital by the rating agencies are instrumental to its access to sources of wholesale financing and the cost of such financing. These ratings may be revised or withdrawn at any time by the rating agencies. Furthermore, a serious downgrade to the ratings could increase Desjardins Capital's cost of funding, reduce its access to the capital markets and increase the additional obligations required by its counterparties.
Other factors	Desjardins Capital cautions the reader that factors other than the foregoing could affect future results. Investors and other stakeholders relying on forward-looking statements to make decisions with respect to Desjardins Capital should carefully consider these factors as well as other uncertainties, potential events, and industry factors or other items specific to Desjardins Capital that could adversely impact its future results.

5.0 Additional information

5.1 Controls and procedures

Desjardins Capital complies with certain requirements of the regulations prescribed by the Canadian Securities Administrators (CSA) respecting continuous disclosure obligations, oversight of external auditors, certification of financial disclosures, and audit committees.

During 2017, Desjardins Capital carried out work so that it could provide certification as at December 31, 2017 of the design and effectiveness of its disclosure controls and procedures, as well as of its internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the CSA guidance in National Instrument 52-109, the Chair of the Board of Directors, and CEO as well as the Vice-President and Chief Financial Officer of Desjardins Capital (Chief Financial Officer) designed or caused to be designed, disclosure controls and procedures, which are supported in particular by a process for periodic certification of financial disclosures in annual and interim filings. All information collected as part of the financial governance process is reviewed on a quarterly and annual basis by the members of the Desjardins Group Disclosure Committee and Desjardins Capital's audit commission, who play a lead role in the oversight and assessment of the adequacy of disclosure controls and procedures.

As at December 31, 2017, Desjardins Capital's management assessed the design and effectiveness of its disclosure controls and procedures. Based on the results of this assessment, the Chair of the Board of Directors, and CEO as well as the Chief Financial Officer concluded that disclosure controls and procedures were adequately designed and effective. These controls are designed to provide reasonable assurance that the information disclosed in annual and interim filings and in other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified by that legislation. These controls and procedures are also designed to ensure that such information is accumulated and communicated to Desjardins Capital's management, including its signing officers, as appropriate, to allow timely decisions regarding disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Desjardins Capital caused an adequate process of internal control over financial reporting to be designed and has maintained it. This process is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The design and effectiveness of the internal control over the financial reporting process were assessed in accordance with the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for financial controls and in accordance with the Control Objectives for Information and Related Technologies (COBIT) framework for IT general controls.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements on a timely basis. Management's assessment of the controls provides only reasonable, not absolute, assurance that all the problems related to control which could give rise to material misstatements have been detected.

The assessment of the design and effectiveness of internal control over financial reporting was performed by the management of Desjardins Capital under the supervision of the Chair of the Board of Directors, and CEO as well as the Chief Financial Officer. Based on the results of this assessment, these senior officers concluded that as at December 31, 2017, internal control over financing reporting was adequately designed and effective, and did not contain any material weakness. These procedures provide reasonable assurance that the financial reporting of Desjardins Capital is reliable and its financial statements have been prepared for external purposes in accordance with IFRS.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the year ended December 31, 2017, Desjardins Capital did not make any changes to its internal control over financial reporting that had materially affected, or may materially affect, its operations.

5.2 Related party disclosures

In the normal course of business, Desjardins Capital carries out transactions with Desjardins Group entities. All these transactions were entered into under normal market terms and conditions. Desjardins Capital does not carry out financial transactions with its management personnel.

Note 11, "Related party disclosures", to the Financial Statements provides more information on this subject.

5.3 Critical accounting policies and estimates

A description of the accounting policies used by Desjardins Capital is essential to understanding the Financial Statements as at December 31, 2017. The significant accounting policies are described in Note 2, "Basis of presentation and significant accounting policies", to the Financial Statements. Some of these policies are of particular importance in presenting the financial position and operating results of Desjardins Capital because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. The significant accounting policies that required management to make difficult, subjective or complex judgments, often involving uncertainties, are discussed below.

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.

The fair value measurement of financial instruments is determined using three levels of the fair value hierarchy, reflecting the importance of the inputs used for the measurements. Level 1 denotes measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities, while level 2 designates valuation techniques based primarily on observable market data. Level 3 concerns valuation techniques not based primarily on observable market data.

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 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.

IMPAIRMENT OF FINANCIAL ASSETS

At the reporting date, Desjardins Capital determines if there is any objective evidence that a financial asset or a group of financial assets is impaired.

INCOME TAXES

The income tax expense recorded on the Statement of Comprehensive Income comprises the current tax expense and the deferred tax expense.

Total income tax expense is based on the expected tax treatment of transactions. To determine the current and deferred portions of this expense, management must make judgments to establish 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 arrives at a different interpretation than taxation authorities or if the reversal dates do not correspond to the forecasted dates, the provision for income taxes may increase or decrease in subsequent years.

Note 8, "Income taxes", to the Financial Statements provides additional information on income taxes.

5.4 Future accounting changes

The accounting standard discussed below was issued by the IASB and will affect Desjardins Capital. It was not yet effective as at December 31, 2017. Regulatory authorities have stated that early adoption of this standard will not be permitted, unless they indicate otherwise.

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 requirements for the classification and measurement of financial assets and liabilities and the impairment of financial assets as well as the general requirements for hedge accounting. Concurrently with the issuance of IFRS 9, IFRS 7, "Financial Instruments: Disclosures", was amended to enhance the required qualitative and quantitative disclosures, which will have to be provided for the years beginning on or after January 1, 2018.

Desjardins Capital will have to adopt retrospectively IFRS 9 as at January 1, 2018. However, the restatement of comparative periods is not mandatory, as the standard includes an exemption under which comparative periods may be presented using the previous accounting framework in certain conditions. In such case, any adjustment resulting from the application of IFRS 9 will be recognized in the opening Balance Sheet. Desjardins Capital decided not to restate comparative periods upon adopting the provisions of IFRS 9. Consequently, the retrospective impact of applying IFRS 9 will be recognized in the Balance Sheet as at January 1, 2018, which is the effective date of the new standard on financial instruments.

Desjardins Capital believes that adopting IFRS 9 should not have a material impact on its opening balance sheet as at January 1, 2018.

Following is a summary of the new IFRS 9 concepts.

Classification and measurement

IFRS 9 sets out a new classification and measurement model for financial assets to determine whether a financial asset should 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 the business model under which the financial asset is held.

The classification of debt instruments giving rise to cash flows that are solely payments of principal and interest will be determined, at initial recognition, based on the business model for managing these financial assets:

- Financial assets held within a business model whose objective is to collect contractual cash flows will be classified as at amortized cost.
- Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets will be classified as at fair value through other comprehensive income.
- Financial assets managed either for trading purposes or on a fair value basis will be classified as at fair value through profit or loss.

In all cases, if a debt instrument does not meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest, the financial asset will be classified as at fair value through profit or loss.

Lastly, Desjardins Capital may make, at initial recognition, an irrevocable election to classify a debt instrument as measured at fair value through profit or loss if such designation eliminates or significantly reduces a measurement or recognition inconsistency for the financial asset and if regulatory requirements are met.

Equity instruments will be classified as at fair value through profit or loss unless, at initial recognition, an irrevocable election is made, on an instrument-by-instrument basis, to classify them as at fair value through other comprehensive income. If such election is made, gains and losses will be recognized in other comprehensive income with no subsequent reclassification to profit or loss. Derivative financial instruments will continue to be recognized at fair value through profit or loss.

For the classification and measurement of financial liabilities, the new standard essentially carries forward the current requirements of IAS 39, without any significant difference, except for financial liabilities designated as at fair value through profit or loss, for which the change in fair value related to a change in the issuing entity's own credit risk will have to be recognized in other comprehensive income. Since Desjardins Capital does not hold any financial liabilities designated as at fair value through profit or loss at the transition date, the new standard will have no impact on the classification and measurement of financial liabilities.

Impairment

IFRS 9 introduces a new single financial asset impairment model requiring the recognition of expected credit losses instead of incurred losses, as the current impairment model under IAS 39 requires. Under the current standard, loss allowances are recognized solely when there is objective evidence of impairment (identified on an individual or collective basis), which is when a loss event occurred after initial recognition, but before the reporting date, and this has an impact of the estimated cash flows from the financial asset. Under IFRS 9, credit losses will be recognized before a loss event occurs.

The impairment model under IFRS 9 is therefore more forward-looking in nature than the current impairment model under IAS 39. Under IFRS 9, assessing changes in credit risk since initial recognition and estimating expected credit losses must take into account the relevant information available at the reporting date, including information about past events and current conditions, as well as reasonable and supportable forward-looking information about economic conditions and future events. In addition, loss allowances for expected credit losses will reflect an unbiased amount, based on a probability-weighted present value of cash flow shortfalls.

The impairment model applies to all financial assets as well as loan commitments and financial guarantee contracts, except financial instruments measured or designated as at fair value through profit or loss and those designated as at fair value through other comprehensive income. The general expected credit loss impairment model comprises three different stages:

- Step 1: For financial instruments that have not had a significant increase in credit risk since initial recognition and are not considered as impaired financial assets, a loss allowance amounting to 12-month expected credit losses is recognized;
- Step 2: For financial instruments that have had a significant increase in credit risk since initial recognition but are not considered as impaired financial assets, a loss allowance amounting to the lifetime expected credit losses is recognized; and
- Step 3: For financial assets considered as impaired, a loss allowance amounting to the lifetime expected credit losses continues to be recognized.

Hedge accounting

IFRS 9 sets out a new hedge accounting model to align hedge accounting more closely with risk management activities. However, the standard permits the continued application of the hedge accounting requirements of IAS 39 instead of adopting the provisions of IFRS 9. Desjardins Capital does not apply hedge accounting.

6.0 Corporate governance disclosure and the audit committee

As a venture issuer that is not required to file an annual information form, Desjardins Capital must provide in its annual MD&A the information on governance required by *Regulation 58-101 respecting Disclosure of Corporate Governance Practices,* issued by the AMF, as well as the information on its audit committee required by *Regulation 52-110 respecting Audit Committees,* issued by the AMF.

6.1 Corporate governance disclosure

Desjardins Capital has a governance program that is harmonized with Desjardins Group's governance program. The information on governance appearing in Desjardins Group's Annual Report is incorporated by reference into this MD&A.

6.2 Audit committee disclosure

AUDIT COMMITTEE'S CHARTER

The rules of the audit committee are an integral part of the Audit Committee's Charter presented in section 7.0 of this MD&A.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are Louis Babineau, Stéphane Corbeil, Jean-François Laporte, Michel Tourangeau and Serge Tourangeau. Each member of the Audit Committee is independent and has the financial literacy required under *Regulation 52-110 respecting Audit Committees.* Neil Hawthorn, Michel Magnan and Robert St-Aubin sit on the Audit Committee as observers.

RELEVANT EDUCATION AND EXPERIENCE

The members of the Audit Committee have the education and experience required to assume their responsibilities in the Audit Committee. More specifically, their experience is as follows:

- **Louis Babineau**, **Chair of the Committee** has a PhD in Business Administration. He is a tenured professor at Université du Québec à Rimouski, Lévis campus. Louis Babineau is also Chair of the Board of Directors of the *Caisse Desjardins de Ste-Foy*. He serves on the Boards of Directors of the Federation, Desjardins Capital and Desjardins Trust Inc. and is Chair of the Audit and Inspection Commission and the audit committees of these entities. Louis Babineau also serves on the Board of Directors of the *Fonds de sécurité Desjardins*.

- **Jean-François Laporte** has a Master of Business Administration. He is Chair of the Board of Directors of the *Caisse populaire Desjardins de la Pommeraie*. He serves on the Boards of Directors of the Federation, Desjardins Capital and Desjardins Trust Inc. and is a member of the Audit and Inspection Commission and the audit committees of these entities. Jean-François Laporte also serves on the Board of Directors of the *Fonds de sécurité Desjardins.*

- **Stéphane Corbeil** has an MBA in portfolio management and treasury management and a BBA in financial analysis and accounting. He also hold the title of Chartered Financial Analyst. He chairs the Board of Directors of the *Caisse Desjardins du Nord de Laval*. Stéphane Corbeil serves on the Boards of Directors of the Federation, Desjardins Capital and Desjardins Trust Inc. and is a member of the Audit and Inspection Commission and the audit committees of these entities. He is also Chair of the Board of Directors of *Fonds de sécurité Desjardins* and a member of the Risk Management Commission of the Federation.

- **Michel Tourangeau** is a lawyer and a chartered administrator. He serves on the Board of Directors of the *Caisse Desjardins de centre-est de Montréal*. Michel Tourangeau serves on the Boards of Directors of the Federation, Desjardins Capital and Desjardins Trust Inc. and is a member of the Audit and Inspection Commission and the audit committees of these entities. He also serves on the Board of Directors of the *Fonds de sécurité Desjardins.*

- **Serge Tourangeau** earned a degree in finance and management and is retired from the senior civil service. He serves on the Board of Directors of the *Caisse Desjardins de l'Administration et des Services publics*. He also serves on the Boards of Directors of the Federation, Desjardins Capital and Desjardins Trust Inc. Serge Tourangeau is a member of the Audit and Inspection Commission and the audit committees of these entities. He serves on the Board of Directors of *Fonds de sécurité Desjardins*. Serge Tourangeau also chairs the Risk Management Commission of the Federation.

Members also have access to orientation and ongoing training processes.

PRE-APPROVAL POLICIES AND PROCEDURES

The Board of Directors of the Federation has adopted a policy on contracts awarded by Desjardins Group components, including Desjardins Capital, for non-audit services. Under this policy, the Federation's Audit and Inspection Commission has a legal responsibility for pre-approving non-audit services provided by Desjardins Group's external auditors, whether they are provided to it as a whole or to one of its components. The objective is to eliminate threats to the external auditor's independence or bring them to an acceptable level, thereby avoiding situations that could impair or be perceived to impair the external auditor's judgment and objectivity.

External auditor service fees (by category)

AUDIT FEES

2017	$15,000
2016	$15,000

These fees include annual audit and quarterly review engagement services.

AUDIT-RELATED FEES

2017	$20,300
2016	$20,300

These fees are for work performed in the translation of financial reports.

TAX FEES

No fees were invoiced in this category in 2017 and 2016.

ALL OTHER FEES

No fees were invoiced in this category in 2017 and 2016.

7.0 Audit committee charter

7.1 The mandate

The Board of Directors (the "Board"), within the scope of its monitoring, control and reporting responsibilities, delegates responsibility for monitoring the financial reporting process to the Audit Committee (the "Committee").

To this end, the Committee:

- Reviews the interim and annual financial statements and the management discussion and analysis reports
- Reviews press releases, as applicable, and the statement of executive compensation
- Reviews financial reporting, in particular the external auditor's report
- Oversees the internal control system
- Oversees the management of risks related to the financial reporting process
- Oversees the monitoring and external audit processes
- Oversees compliance management
- Reviews any other element entrusted to it by the Board
- Comments on the mandate of the finance team, within the scope of the Committee's responsibilities

The Committee also ensures the independence and objectivity of the independent auditor, the Chief Monitoring Officer of Desjardins Group, and the Company's Chief Compliance Officer.

Furthermore, the Committee encourages an environment conducive to transparent discussions between senior management, the independent auditor and the Chief Monitoring Officer of Desjardins Group. The Committee ensures that it understands the external audit strategies and the monitoring activities of the Desjardins Group Monitoring Office, and it takes into consideration the main audit and monitoring risks. The Committee monitors the work of the independent auditor and the Chief Monitoring Officer and evaluates their effectiveness.

This Charter details how the Committee operates to fulfill the mandate entrusted to it by the Board. It complies with the regulatory requirements of *Regulation 52-110* for a reporting issuer. *Desjardins Capital Inc.,* which is a venture reporting issuer, elected not to use the exemption for venture issuers. Where *Regulation 52-110* provides no guidance, the rules pursuant to the *Business Corporations Act* (Quebec), or the Group's *Policy on the Composition of Commissions and Committees* have been cited.

7.2 Operating principles

The Committee assumes its responsibilities guided by the following principles:

7.2.1 Rigour and compliance with controls

The Committee expects management to act in accordance with the Desjardins Group Code of Ethics and Professional Conduct, the legislation and regulations that apply to *Desjardins Capital Inc.*, and the principles of sound governance, and adopt a rigorous approach to compliance, financial disclosure and oversight.

7.2.2 Communications

Through the Committee's Chair, members expect to have direct access with management, employees of the Federation assigned to the activities of *Desjardins Capital Inc.*, the independent auditor, the Vice-President and Chief Financial Officer of *Desjardins Capital Inc.*, the Chief Monitoring Officer of Desjardins Group, and the Company's Chief Compliance Officer. Committee members also encourage an environment conducive to frank, transparent and effective communication with these groups.

7.2.3 Financial literacy

Committee members are financially literate within the meaning of *Regulation 52-110 respecting Audit Committees,* and in particular, they are able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by reading the financial statements of *Desjardins Capital Inc*.

7.2.4 Findings and information needs

The Committee communicates its concerns to senior management, the independent auditor, and the Chief Monitoring Officer of Desjardins Group, according to the responsibilities of each.

7.2.5 External resources

In addition to any assistance it may receive from the independent auditor and the Desjardins Group Monitoring Office in performing its duties, the Committee may engage external resources with specialized expertise at the expense of *Desjardins Capital Inc*.

7.2.6 Reports to the board

After each meeting, the Chair of the Committee submits a written report at the next Board meeting.

7.2.7 Committee self-assessment

Every two years, the Committee reviews and discusses its performance, and reviews its role, responsibilities, and the performance of its members through self-assessments performed by the members.

7.2.8 Independent auditor

The independent auditor is accountable to the Board through the Committee, and reports any significant or potentially significant event to the Committee. He can convene a Committee meeting and must be advised of all Committee meetings.

7.2.9 Monitoring office of the Desjardins Group Monitoring Office (DGMO)

The Committee expects the DGMO to provide independent and objective assurance of the design and effectiveness of governance and risk management processes and internal controls as well as their appropriateness to the activities of Desjardins Group.

7.2.10 Risk management

Under its financial reporting oversight responsibilities, the Committee monitors financial risks and the related internal controls, consistently with the work of the Federation's Risk Management Commission.

7.2.11 Compliance

The Committee expects the Company's Chief Compliance Officer to provide assurance as to the degree of control over regulatory compliance and to express an opinion on the application and adequacy of compliance management mechanisms.

7.2.12 Regulators

The Committee meets whenever necessary and reports on its activities to regulators, including the *Autorité des marchés financiers* (AMF).

7.3 Operations

The Committee operates as follows:

7.3.1 Composition

- The Committee is composed of five members appointed by the Board, including the Chair. All Committee members must be independent, in accordance with Regulation 52-110. They must be free from any relationship or interest that might interfere with the exercise of their independent judgment.
- The Chair of the Committee is designated in accordance with Desjardins Group's Policy on the Composition of Commissions and Committees. The Chair of the Committee does not serve as chair of the Board or of any other committee reporting to the Board.
- The term of a member's mandate ranges from one to six years, and may be extended by one or two years in certain exceptional circumstances. However, to ensure continuity, it is preferable that all members not be replaced in the same year.
- The Committee's secretary is a person who is appointed by the Committee but is not a member of the Committee.
- The head of oversight at Desjardins Group and the Vice-President and Chief Financial Officer of *Desjardins Capital Inc.* jointly assume the role of functional leadership of the Committee.

7.3.2 Core member qualifications

These mainly include:

- Financial literacy, which can be acquired within a reasonable timeframe following the member's appointment
- Business experience, relevant specialized qualifications, sound judgment and pragmatism
- Objectivity, integrity and independent thought
- Capacity for diligence
- Familiarity with the activities of *Desjardins Capital Inc.* and the industry

When selecting members of the Committee, the Board prefers individuals with experience in audit, financial reporting, accounting and risk management practices.

7.3.3 Training and development

7.3.3.1 The Committee must offer new members an information or orientation session explaining, among other things, the mandate of the Committee, the role and responsibilities of its members, the activities of *Desjardins Capital Inc.*, its financial statements, accounting practices and standards, financial policies, internal control requirements, financial ratios, risks, and requirements of regulators and compliance policies.

7.3.3.2 Members are responsible for enquiring about new practices that are likely to influence the Committee's role and responsibilities in order to propose that the Board make any necessary changes to redefine its mandate.

7.3.3.3 Members are to receive information periodically on new accounting standards and recommendations issued by the Accounting Standards Board and regulators and on international practices, and their repercussions on the entity if the impact is material. They are to receive information periodically, where available, on sound practices regarding compliance policies and the internal control environment.

7.3.4 Meetings: frequency, participation and compensation

7.3.4.1 Statutory meetings are to be determined at the beginning of the year, in accordance with a schedule approved by the Board, and must be held at least once every quarter. When necessary, other meetings may be added in the course of the year. For their services, Committee members receive compensation that is set according to policy in effect for the entity.

7.3.4.2 Meeting participation

Regular attendees:

- Committee members
- The General Manager, *Desjardins Capital Inc.*
- The Vice-President and Chief Financial Officer, *Desjardins Capital Inc.*
- The Chief Monitoring Officer, Desjardins Group
- The independent auditor
- The person acting as secretary of the Committee

Other attendees:

- The Committee may invite any individual from Desjardins Group to attend all or part of Committee meetings, as it deems necessary or desirable

Quorum for any meeting is a majority of members. However, if a quorum is no longer present due to a requirement for one or several members to leave the meeting, quorum is reduced to the number of voting members present for the duration of deliberations on that issue.

The Committee includes, on the agenda for each meeting or on an ad hoc basis, a private discussion period with or without managers or observers present.

7.3.4.3 The Committee carries out annual planning of its activities, including:

- Annual activity plan of the Committee
- Update of the Committee's charter
- Review of the organization chart of *Desjardins Capital Inc.* to assess whether any changes to the Committee's activities are necessary
- Confirmation of Committee members' independence
- Assessment of Committee members' financial literacy
- Planning for member training on accounting/regulatory developments and other relevant subjects
- Setting of the annual Committee meeting schedule
- A performance evaluation is also carried out, every two years, of the Committee and each of its members.

7.3.4.4 The Committee records the content of each of its meetings in minutes.

7.4 Duties and responsibilities

The Committee has the following duties and responsibilities:

7.4.1 Financial information

The Committee reviews, and recommends that the Board approves, the interim and annual financial statements, management's discussion and analysis and ancillary documents. The Committee ensures the quality and integrity of the presentation and reporting of financial information in accordance with IFRS, and the use of adequate accounting practices.

7.4.1.1 Quarterly and annually:

- Determine whether the financial statements and management's discussion and analysis present fairly the Company's financial position and its results and activities for the period
- Assess the financial statements' quality and compliance with IFRS
- Assess whether management uses the appropriate accounting practices, applied consistently, and obtain the opinion of the independent auditor thereon
- Verify whether accounting practices are comparable to those used in the industry or other Desjardins Group entities
- Review, with management and the independent auditor, the effects of adopting new accounting policies
- Review with management the significant decisions made in preparing the financial statements and management's discussion and analysis.
- Obtain a letter from management certifying the reliability of the results and use of appropriate accounting practices (management representation letter)
- Review and revise the processes regarding financial certification, the information disclosed in the management's discussion and analysis, and the certificate signed by the Chair of the Board of Directors and CEO, *Desjardins Capital Inc.,* and by the Vice-President and Chief Financial Officer, *Desjardins Capital Inc.*, that are to be included in the annual and interim public filings of Desjardins Capital in compliance with Regulation 52-109
- Pay close attention to complex or unusual transactions, particularly acquisitions, discontinued operations and related party transactions
- Review, specifically, issues requiring subjectivity, such as the assessment of assets and liabilities, provisions/reserves (including tax provisions) or other commitments
- Review litigations and determine whether they are sufficiently provisioned
- Ensure that materiality is adhered to
- Ensure that the regulatory ratios are met and that the statement of financial position is balanced, as well as the Company's liquidity and funding capacity indicators
- Review the press releases of significant financial information as well as any other significant financial communications
- Review the impact on the financial statements of new regulatory or accounting measures as well as off-balance sheet structures
- Review the independent auditor's report accompanying the annual and interim financial statements
- Meet privately on a quarterly basis with the Vice-President and Chief Financial Officer of *Desjardins Capital Inc.*
- Recommend that the Board approve the financial statements and the MD&As

7.4.1.2 Annually, the Committee is required to:

- Review the Statement of Executive Compensation and recommend its approval to the Board
- Oversee the application and updating, as needed, of Desjardins Group's Material Financial Disclosure Policy and recommend its approval to the Board
- Ensure that appropriate procedures are in place for reviewing public disclosures, financial information extracted or derived from the financial statements other than information provided for in the documents stipulated in section 7.4.1 and for periodically reviewing the suitability of these procedures
- Review tax and tax planning issues that are important for financial statements
- Ensure that all taxes, income taxes and payroll deductions have been paid for *Desjardins Capital Inc.*

7.4.1.3 Review prospectuses before their publication on issuance of securities and program renewals.

7.4.2 Internal controls

The Committee ensures that management has designed and implemented an effective internal control system with regard to financial reporting, safekeeping of assets, detection of fraud and compliance.

7.4.2.1 Require that management design, implement and maintain internal control procedures, including controls for preventing, identifying and detecting fraud and evaluating their efficiency.

7.4.2.2 Review the actions of management following recommendations made by the independent auditor and the Chief Monitoring Officer of Desjardins Group regarding internal controls.

7.4.2.3 Receive from management, the independent auditor, the Chief Monitoring Officer of Desjardins Group, the Vice-President and CFO of *Desjardins Capital Inc.*, as well as from other units, regular reports on major control deviations or the detection of fraud, including those involving management, and how such shortcomings have been corrected.

7.4.2.4 Obtain from management an annual evaluation of the effectiveness of its internal control system and mechanisms including the audit strategy for outsourced services, as well as the audit results.

7.4.2.5 Review fraud detection and prevention programs and policies.

7.4.2.6 Ensure procedures are in place for the receipt, retention and handling of complaints received regarding accounting, internal accounting controls or audit matters and that reporting is received thereon.

7.4.2.7 Ensure that procedures are in place so that employees of the Federation appointed to the activities of *Desjardins Capital Inc.* can confidentially and anonymously submit their concerns regarding questionable accounting or audit matters, and that reporting is received thereon.

7.4.3 Risk management

7.4.3.1 Work closely with the Federation's Risk Management Commission to ensure that the material financial risks are adequately managed and controlled. Discuss the measures taken to manage and present the related information.

7.4.3.2 Obtain an opinion from the independent auditor and the Chief Monitoring Officer of Desjardins Group regarding financial reporting risks.

7.4.3.3 Meet annually and as required, in the performance of the Committee's responsibilities, with the General Counsel, the Senior Vice-President, Information Technologies and other Desjardins Group units, as required.

7.4.3.4 Meet privately on an annual and ad hoc basis, with the General Manager of *Desjardins Capital Inc*.

7.4.4 Compliance

Ensure that *Desjardins Capital Inc.* has and applies a compliance management framework that provides its Chief Compliance Officer with reasonable assurance that regulations are adhered to and regulatory risks are effectively managed.

7.4.4.1 Ensure and maintain the independence of the Company's Chief Compliance Officer.

7.4.4.2 Examine his/her reports in connection with compliance management, anti-money laundering and anti-terrorist financing, and the effectiveness and adequacy of the compliance framework for *Desjardins Capital Inc*.

7.4.4.3 Ensure that he/she has sufficient resources to appropriately discharge his/her responsibilities in respect of *Desjardins Capital Inc*.

7.4.4.4 Examine the reports of the DGMO on compliance management and on the application and effectiveness of compliance management mechanisms. Ensure that appropriate follow-up is carried out.

7.4.4.5 Receive the annual report of the Company's Chief Compliance Officer.

7.4.4.6 Meet privately, on an annual or ad hoc basis, with the Company's Chief Compliance Officer.

7.4.5 Regulators

7.4.5.1 Examine the relevant correspondence on requests or investigations concerning internal controls and all other relevant reports from the supervisory agencies regarding *Desjardins Capital Inc.* and falling under the Committee's purview and ensure follow-up.

7.4.5.2 Examine reports for submission to the regulators that are considered relevant and that fall under the Committee's purview and ensure that their requirements are met.

7.4.6 External audit

The independent auditor is directly accountable to the Committee. The Committee is directly responsible for monitoring the work of the independent auditor engaged to prepare or deliver the annual audit and interim review reports and provide other audit, review and certification services. The Committee must evaluate and oversee the independence, objectivity and effectiveness of the independent auditor.

In order to meet its responsibilities in this respect, the Committee must:

7.4.6.1 Ensure and maintain the independence and objectivity of the independent auditor by:

- 7.4.6.1.1 Recommending, to the Board, his/her appointment and reappointment under Desjardins Group's institutional policy regarding the independent auditors.
- 7.4.6.1.2 Establishing and recommending to the Board his/her compensation.
- 7.4.6.1.3 Giving pre-approvals for all non-audit services provided to *Desjardins Capital Inc.* in accordance with Desjardins Group's institutional policy regarding the independent auditors.
- 7.4.6.1.4 Recommending policies to the Board and adopting specific procedures for retaining services unrelated to audits.
- 7.4.6.1.5 Ensuring that management complies with the current procurement policy or rules for granting service contracts to the independent auditor.
- 7.4.6.1.6 Receiving, each quarter, a detailed list of new mandates granted by the entity.
- 7.4.6.1.7 Having direct communication access.
- 7.4.6.1.8 Reviewing the hiring policies in connection with the independent auditor's former or current partners and employees, whether this is the former or current auditor, as described in Desjardins Group's institutional policy regarding the independent auditors, and recommending their approval to the Board.
- 7.4.6.1.9 Overseeing the rotation of the engagement, concurring and other audit partners.
- 7.4.6.1.10 Reviewing the internal policies and procedures followed by the auditor to maintain his/her independence and by engaging him/her in discussions of such policies and procedures.
- 7.4.6.1.11 Obtaining confirmation of the auditor's independence on an annual basis along with indications of all the connections that the independent auditor and his/her firm have, in carrying out related activities, with *Desjardins Capital Inc.* and its related parties and that, based on his/her professional judgment, may reasonably be expected to influence his/her independence.

7.4.6.2 Approve the scope of the annual audit plan and proposed approach.

7.4.6.3 Review materiality annually based on audit risks.

7.4.6.4 Examine the auditor's post-audit report and comment on such items as audit highlights, summary of audit differences (corrected or not), quality of the accounting principles applied and work on fraud.

7.4.6.5 Ensure compliance with accounting practices and that such practices are conservative and appropriate.

7.4.6.6 Examine and ensure follow-up on the recommendation letter or any other report addressed to management.

7.4.6.7 Question the coordination and use of its work with that carried out by the Chief Monitoring Officer of Desjardins Group.

7.4.6.8 Once each year, discuss with the independent auditor their internal quality control procedures and the summary of their Canadian Public Accountability Board (CPAB) inspection results.

7.4.6.9 Discuss the recognition and presentation of certain transactions, estimates, decisions and assumptions made by management.

7.4.6.10 Resolve disputes between management and the independent auditor in connection with financial reporting, as applicable.

7.4.6.11 Meet privately with the independent auditor on a quarterly basis.

7.4.7 Monitoring by the DGMO

The Chief Monitoring Officer of Desjardins Group receives his or her mandate from the Act[1] for monitoring the caisse network, Desjardins Group's Audit and Inspection Commission (AIC) and the audit committees/commissions for monitoring the subsidiaries. The Monitoring function's responsibilities are defined by the AIC and the subsidiaries' audit committees/commissions in connection with their respective oversight roles.

The AIC and the subsidiaries' audit committees/commissions contribute to the performance assessment and effectiveness of the Monitoring function.

The AIC approves the appointment, reappointment and removal decisions of the Chief Monitoring Officer of Desjardins Group. The chairs of the subsidiaries' audit committees/commissions are stakeholders in these decisions.

To this end, the Committee is required to:

7.4.7.1 Ensure that the Chief Monitoring Officer of Desjardins Group is independent and objective and that this independence is maintained.

7.4.7.2 Understand the strategies used to develop the DGMO's annual monitoring plan.

7.4.7.3 Ensure that the DGMO's annual monitoring plan focuses on the main risks of the organization.

7.4.7.4 Approve the DGMO's annual monitoring plan and any subsequent amendments made thereto.

7.4.7.5 Ensure that the annual internal audit plan is executed and receive, on a quarterly basis, an adequate account of the audit work performed.

7.4.7.6 Follow up on previous recommendations, findings and measures taken by management.

7.4.7.7 Ensure that the Chief Monitoring Officer of Desjardins Group:

- Discloses to it any significant outsourcing arrangements with external providers subject to the requirements of Desjardins Group's policy on operational risk management and the related oversight.
- Certifies that it has ensured that agreements entered into by the DGMO with external providers comply with the following controls:
  - Desjardins Group's directive on the management of risks related to outsourcing;
  - Oversight processes for contracts with the DGMO's external providers.

7.4.7.8 Coordinate its work with the independent auditor.

7.4.7.9 Resolve any disputes between management and the Chief Monitoring Officer of Desjardins Group and review any difficulties identified during its work, while ensuring that it has the resources required and sufficient access to information to properly discharge its responsibilities.

7.4.7.10 Meet privately with the Chief Monitoring Officer of Desjardins Group on a quarterly basis.

7.4.8 Finance team

To this end, the Committee may:

7.4.8.1 Where deemed necessary, address commentaries to the General Manager of *Desjardins Capital Inc.* concerning execution of the mandate of the Vice-President and Chief Financial Officer of *Desjardins Capital Inc.* within the scope of the Committee's responsibilities.

[1] *An Act respecting financial services cooperatives* (R.S.Q., chapter C-67.3)