# Desjardins Capital Inc.
# Financial Report
### Second quarter of 2018

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) dated August 13, 2018 presents the analysis of the results of and main changes in the balance sheet of Desjardins Capital Inc. (Desjardins Capital) for the period ended June 30, 2018, in comparison to previous periods. 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 unaudited Condensed Interim Financial Statements (the Interim Financial Statements), including the notes thereto, as at June 30, 2018 and the 2017 Desjardins Capital Annual Report (the 2017 Annual Report), which contains the MD&A and the audited Annual Financial Statements (the Annual Financial Statements).

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

## 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, among others, those appearing in the "Economic environment and outlook", "Review of financial results", "Balance sheet review" and "Additional information" sections 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, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made are mistaken, or that 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 targets, expectations, estimates or intents in the forward-looking statements, either explicitly or implicitly.

A number of factors, many of which are beyond Desjardins Capital's control and the effects of which can be difficult to predict, could influence the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in section 4.0, "Risk management", of the 2017 Annual MD&A, such as credit, market, liquidity and operational risk. Additional factors include regulatory and legal 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 in this MD&A also include factors related to 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 the 2017 Annual 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.

The significant economic assumptions underlying the forward-looking statements in this document are described in the "Economic outlook for 2018" section of the 2017 Annual MD&A. These assumptions may also be updated in the quarterly MD&As under "Economic environment and outlook." Any forward-looking statements contained in this MD&A represent the views of management only as at the date hereof, and are presented for the purpose of assisting readers in understanding and interpreting Desjardins Capital's balance sheet 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 oral or written 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.

## DESJARDINS CAPITAL IN BRIEF

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 (the caisses of Quebec).

## BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual and Interim 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. These Interim Financial Statements were prepared in accordance with International Accounting Standard (IAS) 34, "Interim financial reporting". All the accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Financial Statements, except for the amendments described in Note 2, "Basis of presentation and significant accounting policies" to the Interim Financial Statements as a result of the adoption of IFRS 9, "Financial instruments", on January 1, 2018. The adoption of IFRS 9 had no impact on the balance sheet of Desjardins Capital as at January 1, 2018 nor on the results for the six-month period ended June 30, 2018. For more information about the accounting policies applied, see the Annual and Interim 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 Annual and Interim Financial Statements.

## CHANGES IN THE REGULATORY ENVIRONMENT

This section presents the changes in the regulatory environment applicable to Desjardins Group as a whole, including Desjardins Capital.

Desjardins Group, including Desjardins Capital, closely monitors changes in regulation as they relate 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. Additional information can be found in the "Regulatory environment" section of the 2017 Annual MD&A.

### The *Act mainly to improve the regulation of the financial sector, the protection of deposits of money and the operation of financial institutions*

On June 13, 2018, the Quebec National Assembly passed 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 Act), which applies to all institutions and intermediaries operating in Quebec's financial sector. The main goal of the Act is 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 Act affects a series of laws, such as 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* has been amended to, among other things, prescribe the rules for organizing a network of financial services cooperatives and a financial group, and the rules for issuing capital shares and investment shares.

The Act also adds a chapter concerning the *Groupe coopératif Desjardins* (the cooperative group), which comprises the Desjardins caisses in Quebec, the Federation and the *Fonds de sécurité Desjardins*, aimed at strengthening financial solidarity mechanisms within Desjardins, among other things. In this way, the Act affirms 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* have therefore been given additional special powers of supervision and intervention regarding the protection of creditors, including depositors, and the public interest. As well, the Federation may, in accordance with its mission and when it considers that the financial situation of the cooperative group warrants it, give written instructions to any caisse or order it to adopt and apply a recovery plan. For its part, the *Fonds de sécurité Desjardins* is required to ensure the distribution of capital and other assets between components of the cooperative group so that each one can fully, properly and without delay perform its obligations to depositors and other creditors. It is required to act with a component of the cooperative group whenever its intervention seems necessary in order to protect the component's creditors. The *Fonds de sécurité Desjardins* may, in such circumstances, order the sale of any part of the business of a caisse, order the amalgamation or dissolution of caisses or constitute a legal entity to facilitate the liquidation of a caisse's bad assets. Furthermore, the *Fonds de sécurité Desjardins* mutualizes the cost of its interventions among the components belonging to the cooperative group. In addition, if it considers that its financial resources are insufficient to carry out its mission, it may fix a special assessment and require any component of the cooperative group to pay it. The revised Act also provides that all the caisses, the Federation and the *Fonds de sécurité Desjardins* may be amalgamated into a single legal entity to be liquidated, as these entities cannot be liquidated otherwise.

The amendments to the *Deposit Insurance Act* (now known as the *Deposit Institutions and Deposit Protection Act*) provide for new rules for the supervision and control of deposit-taking activities and the activities of authorized deposit-taking institutions, as well as recovery and resolution mechanisms in the event of failure of deposit-taking institutions. Furthermore, the Act introduces a new *Insurers Act* that provides for revised supervision for Quebec insurers. This new law includes, as a major change, the possibility of selling insurance over the Internet. Some changes aimed at modernizing the *Act respecting the distribution of financial products and services* were also introduced, such as rules concerning products offered by insurance brokers and new rules applicable to the distribution of products without representatives. Concerning damage insurance, the Act also makes the insurance of co-ownerships mandatory for owners of divided co-ownerships.

Generally speaking, the provisions of the Act applicable to financial services cooperatives came into force on July 13, 2018, one month after assent, but there are several exceptions. Among these, the chapter concerning the cooperative group is scheduled to come into force within six months after the Act has received assent, when the first internal by-law of the cooperative group is adopted. The new provisions of the *Insurers Act*, as well as a significant portion of the amendments to the *Act respecting the distribution of financial products and services,* will come into force on July 13, 2019 or later, as applicable.

### 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 come into force on November 1, 2018. 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 came into force on May 25, 2018, provides for new obligations that will apply internationally to entities that control or process the personal data of citizens in the territory of the European Union. Several of these obligations, if applicable, could require changes to the processes used by Desjardins Group. In Quebec, consultations took place 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.

## ECONOMIC ENVIRONMENT AND OUTLOOK

### Global economy

The global economy has continued to post strong gains, but growth rates appear to have stabilized somewhat over the last few months. Global trade has even slowed over recent months, perhaps as a result of protectionist measures taken by the U.S. government. In the eurozone, real GDP is expected to grow 2.3% in 2018 following a 2.5% increase in 2017. This is due to slower growth in the first quarter in many of the zone's member countries. Since the Brexit referendum, the United Kingdom has gone against trend, unable to profit from the improved global economic conditions as much as the other industrialized economies. The political uncertainties surrounding Brexit have not been quelled, and we still have no indication of what type of agreement will govern relations between the United Kingdom and the European Union after the separation. China's real GDP grew from 6.7% in 2016 to 6.9% in 2017, representing the first improvement since 2010. As in 2017, the Chinese government will target 6.5% growth for 2018. It is less likely, however, that actual results surpass this figure, as the government does not seem as keen to stimulate the economy. In addition, the escalating series of trade restriction measures being taken by the U.S. and China is becoming a source of concern. Real global GDP is expected to increase from 3.7% in 2017 to 3.9% in 2018 and 2019. However, the protectionist threat in the U.S. weighs on these prognoses.

Investors paid considerable attention to international issues in the second quarter of 2018. The decision by the U.S. to impose new sanctions on Iran and Venezuela helped drive up oil prices to levels not seen in years, which amplified the upward pressure on inflation. A political crisis in Italy has brought new financial tensions to Europe, and the U.S. dollar's new strength has placed emerging countries at a significant disadvantage. Fears of a trade war also resurfaced following the U.S. administration's decision to impose tariffs on steel and aluminum from the European Union, Canada and Mexico. The trade tensions between China and the U.S. also continue to give cause for concern. This has placed overseas stock markets at a disadvantage, but North American markets have performed well nonetheless, favoured by encouraging economic data and strong growth in corporate profits. Following a negative first quarter, the S&P 500 and the S&P/TSX also rose slightly above their levels at the start of the year.

A favourable economic outlook and rising inflation suggest that the normalization of monetary policy will continue, despite the many uncertainties. The U.S. Federal Reserve (the Fed) announced more monetary tightening on June 13, 2018, and its leaders are signalling that the Fed will continue to raise rates by 0.25% per quarter in the second half of 2018. After having raised its key interest rates in January, the Canadian monetary authorities left rates unchanged at their three subsequent meetings. However, the tone of the press releases issued by the Bank of Canada (BoC) has improved. After clearly signaling an intent to raise its key interest rates soon, the Bank did as much at its July 11, 2018 meeting, with a 0.25% hike. Uncertainties nevertheless continue to plague the real estate sector and international trade, and this may convince the BoC to stay the course with very gradual increases to key interest rates over the next few quarters. This slower tightening of Canadian monetary policy should maintain a significant spread between Canadian and U.S. bond rates and keep the Canadian dollar under US$0.80. The many international uncertainties limited increases in long-term bond rates in the second quarter, but a clear increase can be expected in the second half of the year.

### United States

Real GDP in the U.S. grew 2.2% in 2017, a substantial improvement from the relatively low 1.6% increase recorded for 2016. Growth of only 2.2% was registered for the first quarter of 2018, which is disappointing given that there could have already been evidence of the stimulation provided by tax cuts. However, annualized growth of 4.1% was recorded for the second quarter of 2018. In addition to the potential impacts of tax reform, the economy has been stimulated by a sharp rise in federal government spending, posting 2.1% growth. However, it remains to be seen how the U.S. economy will respond to the Trump administration's protectionist measures. For now, real GDP is expected to grow 2.8% in the current year and another 2.5% in 2019. The labour market should continue to improve, with inflation rising at a slower pace.

### Canada

In Canada, real GDP grew only 1.3% (annualized rate) in the first quarter of 2018, falling short of expectations. Domestic demand grew at the slowest rate since the end of 2016, up only 2.1%, in particular due to slightly slower growth in consumer spending in early 2018. On the other hand, residential investment declined 7.2% due to the negative impacts of lower existing home sales in the wake of new restrictive measures on mortgage credit. However, non-residential investment continued to climb, stimulated by the disappearance of excess production capacity. The Canadian economy is nevertheless expected to have rallied in the second quarter and then grow by close to 2% in the second half of the year. Furthermore, consumer spending should pick up. Conditions in the labour market are good, and wages continue to gather momentum, with labour shortages now reported in certain sectors and regions. The disappearance of excess capacity should continue to encourage growth in non-residential investment over the next few quarters. However, the increases in business spending in non-residential construction as well as machinery and equipment could slow somewhat in future quarters. The uncertainties surrounding the renegotiation of the North American Free Trade Agreement (NAFTA) have increased noticeably, and this may throw cold water on the development projects of many businesses. For now, it is assumed that the free-trade agreement between Canada, the U.S. and Mexico will eventually be renewed. The protectionist measures implemented so far are sure to have negative impacts on certain sectors and regions, but, overall, the consequences for the Canadian economy in general should, ultimately, be limited.

**Quebec**

The pace of growth in the Quebec economy has continued to slow since the beginning of the year. Real GDP grew at an annualized rate of 1.8% in the first quarter of 2018, compared to 2.2% in the previous quarter. Spending by consumers and in the housing sector has slowed somewhat after a strong period. Even if new construction maintained a brisk pace, a slowdown in existing home sales since the introduction of new federal rules on mortgage loans (introduced in January 2018) has put a damper on the housing market. The high level of confidence among SMEs finally appears to be leading to investment, in particular as part of the digital shift begun in Quebec. Hopefully the uncertainties surrounding trade relations with the U.S. will not keep businesses from maintaining their momentum. Foreign trade will nevertheless need to adjust to new tariffs affecting certain industries on both sides of the Canada-U.S. border, and this may affect production, employment and the investments of certain businesses. For now the economic environment is favourable, but significant risks cloud the outlook. Real GDP is expected to grow by 2.2% in 2018, slower than the 3.0% recorded for 2017.

# REVIEW OF FINANCIAL RESULTS

**Financial results**

| (in thousands of dollars) | For the three-month periods ended | | | For the six-month periods ended | |
|---|---|---|---|---|---|
| | **June 30, 2018** | March 31, 2018 | June 30, 2017 | **June 30, 2018** | June 30, 2017 |
| **Interest income** | | | | | |
| Subordinated notes issued by Desjardins caisses of Quebec | **$ 18,563** | $ 18,564 | $ 18,563 | **$ 37,127** | $ 37,127 |
| Cash | **61** | 54 | 25 | **115** | 50 |
| | **18,624** | 18,618 | 18,588 | **37,242** | 37,177 |
| **Interest expense** | | | | | |
| Senior notes | **18,065** | 18,061 | 18,054 | **36,126** | 36,106 |
| | **18,065** | 18,061 | 18,054 | **36,126** | 36,106 |
| **Net interest income** | **559** | 557 | 534 | **1,116** | 1,071 |
| **Non-interest expense** | | | | | |
| Professional fees | **264** | 221 | 216 | **485** | 429 |
| **Income before income taxes** | **295** | 336 | 318 | **631** | 642 |
| Income tax expense | **79** | 89 | 86 | **168** | 163 |
| **Net income for the period** | **$ 216** | $ 247 | $ 232 | **$ 463** | $ 479 |

## ANALYSIS OF RESULTS

### COMPARISON OF THE SECOND QUARTERS OF 2018 AND 2017

For the second quarter ended June 30, 2018, Desjardins Capital recorded $216,000 in net income, down $16,000 from the same period of 2017. Net interest income was $559,000, up $25,000 from the net interest income reported for the same period of 2017. This was offset by a $48,000 increase in professional fees included in non-interest expense. 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 THE FIRST SIX MONTHS OF 2018 AND 2017

For the first six months ended June 30, 2018, Desjardins Capital recorded $463,000 in net income, compared to $479,000 for the same period of 2017. Net interest income was $1,116,000, up $45,000 from the net interest income reported for the same period of 2017. This was offset by a $56,000 increase in non-interest expense.

## SUMMARY OF INTERIM RESULTS

The table below summarizes Desjardins Capital's results for the most recent eight quarters.

**Results for the previous eight quarters**

| (in thousands of dollars) | 2018 | | 2017 | | | | 2016 | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Interest income | **$ 18,624** | $ 18,618 | $ 18,613 | $ 18,599 | $ 18,588 | $ 18,589 | $ 18,589 | $ 18,588 |
| Interest expense | **18,065** | 18,061 | 18,060 | 18,056 | 18,054 | 18,052 | 18,050 | 18,047 |
| **Net interest income** | **559** | 557 | 553 | 543 | 534 | 537 | 539 | 541 |
| Non-interest expense | **264** | 221 | 208 | 206 | 216 | 213 | 219 | 117 |
| **Income before income taxes** | **295** | 336 | 345 | 337 | 318 | 324 | 320 | 424 |
| Income tax expense | **79** | 89 | 93 | 91 | 86 | 77 | 87 | 115 |
| **Net income** | **$ 216** | $ 247 | $ 252 | $ 246 | $ 232 | $ 247 | $ 233 | $ 309 |

# BALANCE SHEET REVIEW

## TOTAL ASSETS

As at June 30, 2018, Desjardins Capital had total assets of $1.4 billion, unchanged from December 31, 2017. These assets consisted primarily of subordinated notes issued by the caisses of Quebec.

As at June 30, 2018, 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%<br>May 5, 2010 to May 4, 2020 | 5.154%<br>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%<br>December 15, 2021 to December 14, 2026 |
| **Variable interest payments** | N/A | Quarterly<br>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<br>On or after December 15, 2021, early redemption subject to prior approval from the AMF |
| **Interest receivable** | $7.5 million | $1.2 million |

### TOTAL LIABILITIES

As at June 30, 2018, Desjardins Capital's total liabilities stood at $1.4 billion, unchanged from December 31, 2017. These liabilities consisted mainly of senior notes.

As at June 30, 2018, 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%<br>May 5, 2010 to May 4, 2020 | 4.954%<br>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%<br>December 15, 2021 to December 14, 2026 |
| **Variable interest payments** | N/A | Quarterly<br>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<br>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.

## RISK MANAGEMENT

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 a link between external investors and the caisses of Quebec in order to provide easier access to institutional capital.

Desjardins Capital's Board of Directors is responsible for guiding, planning, coordinating and monitoring all of its operations. The Board of Directors 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 risks 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 such obligations appear on the Balance Sheets.*

Desjardins Capital is exposed to credit risk primarily through the subordinated notes issued to it by the caisses of Quebec.

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, including the *Fonds de sécurité Desjardins*, has implemented certain intervention mechanisms designed to help caisses of Quebec in financial difficulty. Moreover, the *Act respecting financial services cooperatives* grants the Federation powers to intervene with the caisses in keeping with its mission of ensuring the financial health of the *Groupe coopératif Desjardins* and its long-term success. Additional information on the Act can be found in the "Changes in the regulatory environment" section.

## 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 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 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.

### Sources of financing

Desjardins Capital's borrowing programs, 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 to such funding.

Rating agencies assign credit ratings and related ratings 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 issuer, are backed by Desjardins Group's financial strength. It should be noted that the Federation is also assigned credit ratings by rating agencies.

During the first six months of 2018, the credit ratings and related outlooks assigned to the securities issued by Desjardins Capital were unchanged and were confirmed by the ratings agencies Moody's and Standard and Poor's (S&P).

After the publication on April 18, 2018, of the Department of Finance Canada's final version of regulations to implement the main features of the Bank Capitalization (Bail-In) Regime and of the OSFI's final version of its guideline on Total Loss Absorbing Capacity (TLAC), DBRS and Moody's issued press releases with a number of credit rating decisions. In April 2018, DBRS in particular revised the ratings outlooks of four Canadian banks from negative to stable and downgraded the subordinated credit ratings of the six major Canadian banks. In July 2018, Moody's also revised the credit ratings outlooks of the six major Canadian banks from negative to stable. Furthermore, the agency revised a number of the long-term credit ratings of these banks. Given that the Bail-in Regime is not applicable to Desjardins Group, which is regulated by the AMF, it was not mentioned in the DBRS and Moody's releases.

The ratings outlooks for Desjardins Capital from S&P and Moody's are stable, but DBRS's outlook for Desjardins Capital and the Federation is negative. DBRS's assignment of a negative ratings outlook stems from the uncertainty surroundiong the implementation of a bail-in regime applicable to Desjardins Group.

Desjardins Capital's credit ratings are among the best of the major Canadian and international banking institutions.

**Credit ratings of securities issued**

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

# ADDITIONAL INFORMATION

## CONTROLS AND PROCEDURES

During the interim period ended June 30, 2018, Desjardins Capital did not make any changes to its internal control over financial reporting that have materially affected, or may materially affect, its operations. The adoption of IFRS 9, “Financial Instruments”, on January 1, 2018 did not have a significant impact on internal control over financial reporting. The parties involved and their responsibilities regarding internal control are described on pages 13 and 14 of the 2017 Annual MD&A.

## RELATED PARTY DISCLOSURES

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

Additional information on related party transactions is provided in Note 11, “Related party disclosures”, to the Annual Financial Statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of the accounting policies used by Desjardins Capital is essential to understanding the Annual and Interim Financial Statements. The significant accounting policies are described in Note 2, “Basis of presentation and significant accounting policies”, to Desjardins Capital’s Annual Financial Statements on pages 33 to 35 of the 2017 Annual Report, except for amendments resulting from the adoption, on January 1, 2018, of IFRS 9, “Financial Instruments”, which are described in Note 2, “Basis of presentation and significant accounting policies”, to the Interim Financial Statements.

Some of these policies are of particular importance in presenting Desjardins Capital’s financial position and operating results because they require management to make judgments as well as estimates and assumptions that may affect the reported amounts of some assets, liabilities, income and expenses, as well as related information. Explanations of the significant accounting policies that have required management to make difficult, subjective or complex judgments, often about matters that are inherently uncertain, are provided on pages 14 and 15 of the 2017 Annual MD&A and in Note 2, “Basis of presentation and significant accounting policies”, to the Interim Financial Statements.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first six months of 2018, except for the changes regarding IFRS 9, “Financial Instruments”, adopted on January 1, 2018.

## FUTURE ACCOUNTING CHANGE

IFRS 9, “Financial Instruments”, which was not in force on December 31, 2017, was adopted on January 1, 2018. Over the six-month period ended June 30, 2018, the IASB issued the following amendments:

### Conceptual framework for financial reporting

In March 2018, the IASB issued the “Conceptual Framework for Financial Reporting”, which replaces the existing conceptual framework. The “Conceptual Framework for Financial Reporting” includes new concepts, updates definitions and recognition criteria for assets and liabilities, and clarifies certain key concepts. Desjardins Group is currently assessing the impact of adopting this new framework, which is effective for annual periods beginning on or after January 1, 2020.

## Balance Sheets

(unaudited)

| (in thousands of Canadian dollars) | As at June 30, 2018[1] | As at December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and deposits with financial institutions | **$ 17,311** | $ 16,384 |
| Interest receivable | **8,704** | 8,702 |
| Other receivables | **14** | - |
| Income taxes receivable | **123** | 107 |
| **Total current assets** | **26,152** | 25,193 |
| **Non-current assets** | | |
| Subordinated notes issued by Desjardins caisses of Quebec, at cost | | |
| Series G | **900,000** | 900,000 |
| Series J | **500,000** | 500,000 |
| **Total non-current assets** | **1,400,000** | 1,400,000 |
| **TOTAL ASSETS** | **$ 1,426,152** | $ 1,425,193 |
| | | |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Interest payable | **$ 8,363** | $ 8,363 |
| Other accrued liabilities | **298** | 94 |
| **Total current liabilities** | **8,661** | 8,457 |
| **Non-current liabilities** | | |
| Senior notes | | |
| Series G | **899,003** | 898,748 |
| Series J | **498,902** | 498,757 |
| | **1,397,905** | 1,397,505 |
| Deferred tax liabilities | **556** | 664 |
| **Total non-current liabilities** | **1,398,461** | 1,398,169 |
| **TOTAL LIABILITIES** | **1,407,122** | 1,406,626 |
| | | |
| **SHAREHOLDER'S EQUITY** | | |
| Capital stock | **1,010** | 1,010 |
| Retained earnings | **18,020** | 17,557 |
| **TOTAL SHAREHOLDER'S EQUITY** | **19,030** | 18,567 |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **$ 1,426,152** | $ 1,425,193 |

[1] The information presented as at June 30, 2018 reflects IFRS 9, “Financial Instruments”, which was adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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

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

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

**Serge Rousseau**
Vice-Chair of the Board of Directors

## Statements of Comprehensive Income

(unaudited)

| (in thousands of Canadian dollars) | For the three-month periods ended June 30 | | For the six-month periods ended June 30 | |
|---|---|---|---|---|
| | **2018[(1)]** | 2017 | **2018[(1)]** | 2017 |
| **INTEREST INCOME** | | | | |
| Subordinated notes issued by Desjardins caisses of Quebec | | | | |
| Series G | **$ 12,121** | $ 12,121 | **$ 24,242** | $ 24,242 |
| Series J | **6,442** | 6,442 | **12,885** | 12,885 |
| Cash | **61** | 25 | **115** | 50 |
| | **18,624** | 18,588 | **37,242** | 37,177 |
| **INTEREST EXPENSE** | | | | |
| Senior notes | | | | |
| Series G | **11,799** | 11,792 | **23,596** | 23,583 |
| Series J | **6,266** | 6,262 | **12,530** | 12,523 |
| | **18,065** | 18,054 | **36,126** | 36,106 |
| **NET INTEREST INCOME** | **559** | 534 | **1,116** | 1,071 |
| **NON-INTEREST EXPENSE** | | | | |
| Professional fees | **264** | 216 | **485** | 429 |
| **INCOME BEFORE INCOME TAXES** | **295** | 318 | **631** | 642 |
| Income tax expense | **79** | 86 | **168** | 163 |
| **NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD** | **$ 216** | $ 232 | **$ 463** | $ 479 |

(1) The information presented for the three-month and six-month periods ended June 30, 2018 reflects IFRS 9, “Financial Instruments”, which was adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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

## Statements of Changes in Shareholder's Equity

For the six-month periods ended June 30
(unaudited)

| (in thousands of Canadian dollars) | Capital stock | Retained earnings | Total shareholder's equity |
|---|---|---|---|
| **BALANCE AS AT DECEMBER 31, 2017** | **$ 1,010** | **$ 17,557** | **$ 18,567** |
| Net income and comprehensive income for the period | **-** | **463** | **463** |
| **BALANCE AS AT JUNE 30, 2018[(1)]** | **$ 1,010** | **$ 18,020** | **$ 19,030** |
| | | | |
| **BALANCE AS AT DECEMBER 31, 2016** | $ 1,010 | $ 16,620 | $ 17,630 |
| Net income and comprehensive income for the period | - | 479 | 479 |
| **BALANCE AS AT JUNE 30, 2017** | $ 1,010 | $ 17,099 | $ 18,109 |

(1) The information presented for the six-month period ended June 30, 2018 reflects IFRS 9, "Financial Instruments", which was adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies".

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

## Statements of Cash Flows

(unaudited)

| (in thousands of Canadian dollars) | For the six-month periods ended June 30 2018[1] | 2017 |
|---|---|---|
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | |
| Income before income taxes | **$ 631** | $ 642 |
| Non-cash adjustments: | | |
| Net change in interest receivable and payable | **(2)** | (1) |
| Net change in other receivables and other accrued liabilities | **190** | 185 |
| Capitalized expenses on senior notes | **400** | 381 |
| Income taxes paid | **(292)** | (161) |
| | **927** | 1,046 |
| **Net increase in cash and cash equivalents** | **927** | 1,046 |
| Cash and cash equivalents at beginning of period | **16,384** | 14,657 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **$ 17,311** | $ 15,703 |
| **Supplemental information on cash flows from (used in) operating activities** | | |
| Interest paid | **$ 35,726** | $ 35,725 |
| Interest received | **$ 37,240** | $ 37,176 |

[1] The information presented for the six-month period ended June 30, 2018 reflects IFRS 9, “Financial Instruments”, which was adopted on January 1, 2018. Comparative figures have not been restated. For more information, see Note 2, “Basis of presentation and significant accounting policies”.

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

# Notes to the Condensed Interim Financial Statements
(unaudited)

## NOTE 1 – INFORMATION ON *DESJARDINS CAPITAL INC.*

**Nature of operations**

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

## NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PRESENTATION

**Statement of compliance**

These unaudited Condensed Interim Financial Statements (the Interim 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), more specifically in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting", and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS.

These Interim Financial Statements should be read in conjunction with the audited Annual Financial Statements (the Annual Financial Statements) for the year ended December 31, 2017, and the shaded areas of section 4.1, "Risk management", of the related Management's Discussion and Analysis, which are an integral part of the Annual Financial Statements. All accounting policies were applied as described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Financial Statements except for the changes described in the "Changes in accounting policies" section of this note.

These Interim Financial Statements were approved by the Board of Directors of Desjardins Capital on August 13, 2018.

**Presentation and functional currency**

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

### CHANGES IN ACCOUNTING POLICIES

On January 1, 2018, Desjardins Capital adopted IFRS 9, "Financial Instruments". IFRS 9 replaces IAS 39, "Financial Instruments: Recognition and Measurement", and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial instruments, as well as requirements for hedge accounting.

The adoption of IFRS 9 had no impact on Desjardins Capital's Balance Sheet as at January 1, 2018. Under IAS 39, all the financial assets of Desjardins Capital were included in the "Loans and receivables" class. Under IFRS 9, they are included in the "Amortized cost" class, as they are held within a business model whose objective is achieved by collecting contractual cash flows and meet the criteria of the contractual cash flow test performed to determine whether cash flows are solely payments of principal and interest. The adoption of IFRS 9 had no impact on the classification and measurement of financial liabilities. Desjardins Capital does not apply hedge accounting.

The significant accounting policies set out below arise from the adoption of IFRS 9 and are applicable retrospectively as of January 1, 2018 without restatement of comparative periods. Consequently, the information presented for fiscal 2017 is in accordance with the accounting policies described in the Annual Financial Statements for the year ended December 31, 2017.

#### a) Financial assets and liabilities

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

**Classification and measurement**

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

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

Contractual cash flow characteristics

In order to meet the cash flow characteristics criterion for purposes of classifying a financial asset, the cash flows from this asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally the fair value of the financial asset at initial recognition. Interest consists mainly of consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, but it may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, as well as a certain profit margin.

Business model

Desjardins Capital's business models are determined in a manner that reflects how groups of financial assets are managed to achieve a particular business objective. The business models refer to how Desjardins Capital manages its financial assets in order to generate cash flows, that is, they reflect whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Determining business models requires the use of judgment and is based on all relevant evidence that is available to Desjardins Capital at the date of the assessment. All the financial assets of Desjardins Capital are held within a business model whose objective is achieved by collecting contractual cash flows.

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

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

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

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

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

## b) Impairment of financial instruments

At each reporting date, Desjardins Capital measures a loss allowance for expected credit losses for financial assets included in the "Amortized cost" class. The loss allowance for expected credit losses is estimated based on an impairment model that comprises three different stages:

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

Financial instruments may, over their life, move from one impairment model stage to another based on the improvement or deterioration in their credit risk. Instruments are always classified in the various stages of the impairment model based on the change in credit risk between the reporting date and the initial recognition date of the financial instrument and an analysis of evidence of impairment.

To determine whether, at the reporting date, credit risk has significantly increased since initial recognition, Desjardins Capital bases its assessment on the change in default risk over the expected life of the financial instrument.

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

All financial assets held by Desjardins Capital are in Stage 1 of the impairment model, and the loss allowance for expected credit losses amounts to nil.

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

### c) Revenue recognition

Net interest income

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

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

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

## FUTURE ACCOUNTING CHANGES

IFRS 9, “Financial Instruments”, which was not effective as at December 31, 2017, was adopted on January 1, 2018. During the six-month period ended June 30, 2018, the IASB issued the following amendments:

**Conceptual Framework for Financial Reporting**

In March 2018, the IASB issued the “Conceptual Framework for Financial Reporting”, which replaces the current version of the conceptual framework. The “Conceptual Framework for Financial Reporting” includes new concepts, updates the definitions and recognition criteria for assets and liabilities and clarifies certain key concepts. Desjardins Capital is currently assessing the impact of adopting this new framework, which will be effective for annual periods beginning on or after January 1, 2020.

# NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

## DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

There is little subjectivity in the determination of the fair value of financial instruments 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.

For more information on the valuation techniques used to determine the fair value of the main financial instruments, refer to Note 2, “Basis of presentation and significant accounting policies”, to the Annual Financial Statements.

### Financial instruments whose fair value equals carrying amount

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

| | **As at June 30, 2018** | | As at December 31, 2017 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| **Financial assets** | | | | |
| Subordinated notes | **$ 1,400,000** | **$ 1,472,705** | $ 1,400,000 | $ 1,498,454 |
| **Financial liabilities** | | | | |
| Senior notes | **1,397,905** | **1,473,010** | 1,397,505 | 1,498,800 |

# NOTE 4 – CAPITAL MANAGEMENT

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

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

## GENERAL INFORMATION

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