Desjardins Capital Inc.
Financial Report
Second quarter of 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) dated August 12, 2021, 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, 2021, 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, 2021 and the Desjardins Capital's 2020 Annual Report (the 2020 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 SEDAR website 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.

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 Québec, which do not differ from IFRS. IFRS represents Canada's generally accepted accounting principles (GAAP). These Interim Financial Statements of Desjardins Capital have been 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.

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.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Desjardins Capital's public communications often include oral or written forward-looking statements, within the meaning of applicable securities legislation, particularly in Québec, Canada and the United States. Forward-looking statements are contained in this MD&A and may be incorporated in other filings with Canadian regulators or in any other communications.

Forward-looking statements include, but are not limited to, comments about Desjardins Capital's objectives regarding financial performance, priorities, operations, the review of economic conditions and financial markets, the outlook for the Québec, Canadian, U.S. and global economies, as well as the possible impact of the COVID-19 pandemic on its operations, its results and its financial position, as well as on economic conditions and financial markets. Such forward-looking statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "plan", "forecast", "aim" and "may", words and expressions of similar import, and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that, due to many factors, the assumptions made may be incorrect, or the predictions, forecasts or other forward-looking statements as well as Desjardins Capital's objectives and priorities may not materialize or may prove to be inaccurate and that actual results differ materially. Furthermore, the uncertainty created by the COVID-19 pandemic has sharply increased this risk by generating additional difficulties in determining assumptions, forecasts and other forward-looking statements compared to previous periods.

Readers are cautioned not to rely unduly on the forward-looking statements since 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, individually or collectively, the accuracy of the forward-looking statements in this MD&A. These factors include those discussed in Section 4.0, "Risk management", of Desjardins Capital's 2020 annual MD&A, such as credit, market, liquidity and operational risk as well as legal and regulatory risk.

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. There are also health crises, such as pandemics and epidemics, including the COVID-19 pandemic, and risks related in particular to its scope and duration as well as its impact on the global economy and financial market conditions, and on Desjardins Capital's business operations, financial results and financial position, or any other similar disease affecting the local, national or global economy, as well as Desjardins Capital's ability to anticipate and properly manage the risks associated with these factors, despite a disciplined risk management environment. Additional information about these factors is found in Section 4.0, "Risk management" of Desjardins Capital's 2020 annual MD&A.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on Desjardins Capital's results. Additional information about these and other factors is found in Section 4.0, "Risk management" of Desjardins Capital's 2020 annual MD&A.

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

The significant economic assumptions underlying the forward-looking statements in this document are described in Section 1.0, "Economic environment and outlook" of Desjardins Capital's 2020 annual MD&A. These assumptions may also be updated in the quarterly MD&As, in the "Economic environment and outlook" section. To develop our economic growth forecasts, in general and for the financial services sector, we mainly use historical economic data provided by recognized and reliable organizations, empirical and theoretical relationships between economic and financial variables, expert judgment and identified upside and downside risks for the domestic and global economies. Given how the COVID-19 pandemic has developed and its impact on the global economy and financial market conditions, as well as Desjardins Capital's business operations, financial results and financial position, greater uncertainty is attached to our economic assumptions compared to previous periods, such assumptions being determined based on uncertain future developments and considering the difficulty of anticipating the extent of the pandemic's long-term effects.

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 financial situation as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives as considered as at the date hereof. These statements may not be appropriate for other purposes. 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 Québec (the caisses of Québec).

CHANGES IN THE REGULATORY ENVIRONMENT

This section presents the changes in the regulatory environment applicable to Desjardins Capital.

Desjardins Group, including Desjardins Capital, closely monitors changes in regulations as they relate to financial products and services as well as new developments 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 Desjardins Capital's 2020 annual MD&A.

ECONOMIC ENVIRONMENT AND OUTLOOK

Global economy

The course of the pandemic continues to have a strong impact on global economic growth. The second wave of COVID-19 has had major economic repercussions in several countries. Those hardest hit had to substantially tighten their health measures, and this had major impacts on economic activity in early 2021. The third wave of COVID-19 is also affecting certain regions of the world. This includes India, which has had to close large swaths of its economy. The changing nature of the pandemic is therefore making global economic recovery rather uneven. Some countries are approaching pre-crisis levels of economic activity, while others, such as China and the United States, have already surpassed theirs. However, several economies are still far from this threshold, and this is particularly true in Europe. The differences in economic growth are also due to the uneven success rates of national vaccination campaigns. In the eurozone, most countries are reopening, yet only very gradual progress is being made. Following a 6.7% drop in 2020, the eurozone's real GDP is expected to grow 4.6% in 2021 and 4.3% in 2022. Economic growth in China slowed in the first half of 2021. The country's real GDP is expected to grow more rapidly in the next few quarters, but there is still a sense that the Chinese economy has lost some of its momentum. Overall, global real GDP is expected to expand 6.0% in 2021, following an estimated 3.6% contraction in 2020. For the time being, the economic impact of the recent increase in COVID-19 cases related to the Delta variant is expected to be limited and temporary in highly vaccinated countries.

Despite some hesitations related to the third wave of COVID-19, stock market indices continued to surge in the second quarter. By the end of June, the S&P 500 and S&P/TSX were up approximately 15% since the beginning of the year. This strong performance was due to a rapid recovery in earnings as companies in the S&P 500 index reported record profits for the first quarter of 2021. Following a difficult first quarter, the bond market also performed well when long-term bond yields fell in the spring, particularly in the U.S., despite growing inflationary pressures. The U.S. Federal Reserve (the Fed) nevertheless adopted a much more optimistic tone at its June meeting, even signaling that strong outlooks for inflation and the labour market could justify moving more quickly to normalize monetary policy.

After last year's spectacular gains, particularly in the U.S., the major stock market indices may well enter a period of consolidation. However, the outlook for stock markets remains relatively favourable in the medium term, as economic growth is expected to be strong. Higher inflation, combined with a gradual tapering of bond purchases by central banks, particularly in Canada, suggest that bond yields will trend upward over the next few quarters. But the first hikes in key interest rates are not expected until late 2022.

United States

The U.S. economy is recovering from problems caused by the pandemic. After annualized quarterly growth of 6.3% in the first quarter of 2021, a 6.5% in U.S. real GDP in the second quarter put it back above its pre-pandemic level. The U.S. economy is benefiting in particular from the US$900 billion and US$1.9 trillion relief plans passed by the federal government. However, job creation is not as brisk as was hoped, as 5,702,000 fewer people are working compared to the peak reached in February 2020. For now at least, the unwillingness of former workers to re-enter the labour market appears to be a constraint, even though job openings abound. While real GDP has fully recovered, a similar recovery in the labour market may not be achieved until the fall of 2022. In addition to the labour shortage, many industries are also having difficulty procuring parts and raw materials, and are facing challenges shipping their merchandise. Costs are up, and increasingly this is filtering down into the prices paid by consumers. After a 3.5% decline in 2020, U.S. real GDP is expected to grow by 6.7% in 2021. The economy should grow 4.1% in 2022.

Canada

The Canadian economy performed relatively well despite the restrictions imposed in early 2021 to counter the second wave of COVID-19. From the fourth quarter of 2020 to the first quarter of 2021, real GDP grew 1.4%, for an annualized quarterly increase of 5.6%. Residential investment was particularly strong, rising 43.3%, on an annualized basis, from the previous quarter. In March, housing starts and existing home sales reached new all-time highs. The strong housing market is nevertheless expected to ease somewhat over the next few quarters, since several temporary factors that had disrupted supply and demand during the pandemic are expected to return to more normal levels. The third wave of COVID-19 will also have an impact on the Canadian economy in the second quarter. Several provinces, including Ontario, introduced new health measures in the spring to limit the pandemic's spread. The outlook for the Canadian economy is nevertheless very good. The low level of infections and the success of vaccination campaigns are encouraging the provinces to gradually lift their health restrictions. Under these conditions, Canadian real GDP should rebound in the third quarter and then continue to grow at a relatively fast pace. Despite larger quarterly fluctuations, the forecast for 2021 as a whole remains unchanged, with a 6.3% increase in real GDP and another 4.1% gain expected in 2022.

Québec

Despite closures among some types of businesses early in the year, the Québec economy continued to recover in the first quarter. Compared to the last quarter of 2020, real GDP grew at an annualized quarterly rate of 5.9%. The economy had even fully recovered by March 2021 on the strength of those industries minimally affected by the pandemic. Business investment surged early in the year, up 25.9% for machinery and equipment and 4.1% for non-residential structures. Residential investment grew 17.4% in the first quarter due to an exceptional start to the year for new construction. Home sales are in decline from the peak reached a few months earlier, and prices appear to be stabilizing. In addition, household spending declined in the first quarter, in part due to the closure of non-essential businesses from December 25, 2020 to February 7, 2021. The savings rate rose to 17.2% in the first quarter as a result of weak consumption and rising after-tax income. The outlook for the next few quarters is positive, especially for the service sector, which will finally benefit from the gradual reopening that began in the spring. Québec's successful vaccination campaign also bodes well for the future.

REVIEW OF FINANCIAL RESULTS

Financial results

(in thousands of dollars)	For the three-month periods ended			For the six-month periods ended	
	June 30, 2021	March 31, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
Interest income					
Subordinated notes issued by Desjardins caisses of Québec	**$ 6,442**	$ 6,443	$ 11,021	**$ 12,885**	$ 29,585
Cash	**11**	10	31	**21**	117
	6,453	6,453	11,052	**12,906**	29,702
Interest expense					
Senior notes	**6,277**	6,276	10,735	**12,553**	28,818
	6,277	6,276	10,735	**12,553**	28,818
Net interest income	**176**	177	317	**353**	884
Non-interest expense					
Professional fees	**75**	56	122	**131**	294
Income before income taxes	**101**	121	195	**222**	590
Income tax expense	**27**	32	51	**59**	156
Net income for the period	**$ 74**	$ 89	$ 144	**$ 163**	$ 434

ANALYSIS OF RESULTS

COMPARISON OF THE SECOND QUARTERS OF 2021 AND 2020

For the second quarter ended June 30, 2021, Desjardins Capital recorded $74 thousand in net income, compared to $144 thousand for the same period of 2020. Net interest income was $176 thousand, down $141 thousand from the net interest income reported for the same period of 2020. This decrease was primarily due to a decline in net interest income as a result of the prepayment of Series G senior notes and the redemption of Series G subordinated notes on May 5, 2020. Professional fees included in non-interest expense declined by $47 thousand to $75 thousand for the second quarter ended June 30, 2021, in particular due to the maturing of Series G subordinated notes. 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 2021 AND 2020

For the first six months ended June 30, 2021, Desjardins Capital recorded $163 thousand in net income, compared to $434 thousand for the same period of 2020. Net interest income was $353 thousand, down $531 thousand from the net interest income reported for the same period of 2020. This decline was essentially due to lower net interest income as a result of the prepayment of Series G senior notes and the redemption of Series G subordinated notes on May 5, 2020. Professional fees included in non-interest expense declined by $163 thousand to $131 thousand for the six-month period ended June 30, 2021, in particular due to the maturing of Series G subordinated notes.

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)	**2021**		2020				2019	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Interest income	**$ 6,453**	$ 6,453	$ 6,454	$ 6,457	$ 11,052	$ 18,650	$ 18,657	$ 18,650
Interest expense	**6,277**	6,276	6,275	6,274	10,735	18,083	18,080	18,077
Net interest income	**176**	177	179	183	317	567	577	573
Non-interest expense	**75**	56	(71)	38	122	172	173	154
Income before income taxes	**101**	121	250	145	195	395	404	419
Income tax expense	**27**	32	66	39	51	105	107	112
Net income	**$ 74**	$ 89	$ 184	$ 106	$ 144	$ 290	$ 297	$ 307

BALANCE SHEET REVIEW

TOTAL ASSETS

As at June 30, 2021, Desjardins Capital had total assets of $0.5 billion, unchanged from December 31, 2020. These assets consisted primarily of subordinated notes issued by the caisses of Québec.

As at June 30, 2021, the subordinated notes issued by the caisses of Québec were comprised of:

	Series J
Carrying amount	$500.0 million
Acquisition date	December 15, 2011
Maturity date	December 15, 2026
Fixed annual interest rate	5.154% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until December 15, 2021
Variable annual interest rate	90-day bankers' acceptance rate plus 2.867% December 15, 2021 to December 14, 2026
Variable interest payments	Quarterly from 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	No early redemption before December 15, 2021 On or after December 15, 2021, early redemption subject to prior approval from the AMF
Interest receivable	$1.1 million

TOTAL LIABILITIES

As at June 30, 2021, Desjardins Capital's total liabilities stood at $0.5 billion, unchanged from December 31, 2020. These liabilities consisted mainly of senior notes.

As at June 30, 2021, Desjardins Capital's senior notes were comprised of:

	Series J
Nominal value	$500.0 million
Issuing date	December 15, 2011
Maturity date	December 15, 2026
Fixed annual interest rate	4.954% December 15, 2011 to December 14, 2021
Fixed interest payments	Biannual until December 15, 2021
Variable annual interest rate	90-day bankers' acceptance rate plus 2.670% December 15, 2021 to December 14, 2026
Variable interest payments	Quarterly March 15, 2022 to December 15, 2026
Early redemption	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	$1.1 million

These senior notes are secured by a first hypothec on the corresponding subordinated notes 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 Québec to meet their liquidity and capital needs. Desjardins Capital therefore acts as a link between external investors and the caisses of Québec 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 risk in the normal course of its operations, including credit risk, market risk, liquidity risk, operational risk and legal and regulatory risk.

With respect to the COVID-19 pandemic, Desjardins Group, including Desjardins Capital, is closely monitoring the development of the pandemic and its impact on activities. For more details, refer to the "COVID-19 pandemic" subsection in the “Significant events” section of Desjardins Group's MD&A for the second quarter of 2021, which presents certain factors that could contribute to the risks described in the Group's 2020 annual MD&A.

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 Québec.

The securities issued by the caisses of Québec to Desjardins Capital are, in fact, subordinated, as to right of payment, to all the other obligations of the caisses of Québec. 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 Québec 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 “Regulatory environment” section of Desjardins Capital's 2020 annual MD&A.

During the current COVID-19 pandemic, Desjardins Group has put forward several relief measures to support its members and clients and mitigate the impact of this crisis. Government authorities have also set up a number of programs to stabilize the situation and bolster the economy. Although future repercussions are still uncertain, the credit portfolio is being strictly monitored to take into consideration more or less long-term impacts.

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 Québec 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 Québec 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 Québec 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 and outstanding

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 ratings outlooks based on their own proprietary methodology, which includes a number of analytical criteria, including factors that are not under Desjardins Group's control. The rating agencies evaluate Desjardins Group on a combined basis and recognize its capitalization, its consistent financial performance, its significant market shares in Québec and the quality of its assets. Consequently, the credit ratings of 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.

On July 12, 2021, Moody's upgraded to A1 from A2 the rating for medium- and long-term senior debt subject to the bail-in regime applicable to Desjardins Group ("bail-inable" senior debt). This upgrade follows Moody's methodology update, reflecting its expectation that the Federation will issue a sufficient amount of subordinated debt in the next 12 months. Desjardins Capital's credit rating was unchanged.

On July 15, 2021, DBRS affirmed the ratings of the instruments issued by the Federation and Desjardins Capital while maintaining its outlook as stable. This reflects Desjardins Group's strong presence in Québec, with leading market shares for deposits, residential mortgages and insurance.

As at the date of this MD&A, the credit ratings and outlooks of rating agencies were as follows:

Credit ratings of securities issued and outstanding

	DBRS	FITCH	MOODY'S	STANDARD & POOR'S
Medium- and long-term, senior	**A (high)**	**A**	**A2**	**A**
Outlook	**Stable**	**-**	**Stable**	**Stable**

ADDITIONAL INFORMATION

CONTROLS AND PROCEDURES

During the six-month period ended June 30, 2021, Desjardins Capital did not make any changes to its policies, procedures and other processes with regard to internal control that had materially affected, or may materially affect, its internal control over financial reporting. The parties involved and their responsibilities regarding such internal control are described on pages 11 and 12 of Desjardins Capital's 2020 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 31 to 34 of the 2020 Annual Report.

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 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 12 and 13 of the 2020 annual MD&A.

No material change was made to these judgments, estimates, assumptions and accounting policies during the first six months of 2021.

FUTURE ACCOUNTING CHANGES

Accounting standards issued by the IASB but not yet effective as at December 31, 2020 are described in Note 2, "Basis of presentation and significant accounting policies", to Desjardins Capital's Annual Financial Statements, on page 34 of the 2020 Annual Report. The IASB did not issue any new accounting standard or any new amendment to an existing standard during the six-month period ended June 30, 2021 that would have a significant impact on Desjardins Capital's financial statements.

Balance Sheets

(unaudited)

(in thousands of Canadian dollars)	As at June 30, 2021	As at December 31, 2020
ASSETS		
Current assets		
Cash and deposits with financial institutions	**$ 21,033**	$ 20,874
Interest receivable	**1,149**	1,150
Other receivables	**7**	-
Income taxes receivable	**422**	254
Total current assets	**22,611**	22,278
Non-current assets		
Series J subordinated notes issued by Desjardins caisses of Québec, at cost	**500,000**	500,000
Total non-current assets	**500,000**	500,000
TOTAL ASSETS	**$ 522,611**	$ 522,278
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Current liabilities		
Interest payable	**$ 1,101**	$ 1,101
Other accrued liabilities	**98**	52
Total current liabilities	**1,199**	1,153
Non-current liabilities		
Senior notes, Series J	**499,850**	499,682
	499,850	499,682
Deferred tax liabilities	**40**	84
Total non-current liabilities	**499,890**	499,766
TOTAL LIABILITIES	**501,089**	500,919
SHAREHOLDER'S EQUITY		
Capital stock	**1,010**	1,010
Retained earnings	**20,512**	20,349
TOTAL SHAREHOLDER'S EQUITY	**21,522**	21,359
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**$ 522,611**	$ 522,278

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

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	
	2021	2020	**2021**	2020
INTEREST INCOME				
Subordinated notes issued by Desjardins caisses of Québec				
Series G	**$ -**	$ 4,579	**$ -**	$ 16,700
Series J	**6,442**	6,442	**12,885**	12,885
Cash	**11**	31	**21**	117
	6,453	11,052	**12,906**	29,702
INTEREST EXPENSE				
Senior notes				
Series G	**-**	4,462	**-**	16,273
Series J	**6,277**	6,273	**12,553**	12,545
	6,277	10,735	**12,553**	28,818
NET INTEREST INCOME	**176**	317	**353**	884
NON-INTEREST EXPENSE				
Professional fees	**75**	122	**131**	294
INCOME BEFORE INCOME TAXES	**101**	195	**222**	590
Income tax expense	**27**	51	**59**	156
NET INCOME AND COMPREHENSIVE INCOME FOR THE PERIOD	**$ 74**	$ 144	**$ 163**	$ 434

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

Statements of Changes in Shareholder's Equity

(unaudited)

For the six-month periods ended June 30

(in thousands of Canadian dollars)	Capital stock	Retained earnings	Total shareholder's equity
BALANCE AS AT DECEMBER 31, 2020	**$ 1,010**	**$ 20,349**	**$ 21,359**
Net income and comprehensive income for the period	**-**	**163**	**163**
BALANCE AS AT JUNE 30, 2021	**$ 1,010**	**$ 20,512**	**$ 21,522**
BALANCE AS AT DECEMBER 31, 2019	$ 1,010	$ 19,665	$ 20,675
Net income and comprehensive income for the period	-	434	434
BALANCE AS AT JUNE 30, 2020	$ 1,010	$ 20,099	$ 21,109

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 2021	2020
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Income before income taxes	**$ 222**	$ 590
Non-cash adjustments:		
Net change in interest receivable and payable	**1**	313
Net change in other receivables and other accrued liabilities	**39**	194
Capitalized expenses on senior notes	**168**	353
Income taxes paid	**(271)**	(217)
	159	1,233
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayment of Series G senior notes	**-**	(900,000)
	-	(900,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of Desjardins caisses of Québec Series G subordinated notes	**-**	900,000
	-	900,000
Net increase in cash and cash equivalents	**159**	1,233
Cash and cash equivalents at beginning of period	**20,874**	19,843
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 21,033**	$ 21,076
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$ 12,385**	$ 35,727
Interest received	**$ 12,907**	$ 37,277

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

NOTE 2 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Statement of compliance

These 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 Québec, 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, 2020, 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.

These Interim Financial Statements were approved by the Board of Directors of Desjardins Capital on August 12, 2021.

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.

FUTURE ACCOUNTING CHANGES

IAS 1, "Presentation of Financial Statements"

Accounting standards issued by the IASB, but not yet effective as at December 31, 2020, are described in Note 2, "Basis of presentation and significant accounting policies", to the Annual Financial Statements. During the six-month period ended June 30, 2021, the IASB has not issued any new accounting standards or new amendments to existing standards having a significant impact on the Desjardins Capital's financial statements.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

DETERMINATION OF THE FAIR VALUE OF FINANCIAL 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. No significant changes were made to our fair value valuation techniques during the quarter. Desjardins Capital has implemented controls and procedures to ensure that financial instruments are appropriately and reliably measured.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of certain financial instruments measured at amortized cost does not equal fair value. The following table presents those financial instruments.

	As at June 30, 2021		As at December 31, 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets				
Subordinated notes	**$ 500,000**	**$ 509,780**	$ 500,000	$ 520,791
Financial liabilities				
Senior notes	**499,850**	**509,783**	499,682	520,822

FAIR VALUE HIERARCHY

Fair value measurement is determined using a three-level fair value hierarchy. Refer to Note 7, "Fair value of financial instruments", to the Annual Financial Statements, which contains a description of these three levels.

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 to Desjardins Group as a whole. The assets of Desjardins Capital are consolidated for the purposes of evaluating the composition and adequacy of 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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La version française de ce rapport trimestriel est disponible sur demande.