

# **Capital régional et coopératif Desjardins**

Interim Separate Financial Statements  
**June 30, 2014**  
(in thousands of Canadian dollars)



August 21, 2014

## **Independent Auditor's Report**

### **To the Shareholders of Capital régional et coopératif Desjardins**

We have audited the accompanying separate financial statements of Capital régional et coopératif Desjardins (the financial statements), which comprise the balance sheets as at June 30, 2014 and December 31, 2013, the opening balance sheet as at January 1, 2013 and the statements of comprehensive income, changes of net assets and cash flows for the six-month periods ended June 30, 2014 and 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

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**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Capital régional et coopératif Desjardins as at June 30, 2014 and December 31, 2013, the opening balance sheet as at January 1, 2013 and its financial performance and its cash flows for the six-month periods ended June 30, 2014 and 2013 in accordance with International Financial Reporting Standards.

*(signed)* PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l. <sup>1</sup>

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A111799

# Capital régional et coopératif Desjardins

## Balance Sheets

(in thousands of Canadian dollars, except number of common shares and net asset value per common share)

|  | Note | As at<br>June 30,<br>2014<br>\$ | As at<br>December 31,<br>2013<br>\$ | As at<br>January 1,<br>2013<br>\$ |
|--|------|---------------------------------|-------------------------------------|-----------------------------------|
| <b>Assets</b>                              |      |                                 |                                     |                                   |
| Investments impacting the Québec economy   | 7    | 762,100                         | 733,907                             | 659,045                           |
| Other investments                          | 8    | 663,485                         | 706,996                             | 670,572                           |
| Accounts receivable                        | 10   | 24,269                          | 22,258                              | 29,946                            |
| Cash                                       | 11   | 16,642                          | 9,701                               | 7,357                             |
| Income taxes                               | 18   | 18,649                          | 16,490                              | 11,415                            |
|  |      | <u>1,485,145</u>                | <u>1,489,352</u>                    | <u>1,378,335</u>                  |
| <b>Liabilities</b>                         |      |                                 |                                     |                                   |
| Notes payable and financial liabilities    | 12   | 15,365                          | 15,000                              | 11,352                            |
| Accounts payable                           | 13   | 10,150                          | 3,776                               | 2,501                             |
| Income taxes                               | 18   | -                               | -                                   | 8,036                             |
|  |      | <u>25,515</u>                   | <u>18,776</u>                       | <u>21,889</u>                     |
| <b>Net assets</b>                          | 15   | <u>1,459,630</u>                | <u>1,470,576</u>                    | <u>1,356,446</u>                  |
| <b>Number of common shares outstanding</b> |      | <u>122,432,368</u>              | <u>126,164,932</u>                  | <u>118,243,301</u>                |
| <b>Net asset value per common share</b>    |      | 11.92                           | 11.66                               | 11.47                             |

On behalf of the Board of Directors of Capital régional et coopératif Desjardins

(signed) André Lachapelle \_\_\_\_\_, Director

(signed) Jacques Plante \_\_\_\_\_, Director

The accompanying notes are an integral part of these financial statements.

# Capital régional et coopératif Desjardins

## Statements of Comprehensive Income

For the six-month periods ended June 30, 2014 and 2013

(in thousands of Canadian dollars, except weighted average number of common shares and net earnings per common share)

|  | Note | 2014<br>\$         | 2013<br>\$         |
|--|------|--------------------|--------------------|
| <b>Revenue</b>   |      |                    |                    |
| Interest   | 7    | 18,811             | 21,174             |
| Dividends  |      | 3,618              | 3,172              |
| Administrative charges                                 |      | 216                | 376                |
|  |      | <u>22,645</u>      | <u>24,722</u>      |
| <b>Gains (losses) on investments</b>                   |      |                    |                    |
| Realized   |      | 1,663              | (1,201)            |
| Unrealized   |      | 26,182             | (2,377)            |
|  |      | <u>27,845</u>      | <u>(3,578)</u>     |
| <b>Total revenue and gains (losses) on investments</b> |      | <u>50,490</u>      | <u>21,144</u>      |
| <b>Expenses</b>  |      |                    |                    |
| Management fees  |      | 12,210             | 12,478             |
| Other operating expenses                               | 17   | 1,594              | 1,895              |
| Shareholder services                                   | 17   | 1,018              | 813                |
|  |      | <u>14,822</u>      | <u>15,186</u>      |
| <b>Earnings before income taxes</b>                    |      | <u>35,668</u>      | <u>5,958</u>       |
| <b>Income taxes</b>                                    | 18   | <u>3,267</u>       | <u>3,942</u>       |
| <b>Net earnings for the period</b>                     |      | <u>32,401</u>      | <u>2,016</u>       |
| <b>Weighted average number of common shares</b>        |      | <u>123,762,598</u> | <u>123,574,062</u> |
| <b>Net earnings per common share</b>                   |      | <u>0.26</u>        | <u>0.02</u>        |

The accompanying notes are an integral part of these financial statements.

# Capital régional et coopératif Desjardins

## Statements of Changes in Net Assets

For the six-month periods ended June 30, 2014 and 2013

(in thousands of Canadian dollars)

|   | Share capital (note 15) |                  | Contributed surplus <sup>(2)</sup> | Retained earnings | Net assets       |
|---|-------------------------|------------------|------------------------------------|-------------------|------------------|
|   | Number                  | \$               |                                    |                   |                  |
| <b>Balance – December 31, 2013</b>              | 126,164,932             | 1,285,213        | -                                  | 185,363           | 1,470,576        |
| <b>Net earnings for the period</b>              | -                       | -                | -                                  | 32,401            | 32,401           |
| <b>Share capital transactions<sup>(1)</sup></b> |                         |                  |                                    |                   |                  |
| Redemption of common shares                     | (3,732,564)             | (37,980)         | -                                  | (5,367)           | (43,347)         |
| <b>Balance – June 30, 2014</b>                  | <b>122,432,368</b>      | <b>1,247,233</b> | <b>-</b>                           | <b>212,397</b>    | <b>1,459,630</b> |
| <b>Balance – December 31, 2012</b>              | 118,243,301             | 1,189,745        | 2,004                              | 164,697           | 1,356,446        |
| <b>Net earnings for the period</b>              | -                       | -                | -                                  | 2,016             | 2,016            |
| <b>Share capital transactions<sup>(1)</sup></b> |                         |                  |                                    |                   |                  |
| Issuance of common shares                       | 13,077,057              | 149,994          | -                                  | -                 | 149,994          |
| Share issue expenses, net of \$1,155 in taxes   | -                       | (1,739)          | -                                  | -                 | (1,739)          |
| Redemption of common shares                     | (2,974,058)             | (30,512)         | (2,004)                            | (1,536)           | (34,052)         |
| <b>Balance – June 30, 2013</b>                  | <b>128,346,300</b>      | <b>1,307,488</b> | <b>-</b>                           | <b>165,177</b>    | <b>1,472,665</b> |

<sup>(1)</sup> These data do not include the redemption requests made within 30 days of subscription.

<sup>(2)</sup> The contributed surplus results from the excess of the shares' issuance price over the price paid at redemption.

The accompanying notes are an integral part of these financial statements.

# Capital régional et coopératif Desjardins

## Statements of Cash Flows

For the six-month periods ended June 30, 2014 and 2013

(in thousands of Canadian dollars)

|  | Note | 2014<br>\$      | 2013<br>\$       |
|--|------|-----------------|------------------|
| <b>Cash flows from (used in) operating activities</b>                      |      |                 |                  |
| Net earnings for the period  |      | 32,401          | 2,016            |
| Non-cash items:  |      |                 |                  |
| Losses (gains) on investments  |      | (27,845)        | 3,578            |
| Amortization of premiums and discounts on other investments                |      | 1,209           | 1,936            |
| Deferred taxes   |      | (6)             | (16)             |
| Capitalized interest and other non-cash items                              |      | (1,279)         | (1,235)          |
| Changes in operating assets and liabilities:                               |      |                 |                  |
| Income taxes recoverable   |      | (2,153)         | (3,416)          |
| Accounts receivable  |      | (780)           | (2,454)          |
| Income taxes payable   |      | -               | (8,036)          |
| Accounts payable   |      | 334             | 604              |
| Acquisitions of investments impacting the Québec economy                   |      | (52,888)        | (29,908)         |
| Proceeds from disposals of investments impacting the Québec economy        |      | 40,540          | 47,684           |
| Acquisitions of other investments  |      | (287,238)       | (534,327)        |
| Proceeds on disposal of other investments                                  |      | 344,362         | 410,337          |
|  |      | <u>46,657</u>   | <u>(113,237)</u> |
| <b>Cash flows from (used in) financing activities</b>                      |      |                 |                  |
| Issuance of common shares  |      | -               | 147,229          |
| Redemption of common shares  |      | (43,347)        | (34,052)         |
|  |      | <u>(43,347)</u> | <u>113,177</u>   |
| <b>Net change in cash and cash equivalents during the period</b>           |      | 3,310           | (60)             |
| <b>Cash and cash equivalents – beginning of the period</b>                 |      | <u>20,284</u>   | <u>10,953</u>    |
| <b>Cash and cash equivalents – end of the period</b>                       |      | <u>23,594</u>   | <u>10,893</u>    |
| <b>Supplemental information about cash flows from operating activities</b> |      |                 |                  |
| Interest received  |      | 18,516          | 20,780           |
| Dividends received   |      | 3,738           | 3,131            |
| Income taxes paid  |      | 5,426           | 15,014           |

The accompanying notes are an integral part of these financial statements.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 1 Governing statute, administration and investments

#### Governing statute

Capital régional et coopératif Desjardins (the “Company”) is constituted by an Act of the National Assembly of Québec (C.Q.L.R. chapter C-6.1) (the “Act”) and is deemed to have been constituted by the filing of articles on July 1, 2001. The Company began its activities on November 5, 2001 and is a legal person with share capital. The Company has business offices at 2 Complexe Desjardins, East Tower, Suite 1717, Montréal, Québec, Canada, and its head office is located at 100 Rue des Commandeurs, Lévis, Québec, Canada.

#### Administration

The affairs of the Company are administered by a Board of Directors consisting of 13 members:

- Eight persons appointed by the Chair of the Board, President and CEO of Desjardins Group;
- Two persons elected by the General Meeting of Shareholders;
- Two persons appointed by the aforementioned 10 members from among the persons considered by those members to be representative of the eligible entities described in the Act;
- The Chief Executive Officer of the Company.

#### Investments

The Company may make investments with or without a guarantee or security, mainly in eligible entities. Eligible entities include eligible cooperatives and partnerships or a legal person actively operating an enterprise, the majority of whose employees are resident in Québec and whose assets are less than \$100 million or whose net equity is less than or equal to \$50 million.

The Company may invest up to 5% of its assets (as established on the basis of the latest valuation by the chartered professional accountants) in the same eligible company or cooperative, and the investment is generally planned for a period of five to eight years. The percentage may be increased up to 10% to enable the Company to acquire securities in an entity carrying on business in Québec but that is not an eligible entity. In such a case, the Company may not, directly or indirectly, acquire or hold shares carrying more than 30% of the voting rights that may be exercised under any circumstances.

Pursuant to the Act, other investments may qualify, such as investments in certain investment funds, provided the required specific conditions set out in the Act have been met.

At the end of each fiscal year, the portion of the Company’s investments in eligible entities, as well as other eligible investments which do not entail any security or hypothec and are made as first purchaser, must represent on average at least 60% of the adjusted average net assets of the Company for the preceding year. Furthermore, a portion representing at least 35% of that percentage must be invested in entities situated in the resource regions of Québec or in eligible cooperatives. Failure to comply with those rules can expose the Company to penalties. As at December 31, 2013, no amount was payable under those rules.



# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

Investments made by the Company otherwise than as first purchaser for the acquisition of securities issued by an eligible entity can also be taken into account in the calculations for determining eligible investments. For investments made prior to November 10, 2007, those investments should not represent more than one third of the total investments made by the Company as first purchaser in this entity. For investments made on or after November 10, 2007, this restriction is lifted, but the Company may not make investments otherwise than as first purchaser totalling more than 20% of its net assets as at the preceding year-end for those investments to be eligible.

## 2 Basis of presentation and adoption of International Financial Reporting Standards (“IFRS”)

### Adoption of IFRS

These interim financial statements (the “financial statements”) have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The Company adopted that basis of accounting for its fiscal year that began on January 1, 2014, as required by Canadian securities legislation and the Canadian Accounting Standards Board. The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as defined in Part V of the *CPA Canada Handbook*. The Company has consistently applied the accounting policies used in the preparation of its opening IFRS balance sheet as at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 20 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s financial statements prepared under Canadian GAAP.

### Statement of compliance

The Company has prepared its separate financial statements under IFRS, and more specifically, in accordance with IAS 34, “Interim Financial Reporting”. These financial statements were approved by the Board of Directors on August 21, 2014.

### Basis of measurement

These financial statements have been prepared on a fair value basis, except with respect to the financial instruments classified as loans and receivables and other financial liabilities, as well as taxes, which are measured at amortized cost and at cost.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### **Investment entity**

The Company has several shareholders that are not related parties and holds a number of investments directly or indirectly in underlying funds. Ownership interests in the Company are in the form of redeemable shares, subject to certain conditions, which are reported in net assets, in accordance with the puttable instrument exemption under IAS 32, “Financial Instruments: Presentation”.

The Company has concluded that it constitutes an investment entity within the meaning of IFRS 10, “Consolidated Financial Statements”, as it obtains funds from multiple shareholders, commits to its shareholders to invest funds for returns from capital appreciation, and measures and evaluates the performance of its investments on a fair value basis. Accordingly, investments in subsidiaries and associates reported in investments impacting the Québec economy are measured at fair value.

## **3 Significant accounting policies**

The significant accounting policies used in preparing these financial statements are set out below.

### **Financial instruments**

The Company accounts for its financial instruments at fair value on initial recognition. Purchases and sales of financial assets are recognized at the trade date. Financial assets and liabilities are classified into various categories based on their characteristics and the Company’s intention upon their acquisition and issuance. Investments impacting the Québec economy, other investments, amounts receivable on disposal of investments impacting the Québec economy and notes payable and financial liabilities are designated as at fair value through profit or loss. Those financial instruments are part of a portfolio managed in accordance with a documented investment management strategy and whose performance is evaluated on a fair value basis. In addition, information about the portfolio is provided internally on that basis to the Company’s key management personnel.

Cash and other accounts receivable are classified in loans and receivables, and accounts payable, in other financial liabilities. Those financial instruments are recognized at amortized cost, which approximates their fair value.

Financial liabilities are derecognized when the liability is extinguished, that is when the obligation specified in the contract is discharged or cancelled, or expires.

### **Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### *Fair value of assets and liabilities traded in an active market*

The fair value of assets and liabilities traded in an active market is based on the quoted price within the bid-ask spread that is most representative of fair value in the circumstances.

### *Fair value of assets and liabilities not traded in an active market*

If there are no quoted prices in an active market, fair value is determined using valuation techniques chosen based on set criteria and prevailing market conditions at each reporting date. The principal financial instruments not traded in an active market are included in investments impacting the Québec economy. The techniques used are based on valuation principles including guidelines generally used in the industry by business valuation professionals. Those valuation principles have been approved by the Company's Board of Directors. The valuation method for a financial instrument is generally consistent from period to period, except where a change will result in more accurate estimates of fair value. Given the evolving environment specific to each entity underlying the financial instruments, changes to valuation techniques occur in each reporting period.

### *Loans and advances, non-participating shares*

The fair value of loans and advances and non-participating shares is determined by discounting the Company's expected contractual cash flows using a discount rate reflecting the return it would demand in light of entity-specific credit risk.

### *Participating shares*

The main technique used to determine the fair value of participating shares is the capitalization of cash flows. Two key variables used in that technique are representative cash flow and the capitalization rate. To determine representative cash flow, recurring cash flows are estimated using the entity's historical results and/or financial forecasts. A risk weight is subsequently applied to each of the cash flows thus determined to reflect its probability of occurrence. The rate used to capitalize the representative cash flow thus obtained reflects the way in which the entity could fund its operations and the risks associated with the occurrence of that representative cash flow.

Where the price of a recent arm's length market transaction between knowledgeable, willing parties is available, this valuation technique is used. It may also be appropriate to use a technique based on a third-party purchase offer when deemed bona fide and credible. The use of judgment is required in determining whether the fair value of the recent transaction or purchase offer is the best evidence of fair value at the measurement date. The period during which it is deemed appropriate to refer to a past transaction or purchase offer depends on the circumstances specific to each investment.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

Another valuation technique used is adjusted net assets, which consists in remeasuring all assets and liabilities on the Balance Sheet of the entity or fund at their fair value at the measurement date. The key adjustments made are related to the fair value of assets and liabilities, newly available information and significant events that occurred between the Balance Sheet date of the entity or the fund and the measurement date.

### *Guarantee*

When it is probable that the Company is required to make a payment under guarantee it has provided, the liability to be recognized is estimated using an asset-based approach and a liquidation value method.

### *Notes payable and financial liabilities*

Notes payable and financial liabilities are related to acquisitions of certain investments and are recognized at fair value, which represents the amount payable by the Company under the notes and financial liabilities' underlying contractual agreements at the reporting date.

### *Obligations related to securities sold short*

Securities sold short as part of trading activities, which represent the Company's obligation to deliver securities which were not owned at the time of sale, are recorded as liabilities and measured at fair value using the quoted price within the bid-ask spread that is most representative of fair value in the circumstances at the reporting date. Realized and unrealized gains and losses thereon are recorded in profit or loss under "Interest". As at June 30, 2014, December 31, 2013 and January 1, 2013, the Company had no securities sold short. Due to regulatory changes, the Company's manager is in the process of reviewing its strategies to discontinue the use of securities sold short.

### *Securities purchased under reverse repurchase agreements and securities sold under repurchase agreements*

The Company enters into short-term purchases and sales of securities with simultaneous commitments to sell and buy back those securities at a specified price and on a specified date. Those reverse repurchase agreements and repurchase agreements are accounted for as collateralized lending and borrowing transactions, and are recorded on the Balance Sheets at the selling or repurchase price specified under the agreement. The difference between the purchase price and specified selling price and the difference between the selling price and the specified repurchase price are recorded using the accrual method in "Interest". As at June 30, 2014, December 31, 2013 and January 1, 2013, the Company had no securities purchased under reverse repurchase agreements or securities sold under repurchase agreements. Due to regulatory changes, the Company's manager is in the process of reviewing its strategies to discontinue the use of securities purchased under reverse repurchase agreements and securities sold under repurchase agreements.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### *Amounts receivable on disposal of investments impacting the Québec economy*

The fair value of amounts receivable on disposal of investments impacting the Québec economy is determined by discounting contractual cash flows. Typically, estimating the amounts receivable and the timing of their collection depends on whether specified future events occur or conditions are met.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash and money market instruments with purchased maturities of less than 90 days.

### **Share capital**

The shares of the Company are redeemable at the holder's option subject to certain conditions and therefore constitute financial liabilities. However, they are reported in net assets, as they have all of the following features:

- They entitle the shareholder to a pro rata share of the Company's net assets in the event of the Company's liquidation;
- They are in the class of instruments that is subordinate to all other classes of instruments of the Company;
- They have identical features to all other instruments in that class;
- Apart from the contractual obligation for the Company to repurchase or redeem the instrument for cash or another financial asset, they do not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company, and it is not a contract that will or may be settled in the Company's shares;
- The total expected cash flows attributable to the shares over their life are based substantially on net earnings, the change in recognized net assets or the change in fair value of the recognized and unrecognized net assets of the Company over the life of the shares (excluding any effects of the shares).

Share issuance costs, net of taxes, are reported in the Statements of Changes in Net Assets.

### **Revenue recognition**

#### *Interest and dividends*

For investments impacting the Québec economy, interest is recognized at the contractual rate, as collection is reasonably assured. For other investments, interest is recognized using the effective interest method. Amortization of premiums and discounts, calculated using the effective interest method, is recognized in profit or loss under "Interest."

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

Dividends are recognized as at the holder-of-record date and when they are declared by the issuing companies.

### *Administrative charges*

Administrative charges are recognized at the time of a shareholder's initial subscription and on the closure of that account by the shareholder.

### *Gains and losses*

Realized gains and losses on investments are recognized at the time of sale and represent the difference between sale proceeds and cost. Realized gains and losses on a note payable or financial liability are recognized when paid and represent the difference between the amount the Company paid to settle the note or financial liability and its initial value. The realized gains and losses do not take into account the unrealized gains and losses recognized in previous years, which are reversed and reported in unrealized gains and losses for the current year.

Unrealized gains and losses on amounts receivable on disposal of investments impacting the Québec economy are recognized at the time fair value is determined.

### **Functional currency and foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars, the Company's functional currency, at the exchange rate prevailing at the end of the reporting period. Revenues and expenses are translated at the exchange rate prevailing on the transaction date. Realized and unrealized gains and losses on investments arising from those translations are accounted for in the Statements of Comprehensive Income under "Gains (losses) on investments". For the other monetary assets and liabilities denominated in foreign currencies, changes related to foreign currency translation are reported under "Other operating expenses" in the Statements of Comprehensive Income.

### **Taxes**

The income tax expense comprises current taxes and deferred taxes. Income taxes are recognized in the Statements of Comprehensive Income, unless they relate to items that were recognized outside earnings directly in the Statements of Changes in Net Assets. In such cases, income taxes are also recognized outside profit or loss directly in net assets.

Current tax is the tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for deferred tax on unrealized gains, discussed in the following paragraph. Deferred tax is calculated on an undiscounted basis using enacted or substantively enacted tax rates and legislation at the end of the reporting period that are expected to apply in the period in which the deferred tax asset will be realized and the deferred tax liability will be settled. Deferred tax assets are generally recognized only to the extent that it is probable that future taxable income will be available against which temporary differences can be utilized.

The Company is subject to federal and Québec income taxes. It is also subject to the tax rules applicable to mutual fund corporations. For federal tax purposes, the Company may, in particular, obtain a refund of its tax paid on capital gains through the redemption of its shares. The Company considers it is, in substance, exempt from federal income tax related to capital gains (losses) for the purposes of applying IFRS and, accordingly, does not recognize any deferred taxes relating to unrealized gains (losses) on investments or deferred taxes related to unrealized recoveries resulting from tax mechanisms related to refundable capital gains tax on hand. For Québec tax purposes, realized capital gains (losses) are not taxable (deductible).

### **Net earnings per common share**

Net earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding during the period.

## **4 Significant judgments, estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenue and expenses and the related disclosures. Changes in assumptions can have a material effect on the financial statements for the period in which those assumptions were changed. The Company considers the assumptions used to be appropriate and accordingly that its financial statements present fairly its financial position and its results.

The significant accounting policy that required the Company to make subjective or complex judgments, often about matters that are inherently uncertain, pertains to the fair value measurement of assets and liabilities not traded in an active market.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

A significant judgment is made in the assumptions used in the valuation techniques. While those techniques make as much use as possible of observable inputs, fair value is also determined based on internal inputs and estimates (unobservable inputs) that take into account the features specific to the financial instrument and any relevant measurement factor. The use of unobservable inputs requires the Company to exercise judgment to ensure that those inputs reflect the assumptions that market participants would use to determine fair value based on the best information available in the circumstances. The Company considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Fair value reflects market conditions on a given date and, for that reason, may not be representative of future fair values.

In accordance with the requirements contained in the *Regulation respecting development capital investment fund continuous disclosure* issued by the Autorité des marchés financiers, the Company has implemented various controls and procedures to ensure that financial instruments are appropriately and reliably measured. The valuations have been prepared by a team of qualified valuers relying on a structured process composed of several validation and review stages. The Portfolio Valuation Committee, whose members consist mainly of independent qualified valuers, monitors operational risk related to non-compliance with the portfolio valuation methodology and reports to the Board of Directors semi-annually. More specifically, its role consists in performing semi-annual reviews of all relevant information regarding the valuations of the Company's investments impacting the Québec economy portfolio to provide reasonable assurance that the valuation process meets regulatory requirements.

## 5 Accounting standards issued but not yet adopted

The accounting standards to be applied by the Company that have been issued by the IASB but were not yet effective on June 30, 2014 are discussed below.

### Annual improvements

In December 2013, the IASB issued "Annual Improvements 2010-2012 Cycle" and "Annual Improvements 2011-2013 Cycle", which contain necessary, non-urgent amendments to certain standards.

Some of those amendments are effective for annual periods beginning on or after July 1, 2014, while others are effective for transactions entered into on or after July 1, 2014. Those amendments will have no material impact on the Company's results or financial position.

### IFRS 9, "Financial Instruments"

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which covers classification, measurement, impairment and hedge accounting and replaces IAS 39, "Financial Instruments: Recognition and Measurement". The effective date of IFRS 9 was set for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of adopting this standard.



# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### **IFRS 15, “Revenue from Contracts with Customers”**

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

The Company is currently assessing the impact of adopting IFRS 15, which will be effective for annual periods beginning on or after January 1, 2017.

## **6 Risks associated with financial instruments**

The risks associated with financial instruments that affect the Company’s financial position are discussed in detail in the audited sections “Market Risks,” “Credit and Counterparty Risk” and “Liquidity Risk” of the Company’s Management’s Discussion and Analysis on pages XX - XX and are an integral part of these audited financial statements.

# Capital régional et coopératif Desjardins

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### 7 Investments impacting the Québec economy

The *Audited Schedule of Cost of Investments Impacting the Québec Economy* is available at the Company's head office, on its website at [capitalregional.com](http://capitalregional.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). The Schedule does not form an integral part of the financial statements.

|                    | <b>As at<br/>June 30,<br/>2014</b>     |  |                          |
|--------------------|--|--|--------------------------|
|                    | <b>Cost<br/>\$</b>                     | <b>Unrealized<br/>gain (loss)<br/>\$</b> | <b>Fair value<br/>\$</b> |
| Unsecured          |  |  |                          |
| Common shares      | 247,318                                | 80,924                                   | 328,242                  |
| Preferred shares   | 82,631                                 | 7,390                                    | 90,021                   |
| Fund units         | 182,384                                | 8,835                                    | 191,219                  |
| Loans and advances | 163,129                                | (15,152)                                 | 147,977                  |
| Secured            |  |  |                          |
| Loans and advances | 5,770                                  | (1,129)                                  | 4,641                    |
|                    | 681,232                                | 80,868                                   | 762,100                  |
|                    |  |  |                          |
|                    | <b>As at<br/>December 31,<br/>2013</b> |  |                          |
|                    | <b>Cost<br/>\$</b>                     | <b>Unrealized<br/>gain (loss)<br/>\$</b> | <b>Fair value<br/>\$</b> |
| Unsecured          |  |  |                          |
| Common shares      | 230,493                                | 60,390                                   | 290,883                  |
| Preferred shares   | 83,997                                 | 6,613                                    | 90,610                   |
| Fund units         | 165,598                                | 6,364                                    | 171,962                  |
| Loans and advances | 185,187                                | (10,185)                                 | 175,002                  |
| Secured            |  |  |                          |
| Loans and advances | 6,272                                  | (822)                                    | 5,450                    |
|                    | 671,547                                | 62,360                                   | 733,907                  |

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|                    |                |                                 | As at<br>January 1,<br>2013 |
|--------------------|----------------|---------------------------------|-----------------------------|
|                    | Cost<br>\$     | Unrealized<br>gain (loss)<br>\$ | Fair value<br>\$            |
| Unsecured          |                |                                 |                             |
| Common shares      | 170,836        | 36,939                          | 207,775                     |
| Preferred shares   | 78,465         | 2,142                           | 80,607                      |
| Fund units         | 145,255        | (2,584)                         | 142,671                     |
| Loans and advances | 225,225        | (2,708)                         | 222,517                     |
| Secured            |                |                                 |                             |
| Loans and advances | 5,633          | (158)                           | 5,475                       |
|                    | <u>625,414</u> | <u>33,631</u>                   | <u>659,045</u>              |

Investments impacting the Québec economy include investments measured in U.S. dollars with a fair value of \$149.6 million (\$127.6 million as at December 31, 2013; \$92.6 million as at January 1, 2013).

Agreements related to investments impacting the Québec economy may include clauses providing conversion and redemption options.

Loans and advances bear interest at a weighted average rate of 11.6% (December 31, 2013 – 11.3%; January 1, 2013 – 11.3%) and have an average residual maturity of 4.3 years (December 31, 2013 – 4.5 years; January 1, 2013 – 4.2 years). The interest rate is fixed for substantially all interest-bearing loans and advances. For the six-month period ended June 30, 2014, interest income recognized at the contractual rate amounted to \$10.0 million (six-month period ended June 30, 2013 – \$12.5 million). Substantially all of the change in the fair value of loans and advances resulted from changes in credit risk.

### Allocation of investments and funds committed by segment

Investments and funds committed are allocated by segment as follows:

| Segment                   | Investments<br>at cost<br>\$ | Unrealized<br>gain (loss)<br>\$ | Fair<br>value<br>\$ | Funds<br>committed<br>but not<br>disbursed <sup>(1)</sup><br>\$ | As at<br>June 30,<br>2014 |
|---------------------------|------------------------------|---------------------------------|---------------------|---|---------------------------|
|                           |                              |                                 |                     |   | Total<br>commitment<br>\$ |
| Manufacturing             | 265,600                      | 105,578                         | 371,178             | -   | 371,178                   |
| Services                  | 198,887                      | (18,448)                        | 180,439             | 10,000  | 190,439                   |
| Technological innovations | 34,361                       | (15,097)                        | 19,264              | -   | 19,264                    |
| Funds                     | 182,384                      | 8,835                           | 191,219             | 172,046   | 363,265                   |
| <b>Total</b>              | <u>681,232</u>               | <u>80,868</u>                   | <u>762,100</u>      | <u>182,046</u>  | <u>944,146</u>            |

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| Segment                   | As at<br>December 31,<br>2013 |                                 |                     |   |                           |
|---------------------------|-------------------------------|---------------------------------|---------------------|---|---------------------------|
|                           | Investments<br>at cost<br>\$  | Unrealized<br>gain (loss)<br>\$ | Fair<br>value<br>\$ | Funds<br>committed<br>but not<br>disbursed <sup>(1)</sup><br>\$ | Total<br>commitment<br>\$ |
| Manufacturing             | 282,252                       | 79,987                          | 362,239             | 1,450   | 363,689                   |
| Services                  | 187,072                       | (7,437)                         | 179,635             | 25,000  | 204,635                   |
| Technological innovations | 36,625                        | (16,554)                        | 20,071              | -   | 20,071                    |
| Funds                     | 165,598                       | 6,364                           | 171,962             | 201,143   | 373,105                   |
| <b>Total</b>              | <b>671,547</b>                | <b>62,360</b>                   | <b>733,907</b>      | <b>227,593</b>  | <b>961,500</b>            |

| Segment                   | As at<br>January 1,<br>2013  |                                 |                     |   |                           |
|---------------------------|------------------------------|---------------------------------|---------------------|---|---------------------------|
|                           | Investments<br>at cost<br>\$ | Unrealized<br>gain (loss)<br>\$ | Fair<br>value<br>\$ | Funds<br>committed<br>but not<br>disbursed <sup>(1)</sup><br>\$ | Total<br>commitment<br>\$ |
| Manufacturing             | 273,491                      | 50,287                          | 323,778             | 2,096   | 325,874                   |
| Services                  | 168,015                      | 4,506                           | 172,521             | 14,000  | 186,521                   |
| Technological innovations | 38,652                       | (18,577)                        | 20,075              | -   | 20,075                    |
| Funds                     | 145,256                      | (2,585)                         | 142,671             | 126,254   | 268,925                   |
| <b>Total</b>              | <b>625,414</b>               | <b>33,631</b>                   | <b>659,045</b>      | <b>142,350</b>  | <b>801,395</b>            |

<sup>(1)</sup> Funds committed but not disbursed are not included in the Company's assets.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### Funds committed but not disbursed

Funds committed but not disbursed represent investments that have already been agreed upon and for which amounts have been committed but not disbursed by the Company at the reporting date. Future disbursements are subject to certain conditions. Assuming that the conditions are met, the estimated instalments over the coming years ended December 31 will be as follows:

| 2014<br>(6 months)<br>\$ | 2015<br>\$ | 2016<br>\$ | 2017<br>\$ | 2018 and<br>thereafter<br>\$ | Total<br>\$ |
|--------------------------|------------|------------|------------|------------------------------|-------------|
| 23,403                   | 47,090     | 55,478     | 19,129     | 36,946                       | 182,046     |

### Investments in subsidiaries and associates

Subsequent to quantitative and qualitative analyses, the Company has determined that it has control (subsidiaries) or exercises significant influence (associates) over the following number of entities:

|                     | As at<br>June 30,<br>2014 | As at<br>December 31,<br>2013 | As at<br>January 1,<br>2013 |                     |        |                     |
|---------------------|---------------------------|-------------------------------|-----------------------------|---------------------|--------|---------------------|
|                     | Number                    | Fair<br>value<br>\$           | Number                      | Fair<br>value<br>\$ | Number | Fair<br>value<br>\$ |
| <b>Subsidiaries</b> |                           |                               |                             |                     |        |                     |
| Partner companies   | 10                        | 160,544                       | 10                          | 162,016             | 8      | 136,081             |
| <b>Associates</b>   |                           |                               |                             |                     |        |                     |
| Partner companies   | 17                        | 138,816                       | 17                          | 137,305             | 15     | 126,843             |
| Funds               | 7                         | 167,496                       | 6                           | 152,060             | 5      | 120,734             |

The principal place of business of these entities is in Québec and the country of incorporation is Canada. The increase in the number of partner companies as at December 31, 2013 resulted from the acquisition of a new subsidiary and three associates and the increase in equity securities of an associate that gave the Company majority control. No other changes in partner company holdings were recorded as at June 30, 2014.

Interests in the share capital of these partner companies comprise common shares and preferred shares. The percentage of equity securities held by the Company in each of the partner companies is equal to or over 50% for the subsidiaries, and between 15% and 49% for associates. Except for a subsidiary (one subsidiary as at December 31, 2013; none as at January 1, 2013) and an associate (one associate as at December 31, 2013; one associate as at January 1, 2013), the voting rights for these partner companies are equivalent to the proportion of interests held.

As sponsor, the Company has invested in certain funds over which it exercises significant influence. The interests are made up of units and the holding percentage varies from 20% to 100% (20% to 100% as at December 31, 2013; 20% to 54.5% as at January 1, 2013). The Company had invested in a new fund as at June 30, 2014 and December 31, 2013, which explains the increase in the number of funds.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

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### 8 Other investments

The *Unaudited Statement of other investments* is available at the Company's head office, on its website at [capitalregional.com](http://capitalregional.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). The Statement does not form an integral part of the financial statements.

|   | As at<br>June 30,<br>2014 |                                 |                  |
|---|---------------------------|---------------------------------|------------------|
|   | Cost<br>\$                | Unrealized gain<br>(loss)<br>\$ | Fair value<br>\$ |
| Bonds                                     |                           |                                 |                  |
| Federal or guaranteed                     | 152,760                   | 1,610                           | 154,370          |
| Provincial, municipal or guaranteed       | 220,725                   | 3,007                           | 223,732          |
| Financial institutions                    | 134,290                   | 4,349                           | 138,639          |
| Companies                                 | 49,742                    | 1,799                           | 51,541           |
|   | 557,517                   | 10,765                          | 568,282          |
| Preferred shares                          | 74,330                    | (563)                           | 73,767           |
| Money market instruments <sup>(1)</sup>   | 21,440                    | -                               | 21,440           |
| Foreign exchange contracts <sup>(2)</sup> | -                         | (4)                             | (4)              |
| <b>Total</b>                              | <b>653,287</b>            | <b>10,198</b>                   | <b>663,485</b>   |

#### Breakdown of bonds by maturity date

|                                     | As at<br>June 30,<br>2014 |                       |                       |             |
|-------------------------------------|---------------------------|-----------------------|-----------------------|-------------|
|                                     | Under<br>1 year<br>\$     | 1 to 5<br>years<br>\$ | Over<br>5 years<br>\$ | Total<br>\$ |
| Cost                                | 30,515                    | 351,192               | 175,810               | 557,517     |
| Par value                           | 30,550                    | 345,636               | 170,563               | 546,749     |
| Fair value                          | 30,625                    | 357,391               | 180,266               | 568,282     |
| Average nominal rate <sup>(3)</sup> | 1.69%                     | 2.95%                 | 3.65%                 | 3.10%       |
| Average effective rate              | 1.45%                     | 2.40%                 | 3.11%                 | 2.57%       |

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

|   | As at<br>December 31,<br>2013 |                                 |                  |
|---|-------------------------------|---------------------------------|------------------|
|   | Cost<br>\$                    | Unrealized gain<br>(loss)<br>\$ | Fair value<br>\$ |
| Bonds                                     |                               |                                 |                  |
| Federal or guaranteed                     | 183,418                       | 835                             | 184,253          |
| Provincial, municipal or guaranteed       | 221,118                       | (230)                           | 220,888          |
| Financial institutions                    | 160,829                       | 2,831                           | 163,660          |
| Companies                                 | 52,318                        | 560                             | 52,878           |
|   | 617,683                       | 3,996                           | 621,679          |
| Preferred shares                          | 76,186                        | (2,663)                         | 73,523           |
| Money market instruments <sup>(1)</sup>   | 12,278                        | -                               | 12,278           |
| Foreign exchange contracts <sup>(2)</sup> | -                             | (484)                           | (484)            |
| <b>Total</b>                              | 706,147                       | 849                             | 706,996          |

### Breakdown of bonds by maturity date

|                                     | As at<br>December 31,<br>2013 |                       |                       |             |
|-------------------------------------|-------------------------------|-----------------------|-----------------------|-------------|
|                                     | Under<br>1 year<br>\$         | 1 to 5<br>years<br>\$ | Over<br>5 years<br>\$ | Total<br>\$ |
| Cost                                | -                             | 381,060               | 236,623               | 617,683     |
| Par value                           | -                             | 374,707               | 229,253               | 603,960     |
| Fair value                          | -                             | 385,445               | 236,234               | 621,679     |
| Average nominal rate <sup>(3)</sup> | -                             | 3.00%                 | 3.83%                 | 3.31%       |
| Average effective rate              | -                             | 2.44%                 | 3.26%                 | 2.75%       |

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|   |                |                                 | As at<br>January 1,<br>2013 |
|---|----------------|---------------------------------|-----------------------------|
|   | Cost<br>\$     | Unrealized gain<br>(loss)<br>\$ | Fair value<br>\$            |
| Bonds                                     |                |                                 |                             |
| Federal or guaranteed                     | 178,728        | 5,758                           | 184,486                     |
| Provincial, municipal or guaranteed       | 228,099        | 4,062                           | 232,161                     |
| Financial institutions                    | 136,665        | 5,889                           | 142,554                     |
| Companies                                 | 30,983         | 2,415                           | 33,398                      |
|   | 574,475        | 18,124                          | 592,599                     |
| Preferred shares                          | 63,500         | 1,212                           | 64,712                      |
| Money market instruments <sup>(1)</sup>   | 13,508         | -                               | 13,508                      |
| Foreign exchange contracts <sup>(2)</sup> | -              | (247)                           | (247)                       |
| <b>Total</b>                              | <b>651,483</b> | <b>19,089</b>                   | <b>670,572</b>              |

### Breakdown of bonds by maturity date

|                                     |                       |                       |                       | As at<br>January 1,<br>2013 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------|
|                                     | Under<br>1 year<br>\$ | 1 to 5<br>years<br>\$ | Over<br>5 years<br>\$ | Total<br>\$                 |
| Cost                                | -                     | 278,566               | 295,909               | 574,475                     |
| Par value                           | -                     | 272,869               | 282,370               | 555,239                     |
| Fair value                          | -                     | 283,799               | 308,800               | 592,599                     |
| Average nominal rate <sup>(3)</sup> | -                     | 3.22%                 | 3.96%                 | 3.59%                       |
| Average effective rate              | -                     | 2.35%                 | 3.20%                 | 2.79%                       |

<sup>(1)</sup> Money market instruments consist of term deposits, Treasury bills and strip bonds with an original maturity of less than a year. As at June 30, 2014, all money market instruments had an original maturity of one to twelve months (two to five months as at December 31, 2013; two to nine months as at January 1, 2013).

<sup>(2)</sup> Foreign exchange contracts to sell US\$154.3 million have three-month maturities (US\$133.0 million as at December 31, 2013; US\$114.0 million as at January 1, 2013).

<sup>(3)</sup> Substantially all bonds bear interest at a fixed rate.



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## Notes to Financial Statements

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### 9 Fair value of financial instruments

#### Hierarchy levels of financial instruments measured at fair value

The Company categorizes its financial instruments according to the three following hierarchical levels:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the breakdown by level of the fair value measurements of financial instruments recognized at fair value in the Balance Sheets.

|  |               |               |               | As at<br>June 30,<br>2014     |
|--|---------------|---------------|---------------|-------------------------------|
|  | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$                   |
| <b>Financial assets</b>  |               |               |               |                               |
| Investments impacting the Québec economy                                     | 927           | -             | 761,173       | 762,100                       |
| Other investments  | 450,061       | 213,424       | -             | 663,485                       |
| Amount receivable on disposal of investments<br>impacting the Québec economy | -             | -             | 15,433        | 15,433                        |
| Total financial assets   | 450,988       | 213,424       | 776,606       | 1,441,018                     |
| <b>Financial liabilities</b>   |               |               |               |                               |
| Notes payable and financial liabilities                                      | -             | -             | 15,365        | 15,365                        |
|  |               |               |               |                               |
|  |               |               |               | As at<br>December 31,<br>2013 |
|  | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$                   |
| <b>Financial assets</b>  |               |               |               |                               |
| Investments impacting the Québec economy                                     | 1,535         | -             | 732,372       | 733,907                       |
| Other investments  | 461,044       | 246,352       | -             | 707,396                       |
| Amount receivable on disposal of investments<br>impacting the Québec economy | -             | -             | 15,234        | 15,234                        |
| Total financial assets   | 462,579       | 246,352       | 747,606       | 1,465,537                     |
| <b>Financial liabilities</b>   |               |               |               |                               |
| Notes payable and financial liabilities                                      | -             | -             | 15,000        | 15,000                        |

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|  | Level 1<br>\$  | Level 2<br>\$  | Level 3<br>\$  | As at<br>January 1,<br>2013<br>Total<br>\$ |
|--|----------------|----------------|----------------|--|
| <b>Financial assets</b>  |                |                |                |  |
| Investments impacting the Québec economy                                     | 1,991          | -              | 657,054        | 659,045                                    |
| Other investments  | 476,862        | 193,710        | -              | 670,572                                    |
| Amount receivable on disposal of investments<br>impacting the Québec economy | -              | -              | 23,436         | 23,436                                     |
| <b>Total financial assets</b>  | <b>478,853</b> | <b>193,710</b> | <b>680,490</b> | <b>1,353,053</b>                           |
| <b>Financial liabilities</b>   |                |                |                |  |
| Notes payable and financial liabilities                                      | -              | -              | 11,352         | 11,352                                     |

Transfers between hierarchy levels of financial instruments measured at fair value are made at the reporting date. No transfers between hierarchy levels took place during the six-month period ended June 30, 2014 and during the year ended December 31, 2013.

### Level 3 financial instruments

The following table presents the reconciliation between the beginning and ending balances of Level 3 financial instruments:

|  | Investments<br>impacting<br>the Québec<br>economy<br>\$ | Amounts<br>receivable<br>on disposal of<br>investments<br>impacting<br>the Québec<br>economy<br>\$ | Notes payable<br>and financial<br>liabilities<br>\$ |
|--|---|--|---|
| <b>Fair value as at December 31, 2013</b>  | 732,372   | 15,234   | (15,000)  |
| Realized gains (losses)  | ( 3,263)  | 356  | (121)   |
| Unrealized gains (losses)  | 19,117  | -  | (1,321)   |
| Acquisitions/issuances   | 54,167  | -  | -   |
| Disposals/repayments   | (41,220)  | (157)  | 1,077   |
| <b>Fair value as at June 30, 2014</b>  | <b>761,173</b>  | <b>15,433</b>  | <b>(15,365)</b>                                     |
| Unrealized gains (losses) on investments<br>and notes payable and financial<br>liabilities as at June 30, 2014 | 16,852  | -  | (1,448)   |

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|  |   |  | As at<br>December 31,<br>2013                       |
|--|---|--|---|
|  | Investments<br>impacting<br>the Québec<br>economy<br>\$ | Amounts<br>receivable<br>on disposal of<br>investments<br>impacting<br>the Québec<br>economy<br>\$ | Notes payable<br>and financial<br>liabilities<br>\$ |
| <b>Fair value as at January 1, 2013</b>  | 657,054   | 23,436   | (11,352)  |
| Realized gains (losses)  | 10,218  | 1,502  | -   |
| Unrealized gains (losses)  | 29,184  | -  | (3,648)   |
| Acquisitions/issuances   | 134,980   | 966  | -   |
| Disposals/repayments   | (99,064)  | (10,670)   | -   |
| <b>Fair value as at December 31, 2013</b>  | <b>732,372</b>  | <b>15,234</b>  | <b>(15,000)</b>                                     |
| Unrealized gains (losses) on investments<br>and notes payable and financial<br>liabilities as at December 31, 2013 | 28,356  | -  | (3,648)   |

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The following tables present the main techniques and inputs used to measure the fair value of level 3 financial instruments:

|   |                     |                              |   | As at<br>June 30,<br>2014               |
|---|---------------------|------------------------------|---|---|
|   | Fair<br>value<br>\$ | Main valuation<br>techniques | Unobservable<br>inputs                        | Input value range<br>(weighted average) |
| <b>Investments impacting the Québec economy</b>                                   |                     |                              |   |   |
| Loans and advances  | 76,520              | Discounted cash flows        | Required return                               | 2.9%–26.8% (10.8%)                      |
| Non-participating shares  | 40,190              | Discounted cash flows        | Required return                               | 5.2%–30.0% (6.2%)                       |
| Participating controlling shares  | 125,825             | Capitalized cash flows       | Capitalization rate                           | 8.9%–11.5% (10.1%)                      |
|   |                     |                              | % of representative cash flows <sup>(1)</sup> | 5.6%–23.6% (12.5%)                      |
|   | 24,755              | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 9,964               | Other <sup>(3)</sup>         | -   | -                                       |
| Participating non-controlling shares  | 106,740             | Capitalized cash flows       | Capitalization rate                           | 7.4%–16.7% (9.3%)                       |
|   |                     |                              | % of representative cash flows <sup>(1)</sup> | 1.3%–27.7% (13.4%)                      |
|   | 147,493             | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 32,411              | Restated net assets          | Entity's net assets                           | _(2)                                    |
|   | 6,056               | Other <sup>(3)</sup>         | -   | -                                       |
| Fund units  | 191,219             | Restated net assets          | Fund's net assets                             | _(2)                                    |
|   | <u>761,173</u>      |                              |   |   |
| <b>Amounts receivable on disposal of investments impacting the Québec economy</b> | 15,433              | Discounted cash flows        | Required return                               | 1.0%–14.0% (8.0%)                       |
| <b>Notes payable and financial liabilities</b>                                    | (15,365)            | Miscellaneous                | -   | -                                       |

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

|   |                     |                              |   | As at<br>December 31,<br>2013           |
|---|---------------------|------------------------------|---|---|
|   | Fair<br>value<br>\$ | Main valuation<br>techniques | Unobservable<br>inputs                        | Input value range<br>(weighted average) |
| <b>Investments impacting the Québec economy</b>                                   |                     |                              |   |   |
| Loans and advances  | 88,403              | Discounted cash flows        | Required return                               | 3.1%–27.1% (11.7%)                      |
| Non-participating shares  | 39,887              | Discounted cash flows        | Required return                               | 5.7%–30.0% (6.8%)                       |
| Participating controlling shares  | 102,092             | Capitalized cash flows       | Capitalization rate                           | 9.2%–12.6% (11.2%)                      |
|   |                     |                              | % of representative cash flows <sup>(1)</sup> | 4.5%–25.0% (14.6%)                      |
| Participating non-controlling shares  | 59,924              | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 206,478             | Capitalized cash flows       | Capitalization rate                           | 7.8%–19.5% (9.8%)                       |
| % of representative cash flows <sup>(1)</sup>                                     |                     |                              | 1.4%–35.0% (13.1%)                            |   |
| Fund units  | 29,089              | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 28,319              | Restated net assets          | Entity's net assets                           | -(2)                                    |
|   | 6,218               | Other <sup>(3)</sup>         | -   | -                                       |
|   | 171,962             | Restated net assets          | Fund's net assets                             | -(2)                                    |
|   | <u>732,372</u>      |                              |   |   |
| <b>Amounts receivable on disposal of investments impacting the Québec economy</b> | 15,234              | Discounted cash flows        | Required return                               | 0.9%–13.0% (7.6%)                       |
| <b>Notes payable and financial liabilities</b>                                    | (15,000)            | Miscellaneous                | -   | -                                       |

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

|   |                     |                              |   | As at<br>January 1,<br>2013             |
|---|---------------------|------------------------------|---|---|
|   | Fair<br>value<br>\$ | Main valuation<br>techniques | Unobservable<br>inputs                        | Input value range<br>(weighted average) |
| <b>Investments impacting the Québec economy</b>                                   |                     |                              |   |   |
| Loans and advances  | 107,195             | Discounted cash flows        | Required return                               | 4.4%–28.1% (11.6%)                      |
| Non-participating shares  | 35,809              | Discounted cash flows        | Required return                               | 6.2%–30.0% (8.0%)                       |
| Participating controlling shares  | 92,113              | Capitalized cash flows       | Capitalization rate                           | 10.3%–12.4% (11.4%)                     |
|   |                     |                              | % of representative cash flows <sup>(1)</sup> | 6.5%–24.3% (15.0%)                      |
|   | 38,956              | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 5,012               | Other <sup>(3)</sup>         | -   | -                                       |
| Participating non-controlling shares  | 139,850             | Capitalized cash flows       | Capitalization rate                           | 8.2%–20.9% (10.9%)                      |
|   |                     |                              | % of representative cash flows <sup>(1)</sup> | 5.4%–23.6% (12.6%)                      |
|   | 71,948              | Recent transactions and bids | Paid/bid price                                | -                                       |
|   | 15,890              | Restated net assets          | Entity's net assets                           | _(2)                                    |
|   | 7,610               | Other <sup>(3)</sup>         | -   | -                                       |
| Fund units  | 142,671             | Restated net assets          | Fund's net assets                             | _(2)                                    |
|   | <u>657,054</u>      |                              |   |   |
| <b>Amounts receivable on disposal of investments impacting the Québec economy</b> | 23,436              | Discounted cash flows        | Required return                               | 0.9%–13.0% (5.0%)                       |
| <b>Notes payable and financial liabilities</b>                                    | (11,352)            | Miscellaneous                | -   | -                                       |

<sup>(1)</sup> As the entities comprising the portfolio vary widely in size, representative cash flows are presented as a percentage of sales.

<sup>(2)</sup> As the entities and funds comprising the portfolio vary widely in size, no input value range is provided for the net assets of the entity/fund.

<sup>(3)</sup> Other valuation techniques include discounted transaction value, redemption value and liquidation value methods.

The main valuation techniques used for participating shares take into account investments made in a single entity in the form of loans and advances, and non-participating shares. Accordingly, the fair value of participating shares includes these mixed investments.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### *Sensitivity of fair value to unobservable inputs*

Although the Company considers that fair value estimates made for the financial statements are appropriate, if different assumptions were used for unobservable inputs, the results could be different.

#### *Loans and advances, non-participating shares – Discounted cash flows*

An increase (decrease) in the required return, all other factors remaining constant, generally results in a decrease (increase) in fair value. According to the Company, changing one or more reasonably possible assumptions could result in a change in the required return of about 0.5%. However, such a change in the required return would not have a direct material impact on the fair value of loans and advances, and non-participating shares.

#### *Participating shares – Capitalized cash flows*

If different assumptions were used for the two unobservable inputs, namely representative cash flows and capitalization rate, to measure a given investment, the fair value of the investment could increase or decrease. However, since these two unobservable inputs are inter-related, the use of different assumptions for one of these inputs generally leads to a revised assumption for the other input, thereby limiting the impact on fair value.

Typically, the Company determines a range of acceptable fair values for each investment measured and uses the mid-point of the range for financial statement reporting purposes. If all the ranges are summed up, the cumulative difference between the top and bottom acceptable fair values and the investment fair value expressed as a percentage of the Company's net assets is approximately:

|                                      | <b>As at<br/>June 30,<br/>2014</b> | <b>As at<br/>December 31,<br/>2013</b> | <b>As at<br/>January 1,<br/>2013</b> |
|--------------------------------------|------------------------------------|--|--------------------------------------|
| Participating controlling shares     | +/- 0.3%                           | +/- 0.3%                               | +/- 0.4%                             |
| Participating non-controlling shares | +/- 0.3%                           | +/- 0.5%                               | +/- 0.3%                             |

According to the Company, for each investment subject to measurement, the impact of a change in the two unobservable inputs to reflect other reasonably possible assumptions, should be less than this percentage on the net assets of the Company.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### *Participating shares – Recent transactions and bids*

According to these techniques, the fair value of participating shares is based on an observable input, namely the price of a recent transaction negotiated between unrelated parties or the price of a bid received. The Company must use judgment to determine whether the recent transaction is still representative of the fair value as at the measurement date or whether the bid is serious and credible. The Company may also, if necessary, make any adjustments considered required, and include unobservable inputs in the fair value measurement. The amount of the adjustments is generally immaterial compared with the related transaction or bid price used. The Company considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not be materially different from the fair value used.

### *Fund units – Restated net assets*

According to this technique, the fair value of fund units is based on an observable input, namely the net assets reported in the most recent audited financial statements of each fund held and adjusted if necessary to reflect the acquisitions or disposals of fund units made by the Company between the financial statement reporting date for each fund and the valuation date. In certain circumstances, the Company must make certain other adjustments that are more judgmental in nature. The Company considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not have been materially different from the fair value used.

### *Other valuation techniques*

Since the fair value of assets measured using other techniques is not significant, the Company considers that the fair value it could have obtained by using unobservable inputs based on different reasonably possible assumptions would not have been materially different from the fair value used.

## 10 Accounts receivable

|  | As at<br>June 30,<br>2014<br>\$ | As at<br>December 31,<br>2013<br>\$ | As at<br>January 1,<br>2013<br>\$ |
|--|---------------------------------|-------------------------------------|-----------------------------------|
| Interest, dividends and distributions receivable on investments            | 7,786                           | 6,835                               | 5,749                             |
| Amounts receivable on disposal of investments impacting the Québec economy | 15,433                          | 15,234                              | 23,436                            |
| Amounts receivable on disposal of other investments                        | 1,032                           | -                                   | -                                 |
| Consumption taxes receivable   | 18                              | 189                                 | 761                               |
|  | <hr/> 24,269                    | <hr/> 22,258                        | <hr/> 29,946                      |



# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

Amounts receivable on disposal of investments impacting the Québec economy include amounts denominated in U.S. dollars for \$14.6 million (\$14.3 million as at December 31, 2013; \$22.8 million as at January 1, 2013).

### 11 Cash and cash equivalents

|                          | As at<br>June 30,<br>2014<br>\$ | As at<br>December 31,<br>2013<br>\$ | As at<br>January 1,<br>2013<br>\$ |
|--------------------------|---------------------------------|-------------------------------------|-----------------------------------|
| Cash                     | 16,642                          | 9,701                               | 7,357                             |
| Money market instruments | 6,952                           | 10,583                              | 3,596                             |
|                          | <u>23,594</u>                   | <u>20,284</u>                       | <u>10,953</u>                     |

### 12 Notes payable and financial liabilities

On November 30, 2010, the Company acquired from Desjardins Venture Capital L.P., a subsidiary of Fédération des Caisses Desjardins du Québec, investments with a fair value of \$17.6 million as consideration for notes of an equal initial value. Each note payable is related to one of the acquired investments and contains a provision under which the amount payable shall be adjusted based on the amounts received by the Company on the sale of the related investment. If the amount received by the Company at the time of sale is less than the initial cost of the investment, the amount of the note will be adjusted based on the amount received. However, if the amount received by the Company at the time of disposal is more than the initial cost of the investment, the amount of the note will be increased by 70% of the realized gain. Management fees assumed by the Company in respect of investments between their dates of acquisition and their dates of disposal are deducted from the amount of the related note.

Notes payable had an initial maturity of three years and were renewed up to May 31, 2017.

As at June 30, 2014, notes payable with a fair value of \$11.2 million were related to investments impacting the Québec economy measured in U.S. dollars (\$10.4 million as at December 31, 2013; \$8.5 million as at January 1, 2013).

On April 27, 2012, the Company acquired from the Desjardins Group Pension Plan, investments impacting the Québec economy with a fair value of \$5.9 million for a cash consideration. In the three years following their acquisition, if the Company disposes of the investments for an amount exceeding their initial cost, an additional amount based on the amount received will be payable to the Desjardins Group Pension Plan.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 13 Accounts payable

|   | As at<br>June 30,<br>2014<br>\$ | As at<br>December 31,<br>2013<br>\$ | As at<br>January 1,<br>2013<br>\$ |
|---|---------------------------------|-------------------------------------|-----------------------------------|
| Trade payables and accrued liabilities              | 2,051                           | 2,100                               | 1,859                             |
| Amount payable on acquisitions of other investments | 6,025                           | -                                   | -                                 |
| Other   | 2,074                           | 1,676                               | 642                               |
|   | <u>10,150</u>                   | <u>3,776</u>                        | <u>2,501</u>                      |

### 14 Line of credit

The Company has an authorized line of credit of \$10 million with Caisse centrale Desjardins, bearing interest at the operating credit rate of Caisse centrale Desjardins plus 0.5%. This line of credit is secured by a portion of the money market instruments and bonds recorded in other investments and is renewable annually. As at June 30, 2014, December 31, 2013, and January 1, 2013, the line of credit was undrawn.

### 15 Share capital

#### Authorized

The Company is authorized to issue common shares and fractions of common shares without par value, participating, voting, with the right to elect two representatives to the Board of Directors, redeemable under certain conditions prescribed by the Act, so that its capital increases by a maximum of \$150 million annually.

According to the Act, as of the capitalization period following the one at the end of which the Company first reaches capitalization of at least \$1.25 billion, the Company may raise, per capitalization period, the lesser of \$150 million and the amount corresponding to the reduction in paid-up capital attributable to all the shares and fractions of shares redeemed or purchased by agreement by the Company during the preceding capitalization period. The \$1.25 billion threshold was reached on February 28, 2014.

Each capitalization period, which lasts 12 months, begins on March 1st of each year. A special tax is payable by the Company if it fails to comply with these limits, and control mechanisms have been implemented by the Company to ensure compliance.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

On July 10, 2014, the Company announced new terms governing the sale of its shares as of the 2014 issue, consistent with the requirements set out in the recent Québec budget tabled on June 4, 2014:

- Given that its \$1.250 million capital limit has been reached and pursuant to its constituting act, the Company is limited to issuing an amount equal to the preceding year's redemptions for its 2014 issue. Accordingly, the authorized amount for the 2014 issue will be \$63 million;
- For the 2015 issue, the Company has been exceptionally authorized by the Québec government to raise \$150 million;
- From now on, the rate of the Québec tax credit on the purchase of Company shares is set at 45%;
- Sales of shares for the 2014 issue will begin on October 6, 2014 across the Desjardins caisse network; sales for the 2015 issue will begin on April 13, 2015;
- To allow as many shareholders as possible to buy Company shares, purchases will be capped at \$3,000 per investor for each of the 2014 and 2015 issues, for a tax credit of \$1,350.

Under the management agreement, the Company is required to pay share issue expenses. As at June 30, 2014, the Company recognized nil share issue expenses (\$1.7 million for the first six months of 2013), net of taxes, as a reduction of share capital.

### Redemption criteria

The Company is bound to redeem a whole common share or a fraction of a common share in the following circumstances:

- At the request of the person who acquired it from the Company at least seven years prior to redemption;
- At the request of a person to whom it has been devolved by succession;
- At the request of the person who acquired it from the Company if that person applies to the Company in writing within 30 days of subscription date;
- At the request of a person who acquired it from the Company if that person is declared to have a severe and permanent mental or physical disability that makes him/her incapable of working.

Moreover, the Company may purchase a common share or a fraction of a common share by agreement in the cases and to the extent permitted by a policy adopted by the Board of Directors and approved by the Québec Minister of Finance.

The redemption price of the common shares is set twice a year, at dates that are six months apart, by the Company's Board of Directors on the basis of the Company's value as determined in the audited financial statements.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### **Tax credit**

The purchase of shares of the Company entitles the investor to receive a non-refundable tax credit, for Québec tax purposes only, determined as follows:

- For purchases prior to March 24, 2006: 50% tax credit;
- For purchases from March 24, 2006 to November 9, 2007: 35% tax credit;
- For purchases from November 10, 2007 to February 28, 2014: 50% tax credit;
- For purchases from March 1<sup>st</sup>, 2014: 45% tax credit.

Investors who withdraw some or all of their shares as part of a redemption after a seven-year holding period will not be able to claim the tax credit for any purchase for which the tax credit could be applied in the current or subsequent taxation years.

## **16 Capital disclosures**

The Company's objective with respect to capital management is to ensure the availability of sufficient cash resources to fund investments in line with its mission and meet shareholders' demands for share redemptions. The Company's capital consists of its net assets.

The Company is not subject to any external capital requirements other than those governing the issuance and redemption of its shares, as indicated in note 15.

The Company's policy is to reinvest the annual earnings generated by its operations and not to pay dividends to its shareholders, with a view to increasing the capital available for investment and enhancing share valuations.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 17 Expenses

|  | For the six-month periods<br>ended June 30, |       |
|--|---|-------|
|  | 2014  | 2013  |
|  | \$  | \$    |
| <b>Other operating expenses</b>                                      |   |       |
| Audit fees   | 101   | 127   |
| Compensation of members of the Board of Directors and its committees | 274   | 221   |
| Other professional fees  | 296   | 421   |
| Custodial and trustee fees   | 53  | 53    |
| IT expenses  | 637   | 873   |
| Other expenses   | 233   | 200   |
|  | <hr/>                                       | <hr/> |
|  | 1,594                                       | 1,895 |
|  | <hr/>                                       | <hr/> |
| <b>Shareholder services</b>  |   |       |
| Trustee fees   | 722   | 756   |
| Reporting to shareholders  | 162   | 46    |
| Other expenses   | 134   | 11    |
|  | <hr/>                                       | <hr/> |
|  | 1,018                                       | 813   |
|  | <hr/>                                       | <hr/> |

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 18 Income taxes

#### Income tax expense

Income tax expense is detailed as follows:

|          | 2014                                    |  | For the six-month periods ended June 30, 2013 |  |
|----------|---|--|---|--|
|          | Statement of Comprehensive Income<br>\$ | Statement of Changes in Net Assets<br>\$ | Statement of Comprehensive Income<br>\$       | Statement of Changes in Net Assets<br>\$ |
| Current  | 3,273                                   | (125)                                    | 3,958   | (129)                                    |
| Deferred | (6)                                     | 125                                      | (16)  | (1,026)                                  |
|          | <u>3,267</u>                            | <u>-</u>                                 | <u>3,942</u>                                  | <u>(1,155)</u>                           |

#### Reconciliation of the income tax rate

The actual income tax rate differs from the basic income tax rate for the following reasons:

|   | For the six-month periods ended June 30, |              |
|---|--|--------------|
|   | 2014<br>\$                               | 2013<br>\$   |
| Income taxes at the combined basic tax rate of 39.9%  | 14,232                                   | 2,377        |
| Permanent differences between earnings before income taxes and taxable income and other items |  |              |
| Realized and unrealized losses (gains) on investments   | (9,816)                                  | 2,969        |
| Non-taxable dividends   | (1,444)                                  | (1,266)      |
| Other   | 295                                      | (138)        |
|   | <u>3,267</u>                             | <u>3,942</u> |

#### Income tax balance

Income tax expense recognized in the Balance Sheets is detailed as follows:

|                                       | As at<br>June 30,<br>2014<br>\$ | As at<br>December 31,<br>2013<br>\$ | As at<br>January 1,<br>2013<br>\$ |
|---------------------------------------|---------------------------------|-------------------------------------|-----------------------------------|
| <b>Assets</b>                         |                                 |                                     |                                   |
| Deferred taxes – share issue expenses | 840                             | 965                                 | -                                 |
| Deferred taxes – other                | 210                             | 204                                 | 246                               |
| Refundable tax on hand                | 8,977                           | 10,397                              | 11,169                            |
| Income taxes recoverable              | 8,622                           | 4,924                               | -                                 |
|                                       | <u>18,649</u>                   | <u>16,490</u>                       | <u>11,415</u>                     |
| <b>Liabilities</b>                    |                                 |                                     |                                   |
| Income taxes payable                  | -                               | -                                   | 8,036                             |

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 19 Related party transactions

Related parties include Desjardins Venture Capital ("DVC"), the Company's manager, which is a subsidiary of Fédération des caisses Desjardins du Québec and is part of Desjardins Group. The Company is therefore indirectly related to Desjardins Group. Related parties also include the Company's key management personnel.

- The Company has entrusted DVC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The five-year management agreement, effective January 1, 2013, provides for the invoicing of separate fees for the Desjardins caisse network's contribution in distributing the Company's shares. Under the management agreement, certain governance expenses are allocated to the Company. Negotiation fees are earned by DVC with a credit of an equal amount applied against the Company's management fees.

Under this agreement, the Company is committed until December 31, 2015 to pay management fees equal to 2.02% of the Company's annual average asset value, less any amounts payable related to investments impacting the Québec economy and other investments. An adjustment is made to the management fees charged to the Company to avoid double billing relative to the Company's interest in some funds.

- The Company has appointed Desjardins Trust Inc. ("Desjardins Trust") as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. Since the Company began its operations, Desjardins Trust has represented the largest component of the Company's shareholder service expenses. The appointment was renewed at the same conditions until December 31, 2014 except for the fee rate, which was adjusted on July 1, 2013 and will continue to apply until December 31, 2014. Another company was appointed scrutineer.
- The Company has centralized custody services for its assets with Desjardins Trust. The custody and administration agreement became effective on May 1, 2009. Its term is indefinite unless one or the other of the parties, on prior written notice of at least 90 days, decides to terminate it.
- The Company has appointed Fédération des caisses Desjardins du Québec to distribute its shares through the Desjardins caisse network. This agreement is effective for one year and, unless the parties agree to terminate it, will be automatically renewed each year unless one of the parties gives written notice to the contrary three months before the expiry date of the agreement.
- The Company has entrusted Caisse centrale Desjardins with the banking operations related to its day-to-day activities.
- The Company has appointed Desjardins Securities as its full service broker, to serve as an intermediary for buying and selling shares traded on public markets.

# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### Related party transactions

The Company has entered into transactions with other Desjardins Group entities in the normal course of business and all these transactions are measured at the exchange amount. Unless otherwise indicated, none of the transactions incorporated special terms or conditions. The balances are generally settled in cash. The transactions and balances are detailed as follows:

|  | As at<br>June 30,<br>2014 |  |             | As at<br>December 31,<br>2013 |  |             | As at<br>January 1,<br>2013 |  |             |
|--|---------------------------|--|-------------|-------------------------------|--|-------------|-----------------------------|--|-------------|
|  | DVC<br>\$                 | Other<br>related<br>parties <sup>(1)</sup><br>\$ | Total<br>\$ | DVC<br>\$                     | Other<br>related<br>parties <sup>(1)</sup><br>\$ | Total<br>\$ | DVC<br>\$                   | Other<br>related<br>parties <sup>(1)</sup><br>\$ | Total<br>\$ |
| <b>Balance Sheets</b>                            |                           |  |             |                               |  |             |                             |  |             |
| <b>Assets</b>                                    |                           |  |             |                               |  |             |                             |  |             |
| Other investments                                | -                         | 9,781  | 9,781       | -                             | 13,889   | 13,889      | -                           | 15,708   | 15,708      |
| Interest and dividends receivable on investments | -                         | 72   | 72          | -                             | 105  | 105         | -                           | 126  | 126         |
| Cash   | -                         | 16,736   | 16,736      | -                             | 9,416  | 9,416       | -                           | 7,397  | 7,397       |
| <b>Liabilities</b>                               |                           |  |             |                               |  |             |                             |  |             |
| Notes payable and financial liabilities          | -                         | 15,365   | 15,365      | -                             | 15,000   | 15,000      | -                           | 11,352   | 11,352      |
| Accounts payable                                 | 2,073                     | 385  | 2,458       | 1,676                         | 483  | 2,159       | 1,034                       | 634  | 1,668       |

|   | 2014      |  |             | For the six-month periods ended June 30,<br>2013 |  |             |
|---|-----------|--|-------------|--|--|-------------|
|   | DVC<br>\$ | Other<br>related<br>parties <sup>(1)</sup><br>\$ | Total<br>\$ | DVC<br>\$  | Other<br>related<br>parties <sup>(1)</sup><br>\$ | Total<br>\$ |
| <b>Statements of Comprehensive Income</b> |           |  |             |  |  |             |
| Revenue                                   |           |  |             |  |  |             |
| Interest                                  | -         | 83   | 83          | -  | 112  | 112         |
| Gains (losses) on investments             | -         | (1,298)  | (1,298)     | -  | (8,082)  | (8,082)     |
| Expenses                                  |           |  |             |  |  |             |
| Management fees                           | 12,210    | -  | 12,210      | 12,478   | -  | 12,478      |
| Other operating expenses                  | -         | 205  | 205         | -  | 310  | 310         |
| Shareholder services                      | -         | 722  | 722         | -  | 756  | 756         |

<sup>(1)</sup> Other related parties include Fédération des caisses Desjardins du Québec and its subsidiaries, namely Caisse centrale Desjardins, Capital Desjardins Desjardins Securities, Desjardins Venture Capital L.P., and Desjardins Trust. They also include the Desjardins Group Pension Plan.

### Key management personnel compensation

The Company's key management personnel are the members of the Board of Directors. For the six-month period ended June 30, 2014, compensation of key management personnel is comprised solely of short-term benefits in the amount of \$202,000 (\$165,000 for the six-month period ended June 30, 2013).



# Capital régional et coopératif Desjardins

## Notes to Financial Statements

As at June 30, 2014

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(tabular amounts are in thousands of Canadian dollars, unless otherwise specified)

### 20 Transition to IFRS

The impact of the Company's transition to IFRS is summarized below:

#### Transition elections

The Company did not elect any of the optional exemptions to full retrospective application of IFRS at transition except for the option to designate a financial asset or a financial liability at fair value through profit or loss. All financial assets designated at fair value through profit or loss at transition were previously recognized at fair value under Canadian GAAP, in accordance with AcG 18, "Investment Companies". The adoption of this exemption and the mandatory exceptions to full retrospective application of IFRS had no impact at transition.

#### Reconciliation of net assets and comprehensive income

The adoption of IFRS had no impact on the net assets and comprehensive income previously reported under Canadian GAAP.

#### Reclassification adjustments

The Company has reclassified certain amounts at transition to conform to its financial statement presentation under IFRS. The main reclassifications are as follows:

- As required under IAS 1, "Presentation of Financial Statements", the Company has reclassified the gains (losses) on investments within revenue in the Statements of Comprehensive Income.
- Under IFRS, the Company considers it is exempt from capital gains tax and, as a result, does not recognize any deferred tax liability relating to net unrealized gains on investments or any corresponding deferred tax asset related to unrealized recoveries resulting from tax rules related to refundable tax on hand in respect of capital gains. Under Canadian GAAP, future income taxes in the amount of \$7.2 million as at December 31, 2013 (\$6.9 million as at January 1, 2013) were recognized in respect of these items. These differences did not lead to any adjustment to the Company's net assets as at January 1, 2013 and as at December 31, 2013.

#### Adjustments to the Statements of Cash Flows

Acquisitions and proceeds from the disposal of investments have been reclassified from investing activities to operating activities to reflect the nature of the Company's operations and its designation as an investment entity.