Desjardins Trust Inc.
Financial Information and Information on Risk Management (unaudited)

For the period ended September 30, 2022

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NOTES TO THE READER

USE OF THIS DOCUMENT

The Financial Information and Information on Risk Management (the document) is designed to support the transparency and disclosure of Desjardins Trust Inc.'s financial information and information on risk management so that the various financial market participants can assess its risk profile. The information disclosed in this document is unaudited.

DESJARDINS TRUST INC. PROFILE

Desjardins Trust Inc. (the Company) is a trustee incorporated as a trust and loan company. It is registered under the *Trust and Loan Companies Act* (Canada) and provides a range of products and services, including asset custody and trust services to individuals and businesses. It is a wholly-owned subsidiary of Desjardins Financial Holding Inc., which in turn is wholly-owned by the *Fédération des caisses Desjardins du Québec* (the Federation). The address of its head office is 1 Complexe Desjardins, Montréal, Québec, Canada. Through a service and outsourcing agreement, the Company uses the services of the Federation and some of its subsidiaries to support its operations both in terms of managing staff as well as meeting its movable and immovable asset requirements. Under this agreement, the Federation and its subsidiaries agree to provide the Company with substantially all administrative and operating services. The Company is governed by the Office of the Superintendent of Financial Institutions (OSFI).

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Annual Financial Statements have been prepared by the Company's management in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Québec and OSFI, which do not differ from IFRS. IFRS represent Canadian generally accepted accounting principles (GAAP). The unaudited financial information presented in this document is mainly excerpted from the Annual and Interim Financial Statements of the Company. Unless indicated otherwise, amounts are in Canadian dollars.

FINANCIAL INFORMATION

Table 1 – Balance Sheets

(in thousands of dollars)	As at September 30, 2022	As at December 31, 2021
ASSETS		
Cash	**$ 44,884**	$ 23,607
Securities at fair value through other comprehensive income	**2,691,920**	1,350,908
Securities purchased under reverse repurchase agreements	**251,533**	1,256,633
Residential mortgages	**49,397**	122,813
Interest receivable	**4,843**	1,796
Amounts receivable from clients	**39,488**	33,137
Deferred tax assets	**—**	429
Other assets	**24,075**	26,707
TOTAL ASSETS	**$ 3,106,140**	$ 2,816,030
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits	**$ 520,693**	$ 491,074
Borrowings	**54,900**	135,800
Commitments related to securities lent or sold under repurchase agreements	**2,285,600**	1,969,761
Deferred tax liabilities	**288**	—
Other liabilities	**39,950**	15,389
TOTAL LIABILITIES	**2,901,431**	2,612,024
EQUITY		
Share capital	**59,972**	59,972
Retained earnings	**150,838**	143,782
Accumulated other comprehensive income	**(6,101)**	252
TOTAL EQUITY	**204,709**	204,006
TOTAL LIABILITIES AND EQUITY	**$ 3,106,140**	$ 2,816,030

Table 2 – Statements of Income

(in thousands of dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2022	2021[1]	**2022**	2021[1]
FEE INCOME AND OTHER INCOME				
Securities administration and custodial services	**$ 19,169**	$ 14,404	**$ 54,125**	$ 45,973
Individual and business trust services	**13,102**	12,369	**39,534**	37,676
Other	**2,119**	1,442	**6,772**	4,432
	34,390	28,215	**100,431**	88,081
NET INVESTMENT INCOME				
NET INTEREST INCOME				
Interest income	**17,855**	2,196	**28,980**	6,833
Interest expense	**(16,117)**	(2,014)	**(25,310)**	(6,814)
	1,738	182	**3,670**	19
OTHER NET INVESTMENT INCOME				
Net realized gains (losses) on securities classified as at fair value through other comprehensive income	**(31)**	8	**(21)**	96
Other	**403**	78	**519**	152
	372	86	**498**	248
NET INVESTMENT INCOME	**2,110**	268	**4,168**	267
TOTAL INCOME	**36,500**	28,483	**104,599**	88,348
PROVISION FOR (RECOVERY OF) CREDIT LOSSES[2]	**528**	(29)	**995**	(185)
NON-INTEREST EXPENSE				
General expenses	**21,179**	18,179	**61,798**	53,114
Technologies	**4,514**	4,295	**13,544**	12,155
Fees	**870**	995	**2,570**	2,688
Custodian fees	**1,722**	3,518	**8,168**	9,367
Other	**2,079**	2,050	**7,941**	8,888
	30,364	29,037	**94,021**	86,212
INCOME (LOSS) BEFORE INCOME TAXES	**5,608**	(525)	**9,583**	2,321
Income taxes (recovery)	**1,486**	(121)	**2,527**	611
NET INCOME (LOSS) FOR THE PERIOD	**$ 4,122**	$ (404)	**$ 7,056**	$ 1,710

(1) Certain comparative figures have been reclassified to conform with the presentation of the financial statements for the current period. These reclassifications had no impact on net income or total assets and liabilities.

(2) Represents the provision for (recovery of) expected credit losses on securities at amortized cost and classified as at fair value through other comprehensive income and on residential mortgages.

Table 3 – Statements of Comprehensive Income

(in thousands of dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2022	2021	**2022**	2021
Net income (loss) for the period	**$ 4,122**	$ (404)	**$ 7,056**	$ 1,710
Other comprehensive income, net of income taxes				
Items that will be reclassified subsequently to the Statements of Income				
Net change in unrealized gains and losses on securities classified as at fair value through other comprehensive income				
Net unrealized losses	**(81)**	(169)	**(7,192)**	(1,432)
Provision for (recovery of) credit losses recognized in profit or loss	**405**	19	**824**	(24)
Reclassification of net losses (gains) to the Statements of Income	**22**	(6)	**15**	(70)
Total other comprehensive income, net of income taxes	**346**	(156)	**(6,353)**	(1,526)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 4,468**	$ (560)	**$ 703**	$ 184

Table 4 – Statements of Changes in Equity
For the nine-month periods ended September 30

(in thousands of dollars)	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
BALANCE AS AT DECEMBER 31, 2021	**$ 59,972**	**$ 143,782**	**$ 252**	**$ 204,006**
Net income for the period	**—**	**7,056**	**—**	**7,056**
Other comprehensive income for the period	**—**	**—**	**(6,353)**	**(6,353)**
Comprehensive income for the period	**—**	**7,056**	**(6,353)**	**703**
BALANCE AS AT SEPTEMBER 30, 2022	**$ 59,972**	**$ 150,838**	**$ (6,101)**	**$ 204,709**
BALANCE AS AT DECEMBER 31, 2020	$ 59,972	$ 143,714	$ 2,829	$ 206,515
Net income for the period	—	1,710	—	1,710
Other comprehensive income for the period	—	—	(1,526)	(1,526)
Comprehensive income for the period	—	1,710	(1,526)	184
BALANCE AS AT SEPTEMBER 30, 2021	$ 59,972	$ 145,424	$ 1,303	$ 206,699

Table 5 – Securities

As at September 30, 2022	Terms to maturity			
(in thousands of dollars)	Under 1 year	Over 1 year	No specific maturity	Total
Securities issued or guaranteed by:				
Canadian government entities	**$ 213,126**	**$ 17,122**	**$ —**	**$ 230,248**
Provincial government entities and municipal corporations in Canada	**262,542**	**18,563**	**—**	**281,105**
Other securities				
Financial institutions	**1,899,510**	**88,880**	**—**	**1,988,390**
Other issuers	**183,494**	**8,683**	**—**	**192,177**
Total securities	**$ 2,558,672**	**$ 133,248**	**$ —**	**$ 2,691,920**

As at December 31, 2021	Terms to maturity			
(in thousands of dollars)	Under 1 year	Over 1 year	No specific maturity	Total
Securities issued or guaranteed by:				
Canadian government entities	$ 121,297	$ 74,194	$ —	$ 195,491
Provincial government entities and municipal corporations in Canada	263,562	98,214	—	361,776
Other securities				
Financial institutions	632,163	132,306	—	764,469
Other issuers	21,031	8,141	—	29,172
Total securities	$ 1,038,053	$ 312,855	$ —	$ 1,350,908

As at September 30, 2022	Distribution by province (excluding securities issued or guaranteed by Canadian government entities)									
(in thousands of dollars)	British-Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Québec	Newfound land and Labrador	Nova Scotia	Prince Edward Island	International	Total
Securities issued or guaranteed	**$ 914**	**$ 11,766**	**$ 10,035**	**$ 4,815**	**$ 120,304**	**$ 70,362**	**$ 62,909**	**$ —**	**$ —**	**$ —**	**$ 281,105**
Other securities	**358,136**	**26,332**	**4,994**	**—**	**764,469**	**779,198**	**6,987**	**235,640**	**—**	**4,811**	**2,180,567**
	$ 359,050	**$ 38,098**	**$ 15,029**	**$ 4,815**	**$ 884,773**	**$ 849,560**	**$ 69,896**	**$ 235,640**	**$ —**	**$ 4,811**	**$ 2,461,672**

As at December 31, 2021	Distribution by province (excluding securities issued or guaranteed by Canadian government entities)										
(in thousands of dollars)	British-Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Québec	Newfound land and Labrador	Nova Scotia	Prince Edward Island	International	Total
Securities issued or guaranteed	$ 25,977	$ 19,542	$ 13,186	$ 5,163	$ 120,304	$ 97,690	$ 55,976	$ 9,899	$ 14,039	$ —	$ 361,776
Other securities	130,955	35,985	—	—	279,492	287,893	—	54,249	—	5,067	793,641
	$ 156,932	$ 55,527	$ 13,186	$ 5,163	$ 399,796	$ 385,583	$ 55,976	$ 64,148	$ 14,039	$ 5,067	$ 1,155,417

Table 6 – Allowance for credit losses on securities

(in thousands of dollars)	As at September 30, 2022	As at December 31, 2021
On securities at fair value through other comprehensive income[1]	**$ 1,480**	$ 359

(1) The allowance for credit losses on securities classified as at fair value through other comprehensive income is presented under accumulated other comprehensive income in Balance Sheets.

Table 7 – Residential mortgages

As at September 30, 2022

(in thousands of dollars)	Probability of default tranches	Exposure to credit risk: Non-credit-impaired Stage 1	Non-credit-impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages					
Excellent	0.00% to 0.14%	**$ 18,623**	**$ —**	**$ —**	**$ 18,623**
Very low	0.15% to 0.49%	**4,473**	**—**	**—**	**4,473**
Low	0.50% to 2.49%	**12,482**	**4,097**	**—**	**16,579**
Moderate	2.50% to 9.99%	**1,004**	**5,960**	**—**	**6,964**
High	10.00% to 99.99%	**—**	**2,782**	**—**	**2,782**
Default	100.00%	**—**	**—**	**—**	**—**
Total gross residential mortgages		**$ 36,582**	**$ 12,839**	**$ —**	**$ 49,421**
Allowance for credit losses		**4**	**20**	**—**	**24**
Total net residential mortgages		**$ 36,578**	**$ 12,819**	**$ —**	**$ 49,397**

As at December 31, 2021

(in thousands of dollars)	Probability of default tranches	Exposure to credit risk: Non-credit-impaired Stage 1	Non-credit-impaired Stage 2	Credit-impaired Stage 3	Total
Residential mortgages					
Excellent	0.00% to 0.14%	$ 46,484	$ —	$ —	$ 46,484
Very low	0.15% to 0.49%	12,866	—	—	12,866
Low	0.50% to 2.49%	28,626	15,323	—	43,949
Moderate	2.50% to 9.99%	4,418	11,235	—	15,653
High	10.00% to 99.99%	—	4,011	—	4,011
Default	100.00%	—	—	—	—
Total gross residential mortgages		$ 92,394	$ 30,569	$ —	$ 122,963
Allowance for credit losses		35	115	—	150
Total net residential mortgages		$ 92,359	$ 30,454	$ —	$ 122,813

Table 8 – Deposits

(in thousands of dollars)	As at September 30, 2022	As at December 31, 2021
Type		
Payable on demand	**$ 242,384**	$ 232,183
Payable on a fixed date	**278,309**	258,891
Total	**$ 520,693**	$ 491,074

(in thousands of dollars)	As at September 30, 2022	As at December 31, 2021
Distribution by province		
Québec	**$ 501,231**	$ 468,968
Ontario	**19,423**	22,078
New Brunswick	**39**	28
Total	**$ 520,693**	$ 491,074

Table 9 – Borrowings

(in thousands of dollars)	As at September 30, 2022	As at December 31, 2021[1]
Borrowings with no maturity dates, maximum amount of $275 million, bearing interest at a fixed rate equal to the Federation's cost of funds plus 0.24% per year, with rates ranging from 1.54% to 1.60% (1.24% to 1.60% as at December 31, 2021) on the borrowing tranches, renewable at the option of the lender.	**$ 54,900**	$ 135,800

[1] On June 25, 2021, the Company repaid early a portion of its $80 million term loan, and paid a penalty of $0.6 million, which is presented under "Non-interest expense - Other".

Table 10 – Interest rate sensitivity and maturity matching

As at September 30, 2022	Terms to maturity							
(in thousands of dollars)	Floating rate	Under 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Over 2 years	Non-interest-sensitive and provisions	Total
Assets								
Cash	$ —	$ —	$ —	$ —	$ —	$ —	$ 44,884	$ 44,884
Securities at fair value through other comprehensive income	—	1,748,661	438,983	371,028	52,066	81,182	—	2,691,920
Securities purchased under reverse repurchase agreements	—	251,487	—	—	—	—	46	251,533
Residential mortgages	—	44,447	4,611	226	—	—	113	49,397
Interest receivable	—	—	—	—	—	—	4,843	4,843
Amounts receivable from clients	—	—	—	—	—	—	39,488	39,488
Other assets	—	—	—	—	—	—	24,075	24,075
Total assets	$ —	$ 2,044,595	$ 443,594	$ 371,254	$ 52,066	$ 81,182	$ 113,449	$ 3,106,140
Liabilities and equity								
Deposits	$ 242,384	$ 38,193	$ 33,880	$ 48,339	$ 77,518	$ 80,379	$ —	$ 520,693
Borrowings	—	—	44,000	10,900	—	—	—	54,900
Commitments related to securities lent or sold under repurchase agreements	—	2,284,138	—	—	—	—	1,462	2,285,600
Deferred tax liabilities	—	—	—	—	—	—	288	288
Other liabilities	—	—	—	—	—	—	39,950	39,950
Equity	—	—	—	—	—	—	204,709	204,709
Total liabilities and equity	$ 242,384	$ 2,322,331	$ 77,880	$ 59,239	$ 77,518	$ 80,379	$ 246,409	$ 3,106,140
Sensitivity gap – Balance Sheet items	$ (242,384)	$ (277,736)	$ 365,714	$ 312,015	$ (25,452)	$ 803	$ (132,960)	$ —

Table 10 – Interest rate sensitivity and maturity matching (continued)

As at December 31, 2021	Terms to maturity							
(in thousands of dollars)	Floating rate	Under 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Over 2 years	Non-interest-sensitive and provisions	Total
Assets								
Cash	$ —	$ —	$ —	$ —	$ —	$ —	$ 23,607	$ 23,607
Securities at fair value through other comprehensive income	—	668,565	23,130	346,358	197,427	115,428	—	1,350,908
Securities purchased under reverse repurchase agreements	—	1,256,570	—	—	—	—	63	1,256,633
Residential mortgages	—	3,263	17,068	95,256	6,139	—	1,087	122,813
Interest receivable	—	—	—	—	—	—	1,796	1,796
Amounts receivable from clients	—	—	—	—	—	—	33,137	33,137
Deferred tax assets	—	—	—	—	—	—	429	429
Other assets	—	—	—	—	—	—	26,707	26,707
Total assets	$ —	$ 1,928,398	$ 40,198	$ 441,614	$ 203,566	$ 115,428	$ 86,826	$ 2,816,030
Liabilities and equity								
Deposits	$ 232,183	$ 36,941	$ 25,657	$ 67,918	$ 55,976	$ 72,399	$ —	$ 491,074
Borrowings	—	20,800	—	60,100	54,900	—	—	135,800
Commitments related to securities lent or sold under repurchase agreements	—	1,969,695	—	—	—	—	66	1,969,761
Other liabilities	—	—	—	—	—	—	15,389	15,389
Equity	—	—	—	—	—	—	204,006	204,006
Total liabilities and equity	$ 232,183	$ 2,027,436	$ 25,657	$ 128,018	$ 110,876	$ 72,399	$ 219,461	$ 2,816,030
Sensitivity gap – Balance Sheet Items	$ (232,183)	$ (99,038)	$ 14,541	$ 313,596	$ 92,690	$ 43,029	$ (132,635)	$ —

CAPITAL

BASEL III

The Company's capital ratios are calculated according to the guideline on capital standards issued by OSFI and are expressed as regulatory capital as a percentage of risk-weighted assets. The minimum Common Equity Tier 1 capital ratio that the Company must maintain to meet regulatory requirements is 7%. In addition, the Tier 1 capital ratio and total capital ratio must exceed 8.5% and 10.5%, respectively. These minimum ratios include a 2.5% capital conservation buffer.

OSFI also requires that the Company maintains a leverage ratio greater than 3%. This ratio is defined as the capital measure (namely Tier 1 capital) divided by the exposure measure. The exposure measure includes on-balance sheet assets and securities financing transaction exposures.

Table 11 – Statement of capital

(in thousands of dollars and as a percentage)	As at September 30, 2022	As at December 31, 2021
Common Equity Tier 1 capital		
Common shares	**$ 59,972**	$ 59,972
Retained earnings	**150,838**	143,782
Accumulated other comprehensive income	**(6,101)**	252
Other[1]	**6**	76
Deductions	**—**	(333)
Total Common Equity Tier 1 capital	**$ 204,715**	$ 203,749
Tier 2 capital		
General allowance	**18**	74
Total Tier 2 capital	**$ 18**	$ 74
Total regulatory capital	**$ 204,733**	$ 203,823
Total risk-weighted assets	**$ 1,046,304**	$ 637,375
Total leverage ratio exposure[2]	**$ 3,398,196**	$ 2,988,784
Ratios		
Common Equity Tier 1 capital ratio	**19.6 %**	32.0 %
Tier 1 capital ratio	**19.6**	32.0
Total capital ratio	**19.6**	32.0
Leverage[2]	**6.0**	6.8

(1) Includes the impact of the transitional provisions for the provisioning of expected credit losses announced by OSFI on March 27, 2020. The transitional provisions allow for the inclusion in Common Equity Tier 1 capital of a portion of loss allowances for expected credit losses that would have otherwise been included in Tier 2 capital. The amount is subject to restrictions, including a scaling factor decreasing each year until 2022, and is also adjusted to take into account the tax impact.

(2) Securities issued by sovereign states that meet the eligibility criteria for high-quality liquid assets that were excluded from the total leverage ratio exposure in accordance with the relief measure introduced by OSFI in response to the COVID-19 pandemic have been included again since January 1, 2022.

RISK MANAGEMENT

STRUCTURE AND ORGANIZATION OF THE RISK MANAGEMENT FUNCTION

The Company is exposed to different types of risks in its normal course of operations, including credit risk, market risk, liquidity risk, operational risk, strategic risk, reputation risk, environmental or social risk and legal and regulatory risk. Strict and effective management of these risks is a priority for the Company, its purpose being to support its major orientations, particularly regarding its financial soundness as well as its sustained and profitable growth, while complying with regulatory requirements. The Company considers risk an inextricable part of its development and consequently strives to promote a proactive approach in which everyone in the organization is responsible for risk management.

INTEGRATED RISK MANAGEMENT FRAMEWORK

The Company's objective in risk management is to optimize the risk-return trade-off by developing and applying integrated risk management strategies, frameworks, practices and procedures to all its operations. To this end, the Company developed an Integrated Risk Management Framework consistent with the organization's business strategies and risk-taking philosophy, which is designed, among other things, to give management and the Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of risks associated with the achievement of its objectives.

This Integrated Risk Management Framework is consistent with that of Desjardins Group (hereinafter also referred to as Desjardins) and covers all of the Company's activities. Like Desjardins Group, the Company uses an overall, coordinated approach to manage its risks in an integrated manner, i.e., by taking into account the interrelationships and interdependencies between the various risks.

As a significant component of the Integrated Risk Management Framework, risk appetite makes it possible to determine the risk type and level that the Company wishes to take to meet its business and strategic objectives. Risk appetite forms an integral part of strategic planning, which makes it possible to guide risk-taking in order to ensure the Company's stability and sustainability in the case of unfavourable future events that could affect reputation, the volatility of profitability, capital adequacy or liquidities. As a result, risk appetite provides a basis for integrated risk by promoting a better understanding of the effect of principal risks and emerging risk factors on the Company's results.

The risk appetite framework reflects the Company's risk-taking philosophy, mission and values and is based on:
- Taking necessary risks to enrich the lives of people and communities and managing such risks conscientiously;
- Protecting the Company's reputation with its members, clients, communities, regulatory authorities and other stakeholders, while respecting its cooperative values;
- Understanding the risks arising from the Company's operations and engaging in only new activities for which the risks are defined, assessed and understood;
- Ensuring the Company's financial sustainability by preserving a capitalization level that is comparable with its industry peers and complies with regulatory requirements;
- Managing liquidities and refinancing activities in order to guard against liquidity risk;
- Thanks to adequate profitability in light of risk exposure, ensuring the Company's sustainability to be able to give back to members and communities as well as meet its financial commitments;
- Taking the appropriate measures against internal and external threats to protect information, including personal information and the safety of our members' and clients' assets, as well as those of the Company;
- Modernizing the Company's technology to adjust to member, client and employee needs;
- Avoiding excessively large risk concentrations;
- Maintaining an effective control environment and promoting sound management of operational and regulatory risks.

The risk management function ensures that the Company's risk profile is in line with its risk appetite. Each quarter, it makes sure that the statements and indicators set by senior management and the Board of Directors are respected, and keeps them informed. In the event a threshold or limit for a risk appetite indicator is exceeded, an immediate investigation is required. The supporting commentary and an action plan, as applicable, are then brought to the attention of the appropriate bodies. The Board of Directors is responsible for approving the risk appetite framework and ensuring that the organization's financial and strategic objectives are in line with its risk appetite.

The risk appetite framework is reviewed regularly and submitted to the Federation's Board of Directors for approval. The Risk Management Executive Division communicates the main guidelines for risk appetite to the business segments and components, and supports them in implementing these concepts by ensuring consistency in all the indicators, targets, levels and limits with the Desjardins Group Risk Appetite Framework.

The Company's structure and governance principles comply with the regulatory criteria applicable to a federal trust company. The Company's Board of Directors is responsible for directing, planning, coordinating and monitoring all its activities. In particular, it is responsible for overseeing risk management, examining internal control systems as well as adopting and properly implementing relevant risk management frameworks. The Board of Directors is supported in its specific risk management responsibilities by the Risk Management Committee, the Audit Committee and the Review Committee. All of these committees benefit from Desjardins Group's support.

The Company's management is responsible for ensuring that sound risk management practices are complied with. In particular, it ensures that appropriate frameworks are developed, implemented, monitored and reviewed. It also ensures that the Company can identify all significant risks, assess their potential impact and implement practices, procedures and control measures to effectively manage them.

The risk management approach of Desjardins Group and the Company is based on principles promoting the accountability of business units. The risk management function of Desjardins Group and the Company ensures that these units successfully manage and control on a daily basis the risks associated with their activities.

Risk management frameworks and practices

The Company uses risk management frameworks to support its business development and meet its strategic objectives. It takes the necessary measures to ensure that they are implemented, applied and maintained in order to meet the regulatory requirements to which it is subject.

The main risk management frameworks address in particular the following:
- Integrated risk management;
- Risk appetite;
- Risk modelling governance;
- Stress testing;
- Internal capital adequacy assessment;
- Operational risk management;
- Liquidity risk management;
- Interest rate risk management;
- Credit, counterparty and issuer risk management;
- Securities lending;
- Investments.

CREDIT RISK

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

Limits by commitments, issuers and counterparties, borrowers, groups of borrowers and industries are prescribed by policies. They are reviewed by management and the Risk Management Committee, which recommend them to the Board of Directors.

Mitigating credit risk

In its securities lending transactions, which include repurchase and reverse repurchase agreements and securities borrowing and lending, the Company uses various techniques to reduce its counterparty credit risk.

Securities lending transactions are regulated by Investment Industry Regulatory Organization of Canada participation agreements. The Company also uses netting agreements with its counterparties to mitigate its credit risk exposure and requires a percentage of collateralization (a pledge) on these transactions.

The Company accepts from its counterparties only financial collateral that complies with the eligibility criteria set out in its policies. These criteria allow for the timely realization of collateral, if necessary, in the event of default. The types of collateral received and pledged by the Company are mainly cash and government securities.

However, the composition of the Company's portfolio was changed in 2020 as a result of the acquisition of the residential mortgages of Zag Bank. The portfolio is considered to be low risk. In addition, a significant proportion of loans are insured by a recognized guarantor. The loans will all have matured by July 2023 and will not be renewed.

MARKET RISK

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

The Company is exposed to market risk primarily through its financial intermediation and securities lending activities. The Company has adopted policies that set out the principles, limits and procedures to use in managing market risk.

Interest rate risk is the main component of market risk to which the Company is exposed. Sound and prudent management is applied to optimize net interest income while minimizing the negative incidence of interest rate movements. The established policies describe the principles, limits and procedures that apply to interest rate risk management. The Company's Management Committee is responsible for analyzing and approving the various interest rate matching strategies while respecting the parameters defined in the policies.

Additional information of the Company's position with respect to interest rate sensitivity and maturity matching is provided in Table 11, "Interest rate sensitivity and maturity matching", in this document.

LIQUIDITY RISK

Liquidity risk refers to the Company's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the Balance Sheets.

The Company manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing this risk involves maintaining a sufficient level of liquid securities. In addition, the Company ensures, through Desjardins Group, that there are stable and diversified sources of funding, that indicators are monitored and that there is a contingency plan to implement in the event of a liquidity crisis.

Liquidity risk management is a key component of the overall risk management strategy. The Company has established a policy describing the principles, limits, risk appetite thresholds as well as the procedures that apply to liquidity risk management. The policy is reviewed on a regular basis to ensure that it is appropriate for the operating environment, prevailing market conditions and regulatory requirements. It incorporates, in particular, the requirements of OSFI's Guideline B-6, *Liquidity Principles*, as well as monitoring and compliance with the standards for the liquidity coverage ratio (LCR) and net cumulative cash flow (NCCF) under Basel III. This policy has been approved by the Board of Directors and is monitored by the Risk Management Committee. During the quarter, the Company filed with OSFI the monthly reports on LCR and NCCF.

OPERATIONAL RISK

Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events resulting in losses or failure to achieve objectives and takes into account the impact of failures on the achievement of the strategic objectives of the relevant component or Desjardins Group, as the case may be.

Operational risk is inherent to all of the Company's activities, including management and control activities in other risk areas (credit, market, liquidity, etc.) as well as activities performed by a third party. This risk may lead to losses mainly resulting from theft, fraud, damage to tangible assets, non-compliance with legislation or regulations, systems failures, unauthorized access to computer systems, cyber threats, or problems or errors in process management. To maintain this risk at an acceptable level, an operational risk management framework has been developed and deployed throughout the organization. The framework includes the usual practices for sound management of operations and is based on the three lines of defence model, clearly defining the roles and responsibilities in risk and operations management.

Operational risk management framework

The purpose of the operational risk management framework is to identify, measure, mitigate and monitor operational risk as well as make interventions and disclosures in accordance with operational risk appetite and the frameworks adopted by the Board of Directors. It is supported by guidelines setting out operational risk management foundations. At the same time, the operational risk management framework connects with the other areas of risk.

The operational risk management framework is reviewed annually to ensure its adequacy and its relevance based on Desjardins Group's risk profile and developments in industry practices.

STRATEGIC RISK

Strategic risk refers to a possible loss in value attributable to the occurrence of external and internal events or the implementation of inadequate strategies that might prevent Desjardins Group from achieving its strategic objectives.

It is first up to management and the Board of Directors to define the strategic orientations of Desjardins Group and the Company, taking into account risk appetite, according to the consultation processes specific to Desjardins, and to monitor the development of such orientations. Events that could compromise the achievement of the strategic objectives of Desjardins Group and the Company are regularly monitored by their directors and management. Business segments and support functions periodically identify and assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

REPUTATION RISK

Reputation risk is the risk that a negative perception by the stakeholders, whether or not justified, of the Company's practices, actions or lack of action could have an unfavourable impact on its income and equity, or the trust that the Company or Desjardins Group inspires.

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all their operating segments is a constant concern for Desjardins Group and the Company. In that regard, Desjardins Group and the Company seek to ensure that all employees are constantly aware of the potential repercussions of their actions on their reputation and image. Desjardins Group and the Company consider it essential to foster a proactive approach to risk management in which integrity and ethics are fundamental values.

Desjardins Group has defined a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place to identify, measure and govern this risk, such as the previously mentioned operational risk management initiatives, the regulatory compliance program, ethical requirements, and reputation risk assessment as part of new initiatives and the introduction of new products. All these aspects are aimed to promote sound reputation risk management. In addition, the President and Chief Executive Officer of Desjardins Group is the main person responsible for the culture change process. The aim of this process is to effect a profound change in behaviour in order to always work in the best interests of members and clients. This process will also help manage reputation risks.

ENVIRONMENTAL OR SOCIAL RISK

Environmental or social risk results from an environmental event or environmental or social issue during the Company's operations which could lead to financial losses or harm its reputation.

Regarding environmental risk, potential financial losses may be related to an asset because of an internal risk, namely a risk generated by the Company and leading to a negative impact on the environment, or an external risk, namely an event caused by the environment and having a detrimental effect on the Company.

Climate change risk is included in environment or social risk. Climate change risk is defined as an entity's vulnerability to climate change, or the negative impact of climate change on an entity, which could lead to financial losses. In includes both:

- physical risk factors resulting from climate change that may be due to extreme events (acute) or longer term changes (chronic);
- transition risk factors resulting from the transition to an economy with low greenhouse gas (GHG) emissions. These can be regulatory, legal, technology, market or reputational factors.

In addition, business relations with entities whose operations could involve Environmental, Social or Governance (ESG) issues could lead to reputation risk.

Environmental or social risk is an integral part of Desjardins Group's Integrated Risk Management Framework and, as a result, elements that could affect the Company are managed in a Desjardins Group perspective.

LEGAL AND REGULATORY RISK

Legal and regulatory risk refers to the risk associated with the non-compliance by Desjardins Group, including the Company, with obligations arising from the interpretation or application of a legislative or regulatory provision or a contractual commitment, that could have an impact on the conduct of its operations, its reputation, its strategies and its financial objectives.

Legal and regulatory risk entails, *inter alia*, effectively preventing and handling possible disputes and claims that may lead in particular to judgments or decisions by a court of law or regulatory body that could result in orders to pay damages, financial penalties or sanctions. Moreover, the legal and regulatory environment is evolving quickly and could increase the Company's exposure to new types of litigation. In addition, some lawsuits against the Company may be very complex and be based on legal theories that are new or have never been verified. The outcome of such lawsuits may be difficult to predict or estimate until the proceedings have reached an advanced stage, which may take several years. Class action lawsuits or multi-party litigation may feature an additional risk of judgments with substantial monetary, non-monetary or punitive damages. Plaintiffs who bring a class action or other lawsuit sometimes claim very large amounts and it is impossible to determine the Company's liability, if any, for some time. Legal liability or an important regulatory measure could have an adverse effect on the current activities of the Company, its results of operations and its financial position, in addition to damaging its reputation. Even if the Company won its court case or was no longer the subject of measures imposed by regulatory bodies, these situations could harm its reputation and have an adverse impact on its financial position, due in particular to the costs associated with such proceedings, and its brand image.

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

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