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

For the period ended September 30, 2023

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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.

The information presented in the "Pillar 3 Disclosure" section have been prepared in accordance with the guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI):

- *Pillar 3 Disclosure Guideline for Small and Medium-Sized Banks (SMSBs);*
- *Capital Disclosure Requirements;*
- *Leverage Ratio Disclosure Requirements.*

On January 31, 2022, OSFI announced that its capital, leverage, liquidity and disclosure requirements had been revised to reflect the final Basel III reforms while taking into account the environment of federal deposit-taking institutions. In accordance with these new requirements, small and medium-sized deposit-taking institutions are classified in three categories. Based on the criteria set out in Section III of the new guideline *Small and Medium-Sized Deposit-Taking Institutions (SMSBs) Capital and Liquidity Requirements*, Desjardins Trust Inc. is classified in Category II.

For more information, please refer to OSFI's financial data website at: https://www.osfi-bsif.gc.ca.

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 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, 2023	As at December 31, 2022
ASSETS		
Cash	**$ 28,905**	$ 53,796
Securities at fair value through other comprehensive income	**2,648,804**	2,926,942
Securities purchased under reverse repurchase agreements	**234,123**	501,040
Residential mortgages	**—**	4,254
Amounts receivable from clients	**49,355**	41,907
Interest receivable	**5,231**	7,287
Other assets	**12,897**	27,709
TOTAL ASSETS	**$ 2,979,315**	$ 3,562,935
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits	**$ 634,648**	$ 550,005
Borrowings	**—**	54,900
Commitments related to securities lent or sold under repurchase agreements	**2,066,999**	2,708,740
Deferred tax liabilities	**157**	146
Other liabilities	**55,631**	42,222
TOTAL LIABILITIES	**2,757,435**	3,356,013
EQUITY		
Share capital	**59,972**	59,972
Retained earnings	**165,779**	150,661
Accumulated other comprehensive income	**(3,871)**	(3,711)
TOTAL EQUITY	**221,880**	206,922
TOTAL LIABILITIES AND EQUITY	**$ 2,979,315**	$ 3,562,935

Table 2 – Statements of Income

(in thousands of dollars)	For the three-month periods ended September 30, 2023	2022	For the nine-month periods ended September 30, 2023	2022
FEE INCOME AND OTHER INCOME				
Securities administration and custodial services	**$ 16,451**	$ 19,169	**$ 53,894**	$ 54,125
Individual and business trust services	**14,337**	13,102	**41,773**	39,534
Other	**2,914**	2,119	**9,056**	6,772
	33,702	34,390	**104,723**	100,431
NET INVESTMENT INCOME				
NET INTEREST INCOME				
Interest income	**37,178**	17,855	**106,589**	28,980
Interest expense	**(32,200)**	(16,117)	**(91,631)**	(25,310)
	4,978	1,738	**14,958**	3,670
OTHER NET INVESTMENT INCOME (LOSS)				
Net realized losses on securities classified as at fair value through other comprehensive income	**(103)**	(31)	**(772)**	(21)
Other	**34**	403	**187**	519
	(69)	372	**(585)**	498
NET INVESTMENT INCOME	**4,909**	2,110	**14,373**	4,168
TOTAL INCOME	**38,611**	36,500	**119,096**	104,599
PROVISION FOR (RECOVERY OF) CREDIT LOSSES[1]	**175**	528	**(1,316)**	995
NON-INTEREST EXPENSE				
Service agreements and outsourcing	**19,478**	21,179	**60,333**	61,798
Technologies	**7,372**	4,514	**20,983**	13,544
Fees	**686**	870	**2,012**	2,570
Custodian fees	**3,295**	1,722	**9,069**	8,168
Other	**2,012**	2,079	**7,104**	7,941
	32,843	30,364	**99,501**	94,021
INCOME BEFORE INCOME TAXES	**5,593**	5,608	**20,911**	9,583
Income taxes	**1,480**	1,486	**5,793**	2,527
NET INCOME FOR THE PERIOD	**$ 4,113**	$ 4,122	**$ 15,118**	$ 7,056

(1) 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, 2023	2022	For the nine-month periods ended September 30, 2023	2022
Net income for the period	**$ 4,113**	$ 4,122	**$ 15,118**	$ 7,056
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 debt securities classified as at fair value through other comprehensive income				
Net unrealized gains (losses)	**(643)**	(81)	**240**	(7,192)
Provision for (recovery of) credit losses recognized in profit or loss	**129**	405	**(967)**	824
Reclassification of net gains to the Statements of Income	**76**	22	**567**	15
Total other comprehensive income, net of income taxes	**(438)**	346	**(160)**	(6,353)
COMPREHENSIVE INCOME FOR THE PERIOD	**$ 3,675**	$ 4,468	**$ 14,958**	$ 703

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, 2022	**$ 59,972**	**$ 150,661**	**$ (3,711)**	**$ 206,922**
Net income for the period	**—**	**15,118**	**—**	**15,118**
Other comprehensive income for the period	**—**	**—**	**(160)**	**(160)**
Comprehensive income for the period	**—**	**15,118**	**(160)**	**14,958**
BALANCE AS AT SEPTEMBER 30, 2023	**$ 59,972**	**$ 165,779**	**$ (3,871)**	**$ 221,880**
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

Table 5 – Securities

As at September 30, 2023 (in thousands of dollars)	**Terms to maturity** Under 1 year	Over 1 year	Total
Securities issued or guaranteed by:			
Canadian government entities	**$ 334,625**	**$ 33,480**	**$ 368,105**
Provincial government entities and municipal corporations in Canada	**178,644**	**16,138**	**194,782**
Other securities:			
Financial institutions and other issuers	**1,923,894**	**162,023**	**2,085,917**
Total securities	**$ 2,437,163**	**$ 211,641**	**$ 2,648,804**

As at December 31, 2022 (in thousands of dollars)	Terms to maturity Under 1 year	Over 1 year	Total
Securities issued or guaranteed by:			
Canadian government entities	$ 255,622	$ 9,206	$ 264,828
Provincial government entities and municipal corporations in Canada	263,192	18,538	281,730
Other securities:			
Financial institutions and other issuers	2,258,653	121,731	2,380,384
Total securities	$ 2,777,467	$ 149,475	$ 2,926,942

As at September 30, 2023 (in thousands of dollars)	**Distribution by province (excluding securities issued or guaranteed by Canadian government entities)** British-Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Québec	Newfoundland and Labrador	International	Total
Securities issued or guaranteed[1]	**$ 6,465**	**$ 2,926**	**$ —**	**$ 13,524**	**$ 74,517**	**$ 77,496**	**$ 19,854**	**$ —**	**$ 194,782**
Other securities[2]	**175,841**	**137,834**	**—**	**—**	**1,005,750**	**761,631**	**—**	**4,861**	**2,085,917**
	$ 182,306	**$ 140,760**	**$ —**	**$ 13,524**	**$ 1,080,267**	**$ 839,127**	**$ 19,854**	**$ 4,861**	**$ 2,280,699**

As at December 31, 2022 (in thousands of dollars)	Distribution by province (excluding securities issued or guaranteed by Canadian government entities) British-Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Québec	Newfoundland and Labrador	International	Total
Securities issued or guaranteed[1]	$ 921	$ 616	$ 10,019	$ 4,813	$ 82,511	$ 93,978	$ 88,872	$ —	$ 281,730
Other securities[2]	317,121	52,546	9,984	—	1,478,703	517,218	—	4,812	2,380,384
	$ 318,042	$ 53,162	$ 20,003	$ 4,813	$ 1,561,214	$ 611,196	$ 88,872	$ 4,812	$ 2,662,114

(1) Provincial government entities and municipal corporations in Canada.
(2) Financial institutions and other issuers.

Table 6 – Allowance for credit losses on securities

(in thousands of dollars)	As at September 30, 2023	As at December 31, 2022
On securities at fair value through other comprehensive income	**$ 766**	$ 2,082

Table 7 – Residential mortgages

The Company has not held residential mortgages since March 31, 2023, as they all matured.

As at December 31, 2022		Exposure to credit risk			
		Non-credit-impaired		Credit-impaired	
(in thousands of dollars)	Probability of default tranches	Stage 1	Stage 2	Stage 3	Total
Residential mortgages					
Excellent	0.00% to 0.14%	$ 1,993	$ —	$ —	$ 1,993
Very low	0.15% to 0.49%	604	—	—	604
Low	0.50% to 2.49%	834	333	—	1,167
Moderate	2.50% to 9.99%	106	300	—	406
High	10.00% to 99.99%	—	84	—	84
Default	100.00%	—	—	—	—
Total gross residential mortgages		$ 3,537	$ 717	$ —	$ 4,254
Allowance for credit losses		—	—	—	—
Total net residential mortgages		$ 3,537	$ 717	$ —	$ 4,254

Table 8 – Deposits

(in thousands of dollars)	As at September 30, 2023	As at December 31, 2022
Type		
Payable on demand	**$ 277,680**	$ 252,813
Payable on a fixed date	**356,968**	297,192
Total	**$ 634,648**	$ 550,005

(in thousands of dollars)	As at September 30, 2023	As at December 31, 2022
Distribution by province		
Québec	**$ 611,750**	$ 529,484
Ontario	**22,849**	20,472
New Brunswick	**49**	49
Total	**$ 634,648**	$ 550,005

Table 9 – Borrowings

(in thousands of dollars)	As at September 30, 2023	As at December 31, 2022
Borrowings with no maturity dates, maximum amount of $275 million, bearing interest at a fixed rate equal to the Federation's cost of funds plus 0.24% per year, (1.54% to 1.60% as at December 31, 2022) on the borrowing tranches, with maturities of less than 12 months, renewable at the option of the lender.	**$ —**	$ 54,900

Table 10 – Interest rate sensitivity and maturity matching

As at September 30, 2023 (in thousands of dollars)	Terms to maturity							
	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	$ —	$ —	$ —	$ —	$ —	$ —	$ 28,905	$ 28,905
Securities at fair value through other comprehensive income	—	1,639,215	502,511	295,437	59,084	152,557	—	2,648,804
Securities purchased under reverse repurchase agreements	—	234,057	—	—	—	—	66	234,123
Interest receivable	—	—	—	—	—	—	5,231	5,231
Other assets	—	—	—	—	—	—	62,252	62,252
Total assets	$ —	$ 1,873,272	$ 502,511	$ 295,437	$ 59,084	$ 152,557	$ 96,454	$ 2,979,315
Liabilities and equity								
Deposits	$ 277,680	$ 32,305	$ 49,448	$ 92,195	$ 91,148	$ 91,872	$ —	$ 634,648
Commitments related to securities lent or sold under repurchase agreements	—	2,065,471	—	—	—	—	1,528	2,066,999
Other liabilities	—	—	—	—	—	—	55,788	55,788
Equity	—	—	—	—	—	—	221,880	221,880
Total liabilities and equity	$ 277,680	$ 2,097,776	$ 49,448	$ 92,195	$ 91,148	$ 91,872	$ 279,196	$ 2,979,315
Sensitivity gap – Balance Sheet items	$ (277,680)	$ (224,504)	$ 453,063	$ 203,242	$ (32,064)	$ 60,685	$ (182,742)	$ —

As at December 31, 2022 (in thousands of dollars)	Terms to maturity							
	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	$ —	$ —	$ —	$ —	$ —	$ —	$ 53,796	$ 53,796
Securities at fair value through other comprehensive income	—	1,855,851	604,058	317,558	40,893	108,582	—	2,926,942
Securities purchased under reverse repurchase agreements	—	500,857	—	—	—	—	183	501,040
Residential mortgages	—	4,034	210	—	—	—	10	4,254
Interest receivable	—	—	—	—	—	—	7,287	7,287
Other assets	—	—	—	—	—	—	69,616	69,616
Total assets	$ —	$ 2,360,742	$ 604,268	$ 317,558	$ 40,893	$ 108,582	$ 130,892	$ 3,562,935
Liabilities and equity								
Deposits	$ 252,813	$ 32,826	$ 26,102	$ 55,319	$ 99,764	$ 83,181	$ —	$ 550,005
Borrowings	—	44,000	—	10,900	—	—	—	54,900
Commitments related to securities lent or sold under repurchase agreements	—	2,703,919	—	—	—	—	4,821	2,708,740
Other liabilities	—	—	—	—	—	—	42,368	42,368
Equity	—	—	—	—	—	—	206,922	206,922
Total liabilities and equity	$ 252,813	$ 2,780,745	$ 26,102	$ 66,219	$ 99,764	$ 83,181	$ 254,111	$ 3,562,935
Sensitivity gap – Balance Sheet Items	$ (252,813)	$ (420,003)	$ 578,166	$ 251,339	$ (58,871)	$ 25,401	$ (123,219)	$ —

CAPITAL

BASEL III

The Company's capital ratios are calculated according to the C*apital Adequacy Requirements Guideline* issued by OSFI. On January 31, 2022, OSFI had issued an update to the guideline resulting from the Basel III regulatory reforms, which became effective in the second quarter of 2023.

Capital ratios are expressed as a percentage of regulatory capital to 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[1]

(in thousands of dollars and as a percentage)	As at September 30, 2023	As at December 31, 2022
Common Equity Tier 1 capital		
Common shares	**$ 59,972**	$ 59,972
Retained earnings	**165,779**	150,661
Accumulated other comprehensive income	**(3,871)**	(3,711)
Total Common Equity Tier 1 capital	**$ 221,880**	$ 206,922
Total risk-weighted assets	**$ 1,146,735**	$ 1,033,725
Total leverage ratio exposure	**$ 3,246,360**	$ 3,744,538
Ratios		
Common Equity Tier 1 capital ratio	**19.3%**	20.0%
Tier 1 capital ratio	**19.3**	20.0
Total capital ratio	**19.3**	20.0
Leverage	**6.8**	5.5

[1] Comparative data are in accordance with the requirements of the *Capital Adequacy Requirements Guideline* in effect as at December 31, 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 regulatory risks. 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 senior 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, including risks arising from external factors, notably climate change.

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;
- Acting as a socio-economic leader in the development of a low greenhouse gas emission economy and supporting members, clients and other stakeholders in the transition;
- 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 Company's Board of Directors approves the Risk Appetite Framework and ensures 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 Board of Directors for approval. The Risk Management Executive Division relays 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, their targets, their levels and their limits with the Desjardins Group Risk Appetite Framework.

The risk management function ensures that the Company's risk profile is in line with its risk appetite. Each quarter, it reports to senior management and the Board of Directors on the compliance with the risk appetite statements and indicators. In the event a threshold or limit for a risk appetite indicator is exceeded, the investigation into the situation and the corrective measures, as applicable, are brought to the attention of the appropriate bodies.

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 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 governed by standard industry agreements. To mitigate its credit risk exposure, the Company also requires financial collateral (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.

MARKET RISK

Market risk refers to the risk of 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 10, “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 activities of Desjardins Group and the Company, including management and control activities in other risk areas (credit, market, liquidity, etc.) as well as activities performed by a third party. Among other things, this risk may lead to losses or the non-achievement of objectives, 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 at least every 5 years or as needed 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 or actions 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 approach also contributes to managing reputational risks.

ENVIRONMENTAL OR SOCIAL RISK

Environmental or social risk results from an environmental or social event or issue in connection with the Company's operations which could result in financial losses or harm its reputation. This risk may also materialize indirectly through business relations with other entities whose operations could involve Environmental, Social or Governance (ESG) issues.

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 risks are 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.

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.

REGULATORY RISKS

The financial services industry is one of the most strictly regulated and monitored sectors. For several years, the regulations governing the industry have been expanding significantly, notably in terms of the extent and the complexity of applicable regulations. The pressure exerted by regulatory authorities is mounting and their oversight powers are increasing, and this exposes Desjardins Group, including the Company, to monetary sanctions and greater reputation risk.

Regulatory authorities and bodies

This evolution is in response to numerous socio-economic phenomena such as the development of new, increasingly complex financial products, the continuing volatility in the securities industry, 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, due consideration must be given to the requirements of the *Autorité des marchés financiers* (AMF), the Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions (OSFI), the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Mutual Fund Dealers Association of Canada (MFDA), and the Investment Industry Regulatory Organization of Canada (IIROC). Complying with legislative and regulatory provisions, such as those on the protection of personal information, laws and regulations governing insurance, 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* and 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.

Compliance management framework

Fulfilling an independent supervisory function, the Vice-President and Chief Compliance and Privacy Officer of Desjardins Group fosters a proactive approach to compliance by fully integrating compliance into the Company's current operations.

The management framework applies to legal and regulatory risks, including the fight against financial crimes and corruption as well as fraud and privacy risks. It is based on identifying and monitoring of regulatory obligations and overseeing the functional units subject to them. The compliance management framework provides for the following:

- developing frameworks and documentation to comply with the regulatory requirements in effect;
- implementing training programs and coaching initiatives (advisory role);
- deploying operations oversight and inspection programs;
- reporting on the compliance status to the Company's Board of Directors and senior management.

To maintain its reputation for integrity as well as the confidence of its members and clients, the market and the general public, the Company has also adopted a code of professional conduct applicable to the officers and employees of all its components.

This compliance management framework provides reasonable assurance that the Company'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.

Compliance organizational structure

The Vice-President and Chief Compliance and Privacy Officer of Desjardins Group reports to the Executive Vice-President, Risk Management of Desjardins Group. The Chief Compliance Officers of all the components, including the Company, report to the Vice-President and Chief Compliance and Privacy Officer.

Legal and regulatory risk

Legal and regulatory risk is the risk associated with the non-compliance by Desjardins Group, including the Company, with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision or a contractual commitment, which 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.

During the last quarters, several regulatory changes have been proposed, including a *Draft Regulation respecting complaint processing and dispute resolution in the financial sector*, which was issued by the AMF. The Compliance team is monitoring the situation on an ongoing basis to identify changes, as applicable. In addition, on March 16, 2023, the AMF issued its *Incentive Management Guideline*, which is already effective.

Privacy risk

Privacy risk is the risk associated with inadequate handling of personal information (theft or breach, loss, collection, consent management, use, disclosure, retention, destruction or infringement of the rights of individuals related to their personal information) through intentional or unintentional actions (internal threat, error, negligence or omission). The key consequences of privacy risk deal with the Company's reputation, compliance and potential financial losses.

The federal Bill C-27, *An Act to enact the Consumer Privacy Protection Act, the Personal Information and Data Protection Tribunal Act and the Artificial Intelligence and Data Act and to make consequential and related amendments to other Acts*, is currently being analyzed by the Standing Committee on Industry and Technology. The Desjardins Group Privacy Office (DGPO) analyzed the impact of this bill in its current form and is closely monitoring the work. Several requirements of the *Consumer Privacy Protection Act* are already met by Desjardins Group and the Company as *An Act to modernize legislative provisions as regards the protection of personal information* (Law 25) enacted in Québec already provides for similar or stricter standards that are or will be implemented. Special attention will be paid to provisions relating to artificial intelligence, which is new law.

During the second quarter of 2023, the *Commission d'accès à l'information (CAI)* issued the *General framework for the application of monetary administrative penalties*, in which it presents the assessment process and the elements considered in establishing the amount of a penalty. The CAI also introduced draft *Guidelines on the criteria for the validity of consen*t and invited certain groups and organizations to participate in its consultation. Desjardins Group, including the Company, participated in the consultation through several industry associations of which it is a member.

On September 22, 2023, the second part of the new provisions of Law 25 came into force. These provisions include governance requirements, assessment of privacy factors, consent, transparency requirements such as privacy policies, privacy by default, automated decisions, identification, location and profiling technologies, individuals' rights, management of third parties as well as sanctions applicable in the event of breach of the Law. Desjardins Group, including the Company, have completed most of the work to comply with these new requirements.

Fraud and financial crime risk

Fraud and financial crime risk is the risk associated with acts conducted illegally by internal or external parties with the intent to cause harm, benefit from them or misappropriate assets belonging to Desjardins Group, members or clients, or the risk associated with non-compliance by Desjardins Group, including the Company, with obligations arising from the anticipation, interpretation or application of a legislative or regulatory provision regarding financial crimes.

To protect members and clients as well as the organization, Desjardins Group, including the Company, continually improves its processes and solutions to adequately prevent, detect and deal with fraud. To do so, fraud risks are identified on an ongoing basis and effective and robust mitigation measures are constantly evolving. With respect to the fight against money laundering and terrorist financing, the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) imposing a monetary sanction to a Canadian financial institution in 2022 confirms that this regulator is willing to impose more severe sanctions for non-compliance with the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (PCMLTFA). Desjardins Group has a robust framework and enhances it on an ongoing basis.

On June 7, 2023, the Department of Finance Canada launched a consultation on the parliamentary review of the PCMLTFA, with a complete overhaul to be carried out every five years. Reporting entities had until August 1, 2023 to comment, and Desjardins Group, including the Company, produced a brief as part of this consultation.

PILLAR 3 DISCLOSURES

Template CC1 - Composition of regulatory capital[1]

	(in thousands of dollars and as a percentage)	As at September 30, 2023	As at June 30, 2023	As at March 31, 2023	As at December 31, 2022	As at September 30, 2022
	Tier 1A capital: Instruments and reserves					
1	Directly issued qualifying common share capital plus related stock surplus	**$ 59,972**	$ 59,972	$ 59,972	$ 59,972	$ 59,972
2	Retained earnings	**165,779**	161,666	154,936	150,661	150,838
3	Accumulated other comprehensive income (and other reserves)	**(3,871)**	(3,433)	(1,650)	(3,711)	(6,101)
4	Directly issued capital subject to phase out from Common Equity Tier 1 regulatory capital	**N/A**	N/A	N/A	N/A	N/A
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in Common Equity Tier 1 capital)	**—**	—	—	—	—
6	**Gross Common Equity Tier 1 capital**	**$ 221,880**	$ 218,205	$ 213,258	$ 206,922	$ 204,709
28	**Total deductions from adjusted Common Equity Tier 1 capital after allocated and individual threshold deductions**	**$ —**	$ —	$ —	$ —	$ (6)
29	**Net Common Equity Tier 1 capital (Common Equity Tier 1 capital after all deductions)**	**221,880**	218,205	213,258	206,922	204,715
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**—**	—	—	—	—
31	Of which: classified as equity under applicable accounting standards	**—**	—	—	—	—
32	Of which: classified as liabilities under applicable accounting standards	**—**	—	—	—	—
33	Directly issued capital instruments subject to phase out from Additional Tier 1	**N/A**	N/A	N/A	N/A	N/A
34	Additional Tier 1 capital instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	**—**	—	—	—	—
35	of which: instruments issued by subsidiaries subject to phase out	**N/A**	N/A	N/A	N/A	N/A
36	**Gross additional Tier 1 capital**	**—**	—	—	—	—
43	**Total regulatory adjustments to Additional Tier 1 capital**	**$ —**	$ —	$ —	$ —	$ —
44	**Additional Tier 1 capital**	**—**	—	—	—	—
45	**Tier 1 capital**	**221,880**	218,205	213,258	206,922	204,715
	Tier 2 capital					
46	Directly issued qualifying Tier 2 instruments	**—**	—	—	—	—
47	Directly issued non-qualifying Tier 2 instruments (subject to phase-out from 2013 to 2022)	**N/A**	N/A	N/A	N/A	N/A
48	Capital instruments issued by consolidated subsidiaries to third parties (portion recognized as Tier 2 capital of the parent company)	**—**	—	—	—	—
49	of which: instruments issued by subsidiaries that will be phased out	**N/A**	N/A	N/A	N/A	N/A
50	Allowances	**—**	—	—	—	18
51	**Gross Tier 2 capital**	**$ —**	$ —	$ —	$ —	$ 18

Footnotes to this table are presented on the next page.

Template CC1 - Composition of regulatory capital[1] (continued)

	(in thousands of dollars and as a percentage)	As at September 30, 2023	As at June 30, 2023	As at March 31, 2023	As at December 31, 2022	As at September 30, 2022
57	**Total regulatory adjustments to Tier 2 capital**	**$ —**	$ —	$ —	$ —	$ —
58	**Tier 2 capital**	**—**	—	—	—	18
59	**Total capital**	**$ 221,880**	$ 218,205	$ 213,258	$ 206,922	$ 204,733
60	**Total risk-weighted assets**	**$ 1,146,735**	$ 977,999	$ 943,318	$ 1,033,725	$ 1,046,304
60a	**Credit Valuation Adjustment (CVA) risk-weighted assets**	**$ —**	$ —	N/A	N/A	N/A
	Capital ratios and buffers					
61	Common Equity Tier 1 (as % of risk-weighted assets)	**19.3%**	22.3%	22.6%	20.0%	19.6%
62	Tier 1 (as % of risk-weighted assets)	**19.3**	22.3	22.6	20.0	19.6
63	**Total capital (as % of risk-weighted assets)**	**19.3**	22.3	22.6	20.0	19.6
	OSFI target					
69	Common Equity Tier 1 target ratio	**7.0%**	7.0%	7.0%	7.0%	7.0%
70	Tier 1 capital target ratio	**8.5**	8.5	8.5	8.5	8.5
71	Total capital target ratio	**10.5**	10.5	10.5	10.5	10.5
	Applicable caps on the inclusion of allowances in Tier 2					
76	Allowances eligible for inclusion in Tier 2 capital in respect of exposures subject to the Standardized Approach (prior to application of cap)	**$ —**	$ —	$ —	$ —	$ 24
77	Cap on inclusion of allowances in Tier 2 capital under the Standardized Approach	**—**	—	—	—	24

(1) The data presented since the second quarter of 2023 are in accordance with the requirements of the *Capital Adequacy Requirements Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017 and became effective during the second quarter of 2023. Comparative data were not restated.

Template LR2 - Leverage ratio common disclosure template[1]

	(in thousands of dollars and as a percentage)	a As at September 30, 2023	b As at June 30, 2023	As at March 31, 2023	As at December 31, 2022	As at September 30, 2022
	On-balance sheet exposures					
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures, but including collateral)	**$ 2,745,193**	$ 2,653,629	$ 2,521,907	$ 3,061,895	$ 2,854,607
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	**—**	—	—	—	—
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	**—**	—	—	—	—
4	(Asset amounts deducted in determining Tier 1 capital)	**—**	—	—	—	—
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	**2,745,193**	2,653,629	2,521,907	3,061,895	2,854,607
	Derivative exposures					
6	Replacement cost associated with all derivative transactions	**—**	—	—	—	—
7	Add-on amounts for potential future exposure associated with all derivative transactions	**—**	—	—	—	—
8	(Exempted central counterparty-leg of client cleared trade exposures)	**—**	—	—	—	—
9	Adjusted effective notional amount of written credit derivatives	**—**	—	—	—	—
10	(Adjusted effective notional offsets and add-on deductions form written credit derivatives)	**—**	—	—	—	—
11	**Total derivative exposures (sum of lines 6 to 10)**	**—**	—	—	—	—
	Securities financing transaction exposures					
12	Gross SFT assets recognized for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	**234,123**	418,972	464,833	501,040	251,533
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**—**	—	—	—	—
14	Counterparty credit risk (CCR) exposure for SFTs	**267,044**	186,050	315,139	181,603	292,056
15	Agent transaction exposures	**—**	—	—	—	—
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**501,167**	605,022	779,972	682,643	543,589
	Other off-balance sheet exposures					
17	Off-balance sheet exposure at gross notional amount	**—**	—	—	—	—
18	(Adjustments for conversion to credit equivalent amounts)	**—**	—	—	—	—
19	**Off-balance sheet items (sum of lines 17 and 18)**	**—**	—	—	—	—
	Capital and total exposures					
20	Tier 1 capital	**221,880**	218,205	213,258	206,922	204,715
21	**Total exposures (sum of lines 5, 11, 16 and 19)**	**$ 3,246,360**	$ 3,258,651	$ 3,301,879	$ 3,744,538	$ 3,398,196
	Leverage ratio					
22	Basel III leverage ratio	**6.8%**	6.7%	6.5%	5.5%	6.0%

(1) The data presented since the second quarter of 2023 are in accordance with the requirements of the *Capital Adequacy Requirements Guideline*, which was updated to reflect the Basel III regulatory reforms approved by the BCBS on December 7, 2017 and became effective during the second quarter of 2023. Comparative data were not restated.