

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

For the period ended September 30, 2014

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## NOTES TO READERS

### 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'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 PROFILE

Desjardins Trust Inc. (the Company) is a trustee incorporated as a trust and loan company and registered under the *Trust and Loan Companies Act* (Canada) that provides a range of products and services, including asset custody, trust services to individuals and businesses and the Immigrant Investors Program. Since January 1, 2014, it is a wholly-owned subsidiary of Desjardins Financial Corporation, which in turn is wholly-owned by the *Fédération des caisses Desjardins du Québec* (the Federation). The Company was previously held directly by the Federation. The address of its head office is 1 Complexe Desjardins, Montreal, Quebec, 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 (IASB) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS. The unaudited financial information presented in this document is excerpted from the Annual and Interim Financial Statements of the Company. Unless indicated otherwise, all amounts are in Canadian dollars.

## FINANCIAL INFORMATION

TABLE 1 - STATEMENTS OF INCOME

(in thousands of dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2014	2013	2014	2013
<b>Income</b>				
Fee and other income	\$ 27,735	\$ 34,434	\$ 93,266	\$ 110,731
Investment income				
Interest income				
Interest on securities at fair value through profit or loss	138	256	650	786
Interest on available-for-sale securities	1,294	3,100	5,623	8,353
Interest expense	1,012	1,505	3,644	4,651
Net interest income	420	1,851	2,629	4,488
Other investment income				
Foreign exchange gains (losses)	88	(10)	132	34
Net income on securities at fair value through profit or loss	4	57	5	206
Net gain on available-for-sale securities	137	414	1,102	1,868
	229	461	1,239	2,108
Net investment income	649	2,312	3,868	6,596
<b>Total income</b>	<b>28,384</b>	<b>36,746</b>	<b>97,134</b>	<b>117,327</b>
<b>Non-interest expense</b>				
Service agreements and outsourcing	13,562	14,921	44,274	47,218
Consulting fees	5,205	14,799	26,481	47,939
Custodian fees	2,049	1,618	5,670	4,609
Professional fees	928	525	1,767	1,625
Other	1,611	1,658	4,613	4,480
	23,355	33,521	82,805	105,871
<b>Income before income taxes</b>	<b>5,029</b>	<b>3,225</b>	<b>14,329</b>	<b>11,456</b>
Income taxes	1,356	872	3,811	3,142
<b>Net income for the period</b>	<b>\$ 3,673</b>	<b>\$ 2,353</b>	<b>\$ 10,518</b>	<b>\$ 8,314</b>

TABLE 2 - BALANCE SHEETS

(In thousands of dollars)		As at September 30, 2014	As at December 31, 2013
<b>Assets</b>			
Cash and deposits with financial institutions		\$ 30,323	\$ 147,357
Securities			
Securities at fair value through profit or loss		279,083	573,230
Available-for-sale securities		405,897	790,721
Securities purchased under reverse repurchase agreements		948,234	520,884
Interest receivable		2,402	2,923
Derivative financial instruments		-	94
Amounts receivable from clients		35,029	40,050
Deferred tax assets		767	858
Other assets		1,244	3,766
<b>Total assets</b>		<b>\$ 1,702,979</b>	<b>\$ 2,079,883</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits		\$ 370,491	\$ 1,116,088
Commitments related to securities lent or sold under repurchase agreements		1,202,269	846,288
Derivative financial instruments		-	139
Defined benefit plan liabilities		2,005	2,066
Other liabilities		17,516	14,524
<b>Total liabilities</b>		<b>1,592,281</b>	<b>1,979,105</b>
<b>Equity</b>			
Share capital		59,972	59,972
Retained earnings		50,531	40,013
Accumulated other comprehensive income		195	793
<b>Total equity</b>		<b>110,698</b>	<b>100,778</b>
<b>Total liabilities and equity</b>		<b>\$ 1,702,979</b>	<b>\$ 2,079,883</b>

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	
		2014	2013	2014	2013
<b>Net income for the period</b>		<b>\$ 3,673</b>	<b>\$ 2,353</b>	<b>\$ 10,518</b>	<b>\$ 8,314</b>
Items that will be reclassified subsequently to the Statements of Income					
Net change in unrealized gains on available-for-sale securities					
Net unrealized gains on available-for-sale securities		(37)	449	208	1,827
Reclassification of gains on available-for-sale securities to the Statements of Income		(101)	(303)	(806)	(1,366)
		(138)	146	(598)	461
<b>Comprehensive income for the period</b>		<b>\$ 3,535</b>	<b>\$ 2,499</b>	<b>\$ 9,920</b>	<b>\$ 8,775</b>

**TABLE 4 - STATEMENTS OF CHANGES IN EQUITY**

For the nine-month periods ended September 30

			Accumulated other comprehensive income	Total equity
(in thousands of dollars)	Share capital	Retained earnings		
Balance as at December 31, 2013	\$ 59,972	\$ 40,013	\$ 793	\$ 100,778
Net income for the period	-	10,518	-	10,518
Other comprehensive income for the period	-	-	(598)	(598)
<b>Balance as at September 30, 2014</b>	<b>\$ 59,972</b>	<b>\$ 50,531</b>	<b>\$ 195</b>	<b>\$ 110,698</b>
Balance as at December 31, 2012	\$ 49,972	\$ 29,975	\$ 842	\$ 80,789
Impact of restatement <sup>(1)</sup>	-	(102)	-	(102)
Balance as at December 31, 2012	49,972	29,873	842	80,687
Issuance of share capital	10,000	-	-	10,000
Net income for the period	-	8,314	-	8,314
Other comprehensive income for the period	-	-	461	461
Balance as at September 30, 2013	\$ 59,972	\$ 38,187	\$ 1,303	\$ 99,462

<sup>(1)</sup> On January 1, 2013, the Company adopted the amendments to IAS 19, "Employee Benefits", which change the accounting rules related to employee benefits and mainly those related to defined benefit plans.

**TABLE 5 - SECURITIES**

As at September 30, 2014

	Terms to maturity			
(in thousands of dollars)	Under 1 year	Over 1 year	No specific maturity	Total
<b>Securities issued or guaranteed by</b>				
Canada	\$ 149,446	\$ -	\$ -	\$ 149,446
Provinces	133,742	112,802	-	246,544
<b>Other securities in Canada</b>				
Financial institutions	251,786	37,167	-	288,953
Other issuers	-	-	37	37
<b>Total securities</b>	<b>\$ 534,974</b>	<b>\$ 149,969</b>	<b>\$ 37</b>	<b>\$ 684,980</b>

As at December 31, 2013

	Terms to maturity			
(in thousands of dollars)	Under 1 year	Over 1 year	No specific maturity	Total
<b>Securities issued or guaranteed by</b>				
Canada	\$ 206,880	\$ 4,999	\$ -	\$ 211,879
Provinces	328,169	479,982	-	808,151
<b>Other securities in Canada</b>				
Financial institutions	314,237	29,648	-	343,885
Other issuers	-	-	36	36
<b>Total securities</b>	<b>\$ 849,286</b>	<b>\$ 514,629</b>	<b>\$ 36</b>	<b>\$ 1,363,951</b>

TABLE 5 - SECURITIES (continued)

As at September 30, 2014	Distribution par province (excluding securities issued or guaranteed by Canada)							
	Quebec	Ontario	Manitoba	British Columbia	Saskatchewan	Alberta	Nova Scotia	Total
(in thousands of dollars)								
Securities issued or guaranteed	\$ 174,078	\$ 22,072	\$ -	\$ 25,298	\$ -	\$ 25,096	\$ -	\$ 246,544
Other securities in Canada	288,990	-	-	-	-	-	-	288,990
	\$ 463,068	\$ 22,072	\$ -	\$ 25,298	\$ -	\$ 25,096	\$ -	\$ 535,534

As at December 31, 2013	Distribution par province (excluding securities issued or guaranteed by Canada)							
	Quebec	Ontario	Manitoba	British Columbia	Saskatchewan	Alberta	Nova Scotia	Total
(in thousands of dollars)								
Securities issued or guaranteed	\$ 495,648	\$ 105,198	\$ 60,321	\$ 42,695	\$ 19,988	\$ 75,305	\$ 8,996	\$ 808,151
Other securities in Canada	343,921	-	-	-	-	-	-	343,921
	\$ 839,569	\$ 105,198	\$ 60,321	\$ 42,695	\$ 19,988	\$ 75,305	\$ 8,996	\$ 1,152,072

TABLE 6 - SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

(in thousands of dollars)	As at September 30, 2014	As at December 31, 2013
Residents	\$ 948,234	\$ 520,884
Non-residents	-	-
<b>Total</b>	<b>\$ 948,234</b>	<b>\$ 520,884</b>

In the normal course of operations, the Company lends client securities. As part of such transactions, the Company acts as an agent for the holder of securities who agrees to lend them to a borrower for a commission under the terms of a pre-arranged contract.

TABLE 7 - ALLOWANCE FOR CREDIT LOSSES

(in thousands of dollars)	As at September 30, 2014	As at December 31, 2013
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

TABLE 8 - DEPOSITS

(in thousands of dollars)	As at September 30, 2014	As at December 31, 2013
<b>Type</b>		
Payable on demand	\$ 118,787	\$ 874,950
Payable on a fixed date	251,704	241,138
<b>Total</b>	<b>\$ 370,491</b>	<b>\$ 1,116,088</b>

(in thousands of dollars)	As at September 30, 2014	As at December 31, 2013
<b>Distribution by province</b>		
Quebec	\$ 358,963	\$ 1,104,105
Ontario	11,512	11,951
New Brunswick	16	32
<b>Total</b>	<b>\$ 370,491</b>	<b>\$ 1,116,088</b>

On April 1, 2014, the Company transferred to a company under common control some of the activities it was carrying out as a custodian. The market value of the deposits and the assets related to these operations was \$1.1 billion (nil in 2013).

TABLE 9 - INTEREST RATE SENSITIVITY AND MATURITY MATCHING

As at September 30, 2014

(in thousands of dollars)	Terms to maturity							Total
	Floating rate	Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 years	Non-interest-sensitive	
<b>Assets</b>								
Cash and deposits with financial institutions	\$ -	\$ 30,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,323
Securities	-	256,884	99,090	178,999	82,315	67,655	37	684,980
Securities purchased under reverse repurchase agreements	-	948,234	-	-	-	-	-	948,234
Interest receivable	-	-	-	-	-	-	2,402	2,402
Derivative financial instruments	-	-	-	-	-	-	-	-
Amounts receivable from clients	-	-	-	-	-	-	35,029	35,029
Deferred tax assets	-	-	-	-	-	-	767	767
Other assets	-	-	-	-	-	-	1,244	1,244
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,235,441</b>	<b>\$ 99,090</b>	<b>\$ 178,999</b>	<b>\$ 82,315</b>	<b>\$ 67,655</b>	<b>\$ 39,479</b>	<b>\$ 1,702,979</b>
<b>Liabilities and equity</b>								
Deposits	\$ -	\$ 165,415	\$ 40,123	\$ 48,290	\$ 57,986	\$ 58,677	\$ -	\$ 370,491
Commitments related to securities lent or sold under repurchase agreements	-	1,202,269	-	-	-	-	-	1,202,269
Derivative financial instruments	-	-	-	-	-	-	-	-
Defined benefit plan liabilities	-	-	-	-	-	-	2,005	2,005
Other liabilities	-	-	-	-	-	-	17,516	17,516
Equity	-	-	-	-	-	-	110,698	110,698
<b>Total liabilities and equity</b>	<b>\$ -</b>	<b>\$ 1,367,684</b>	<b>\$ 40,123</b>	<b>\$ 48,290</b>	<b>\$ 57,986</b>	<b>\$ 58,677</b>	<b>\$ 130,219</b>	<b>\$ 1,702,979</b>
<b>Sensitivity gap - Balance Sheet items</b>	<b>\$ -</b>	<b>\$ (132,243)</b>	<b>\$ 58,967</b>	<b>\$ 130,709</b>	<b>\$ 24,329</b>	<b>\$ 8,978</b>	<b>\$ (90,740)</b>	<b>\$ -</b>

As at December 31, 2013

(in thousands of dollars)	Terms to maturity							Total
	Floating rate	Under 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 2 years	Over 2 years	Non-interest-sensitive	
<b>Assets</b>								
Cash and deposits with financial institutions	\$ -	\$ 147,357	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 147,357
Securities	-	454,123	242,515	152,648	162,067	352,561	37	1,363,951
Securities purchased under reverse repurchase agreements	-	520,884	-	-	-	-	-	520,884
Interest receivable	-	-	-	-	-	-	2,923	2,923
Derivative financial instruments	-	-	-	-	-	-	94	94
Amounts receivable from clients	-	-	-	-	-	-	40,050	40,050
Deferred tax assets	-	-	-	-	-	-	858	858
Other assets	-	-	-	-	-	-	3,766	3,766
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,122,364</b>	<b>\$ 242,515</b>	<b>\$ 152,648</b>	<b>\$ 162,067</b>	<b>\$ 352,561</b>	<b>\$ 47,728</b>	<b>\$ 2,079,883</b>
<b>Liabilities and equity</b>								
Deposits	\$ 874,950	\$ 32,100	\$ 22,906	\$ 71,053	\$ 61,527	\$ 53,552	\$ -	\$ 1,116,088
Commitments related to securities lent or sold under repurchase agreements	-	846,288	-	-	-	-	-	846,288
Derivative financial instruments	-	-	-	-	-	-	139	139
Defined benefit plan liabilities	-	-	-	-	-	-	2,066	2,066
Other liabilities	-	-	-	-	-	-	14,524	14,524
Equity	-	-	-	-	-	-	100,778	100,778
<b>Total liabilities and equity</b>	<b>\$ 874,950</b>	<b>\$ 878,388</b>	<b>\$ 22,906</b>	<b>\$ 71,053</b>	<b>\$ 61,527</b>	<b>\$ 53,552</b>	<b>\$ 117,507</b>	<b>\$ 2,079,883</b>
<b>Sensitivity gap - Balance Sheet items</b>	<b>\$ (874,950)</b>	<b>\$ 243,976</b>	<b>\$ 219,609</b>	<b>\$ 81,595</b>	<b>\$ 100,540</b>	<b>\$ 299,009</b>	<b>\$ (69,779)</b>	<b>\$ -</b>

**CAPITAL****BASEL III**

The new Basel III regulatory framework increases capital requirements. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new capitalization rules, OSFI required the Company to meet the Common Equity Tier 1 capital ratio levels established for 2019 in the first quarter of 2013. For the Tier 1 and total capital ratios, OSFI requires the Company to meet the levels established for 2019 in the first quarter of 2014.

The minimum Tier 1 capital ratio that the Company must maintain to meet regulatory requirements is 8.5%. In addition, the Common Equity Tier 1 capital ratio must be above 7%, including a 2.5% capital conservation buffer. Lastly, its total capital ratio must be above 10.5%, including this buffer.

**TABLE 10 - STATEMENT OF CAPITAL**

	All-in method <sup>(1)</sup>	
	As at September 30, 2014	As at December 31, 2013
<b>Common Equity Tier 1 capital</b>		
Common shares	\$ 59,972	\$ 59,972
Retained earnings	50,531	40,013
Accumulated other comprehensive income	195	793
<b>Net Common Equity Tier 1 capital</b>	<b>\$ 110,698</b>	<b>\$ 100,778</b>
<b>Total risk-weighted assets</b>	<b>\$ 420,634</b>	<b>\$ 461,179</b>
<b>Capital ratios</b>		
Common Equity Tier 1 capital ratio	26.3%	21.9%
Tier 1 capital ratio	26.3%	21.9%
Total capital ratio	26.3%	21.9%
Assets/capital ratio	4.5	12.2
<b>Target ratios</b>		
Common Equity Tier 1 capital ratio	7.0%	7.0%
Tier 1 capital ratio	8.5%	N/A
Total capital ratio	10.5%	N/A
Assets/capital ratio	20.0	20.0

<sup>(1)</sup> Under the all-in method, regulatory capital is calculated taking into account all the regulatory adjustments under Basel III effective January 1, 2013 and the phase-out of the capital of instruments that are not eligible for regulatory capital under the Basel III rules.

**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 and reputation 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 stability as well as its profitable growth, while complying with regulatory requirements. The Company considers risk an inextricable part of its development and consequently strives to promote a culture in which each of its employees and managers is responsible for risk management.

**INTEGRATED RISK MANAGEMENT FRAMEWORK**

The Company's objective in risk management is to optimize the risk-return trade-off, within set tolerance limits, by applying integrated risk management and control strategies, policies and procedures to all its activities. It also aims to provide, in particular through the Integrated Risk Management Framework, a prudent and appropriate framework that complies with accepted accountability and independence principles.

As important components of this management framework, risk appetite and tolerance determine the type and level of risk that the Company is prepared to assume to achieve its business and strategic objectives. They provide a basis for integrated risk management by promoting a better understanding of the risks and their impact on the risk profile. This framework provides for a system of risk indicators that are monitored on a regular basis to ensure that the Company's risk profile matches the level of risk appetite and tolerance sought by senior management and the Board of Directors in view of the Company's mission, vision and values. The Board of Directors is responsible for approving the risk appetite and tolerance framework, which must reflect the Company's financial and strategic objectives. The Company continuously monitors the risks associated with its main activities, in particular securities administration and custody as well as trust services.

The Company's governance principles comply with the regulatory criteria applicable to a federal trust company. The Company's Board of Directors is responsible for directing, planning and monitoring 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 policies. 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 policies 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.

Desjardins Group's risk management approach 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**

The main risk management frameworks address in particular the following:

- Integrated risk management
- Risk appetite and tolerance
- Operational risk management
- Business continuity and crisis management
- Reputation risk management
- Internal capital adequacy assessment program
- Model governance
- Risk analyses for financial projects and products
- Stress testing
- Matching and liquidity
- Securities lending
- Fiduciary risk management

### **CREDIT RISK**

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*Credit risk is the risk of losses resulting from a borrower'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 senior management and the Risk Management Committee, which recommends them to the Board of Directors.

#### **Mitigating credit risk**

In its derivative financial instrument transactions and 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. Most derivative product transactions are over the counter and are governed by International Swaps and Derivatives Association master agreements (ISDA agreements), which define the terms and conditions for the transactions. These transactions are legal contracts that bind the counterparties. Most of the Company's agreements provide for netting to determine the net exposure in the event of default. In addition, a Credit Support Annex can be added to the master agreements in order to request the counterparties to pay or secure the current market value of the positions when such value exceeds a certain threshold.

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 eligibility 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

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*Market risk refers to the risk of changes in the fair value of financial instruments resulting from fluctuations in the parameters affecting this value, in particular, interest rates, exchange rates, credit spreads and their volatility.*

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 9, "Interest rate sensitivity and maturity matching", in this document.

## LIQUIDITY RISK

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*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. For the Company, 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 policies describing the principles, limits, risk appetite and tolerance 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, OSFI's Guideline B-6, *Liquidity Principles*, as well as the monitoring and compliance with the new standards for the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) 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.

## OPERATIONAL RISK

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*Operational risk is the risk of inadequacy or failure attributable to processes, people, internal systems or external events resulting in losses, failure to achieve objectives or a negative impact on reputation.*

Operational risk is inherent to all business activities as well as internal and outsourced activities. It may lead to losses mainly resulting from theft and fraud, damage to tangible assets, illegal acts, systems failures, unauthorized access to computer systems (cybercrimes) or problems in process management.

### Operational risk management framework

The primary objective of the operational risk management framework is to maintain this risk at an acceptable level while focusing on the quality of service provided to Desjardins Group members and clients as well as organizational agility. The development of policies, guidelines and rules with respect to operational risk ensures its sound and prudent management.

Desjardins Group efficiently and proactively manages events that could lead to operational risk by implementing practices to identify, measure, mitigate and monitor operational risk and to ensure adequate disclosure.

The operational risk management framework is periodically reviewed based on regulatory authorities' expectations and industry practices.

## STRATEGIC RISK

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*Strategic risk refers to a possible loss attributable to an inability to adapt to a changing environment because of failure to act, an inappropriate strategic choice or the inability to effectively implement strategies.*

It is first up to senior management and the Board of Directors to address, define and monitor developments in the strategic orientations of Desjardins Group and the Company according to the consultation processes specific to Desjardins. Events that could compromise the achievement of the strategic objectives and initiatives of Desjardins Group and the Company are systematically and regularly monitored by their management personnel and senior management. Business sectors periodically assess events and risks that could prevent the achievement of strategic objectives, and report thereon to the appropriate bodies.

## REPUTATION RISK

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*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 income and equity, or the trust that it inspires.*

A reputation is of critical importance, and reputation risk cannot be managed separately from other risks. Therefore, managing reputation risk in all its spheres of activity is a constant concern for Desjardins Group and the Company.

Desjardins Group has defined guidelines, a management framework, and roles and responsibilities with regard to reputation risk. This framework is in addition to various processes already in place, such as 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. All management personnel and employees are required to perform their duties in accordance with these principles and the values of Desjardins Group and the Company.