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

For the period ended December 31, 2017

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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 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, 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 and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec and OSFI, which do not differ from IFRS. The unaudited financial information presented in this document is mainly excerpted from the audited Annual 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 December 31, 2017**	As at December 31, 2016
Assets		
Cash and deposits with financial institutions	**$ 38,116**	$ 34,041
Securities		
Securities at fair value through profit or loss	**-**	225,882
Available-for-sale securities	**1,539,237**	491,624
Securities purchased under reverse repurchase agreements	**400,294**	386,848
Interest receivable	**688**	532
Amounts receivable from clients	**32,178**	32,281
Deferred tax assets	**490**	537
Other assets	**3,302**	2,198
Total assets	**$ 2,014,305**	$ 1,173,943
Liabilities and equity		
Liabilities		
Deposits	**$ 415,382**	$ 415,693
Commitments related to securities lent or sold under repurchase agreements	**1,439,438**	612,482
Net defined benefit plan liabilities	**2,049**	2,053
Other liabilities	**9,374**	8,287
Total liabilities	**1,866,243**	1,038,515
Equity		
Share capital	**59,972**	59,972
Retained earnings	**88,344**	75,141
Accumulated other comprehensive income	**(254)**	315
Total equity	**148,062**	135,428
Total liabilities and equity	**$ 2,014,305**	$ 1,173,943

Table 2 – Statements of Income

	For the three-month periods ended December 31		For the twelve-month periods ended December 31	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Income				
Fee and other income	**$ 23,476**	$ 26,484	**$ 93,244**	$ 99,966
Investment income				
Interest income	**6,005**	2,052	**15,196**	8,202
Interest expense	**4,935**	1,766	**12,433**	7,007
Net interest income	**1,070**	286	**2,763**	1,195
Other investment income				
Net realized gains (losses) on available-for-sale securities	**(177)**	13	**(196)**	162
Other	**25**	134	**(436)**	(3)
	(152)	147	**(632)**	159
Net investment income	**918**	433	**2,131**	1,354
Total income	**24,394**	26,917	**95,375**	101,32
Non-interest expense				
Service agreements and outsourcing	**13,765**	15,280	**56,867**	57,748
Consulting fees	**65**	2,679	**1,442**	9,406
Custodian fees	**2,720**	2,457	**9,812**	9,223
Other	**2,450**	1,779	**9,051**	7,600
	19,000	22,195	**77,172**	83,977
Income before income taxes	**5,394**	4,722	**18,203**	17,343
Income taxes	**1,429**	1,244	**4,923**	4,641
Net income for the period	**$ 3,965**	$ 3,478	**$ 13,280**	$ 12,702

Table 3 – Statements of Comprehensive Income

	For the three-month periods ended December 31		For the twelve-month periods ended December 31	
(in thousands of dollars)	**2017**	2016	**2017**	2016
Net income for the period	**$ 3,965**	$ 3,478	**$ 13,280**	$ 12,702
Other comprehensive income, net of income taxes				
Item that will not be reclassified subsequently to the Statements of Income				
Remeasurement of net defined benefit plan liabilities	**(77)**	(6)	**(77)**	(6)
	(77)	(6)	**(77)**	(6)
Items that will be reclassified subsequently to the Statements of Income				
Net unrealized gains (losses) on available-for-sale securities	**149**	(263)	**(712)**	150
Reclassification to the Statements of Income of gains (losses) on available-for-sale securities	**129**	(10)	**143**	(119)
Total other comprehensive income, net of income taxes	**201**	(279)	**(646)**	25
Comprehensive income for the period	**$ 4,166**	$ 3,199	**$ 12,634**	$ 12,727

Table 4 – Statements of Changes in Equity
For the twelve-month periods ended December 31

(in thousands of dollars)	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
Balance as at December 31, 2016	**$ 59,972**	**$ 75,141**	**$ 315**	**$ 135,428**
Net income for the period	**-**	**13,280**	**-**	**13,280**
Other comprehensive income for the period	**-**	**(77)**	**(569)**	**(646)**
Total comprehensive income for the period	**-**	**13,203**	**(569)**	**12,634**
Balance as at December 31, 2017	**$ 59,972**	**$ 88,344**	**$ (254)**	**$ 148,062**
Balance as at December 31, 2015	$ 59,972	$ 62,445	$ 284	$ 122,701
Net income for the period	-	12,702	-	12,702
Other comprehensive income for the period	-	(6)	31	25
Total comprehensive income for the period	-	12,696	31	12,727
Balance as at December 31, 2016	$ 59,972	$ 75,141	$ 315	$ 135,428

Table 5 – Securities

As at December 31, 2017	**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	**$ 18,980**	**$ 93,392**	**$ -**	**$ 112,372**
Provincial government entities and municipal corporations in Canada	**532,071**	**54,823**	**-**	**586,894**
Other securities				
Financial institutions	**757,771**	**-**	**-**	**757,771**
Other issuers	**82,159**	**-**	**41**	**82,200**
Total securities	**$ 1,390,981**	**$ 148,215**	**$ 41**	**$ 1,539,237**

As at December 31, 2016	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	$ 112,542	$ 58,103	$ -	$ 170,645
Provincial government entities and municipal corporations in Canada	144,788	108,875	-	253,663
Other securities				
Financial institutions	252,903	40,253	-	293,156
Other issuers	-	-	42	42
Total securities	$ 510,233	$ 207,231	$ 42	$ 717,506

Table 5 – Securities (continued)

As at December 31, 2017

(in thousands of dollars)	Manitoba	Newfoundland & Labrador	Quebec	Ontario	British Colombia	Alberta	Nova Scotia	Total
Securities issued or guaranteed	**$ 9,993**	**$ 2,490**	**$ 362,008**	**$ 208,971**	**$ -**	**$ 3,432**	**$ -**	**$ 586,894**
Other securities	**-**	**-**	**367,777**	**304,147**	**-**	**46,906**	**121,141**	**839,971**
	$ 9,993	**$ 2,490**	**$ 729,785**	**$ 513,118**	**$ -**	**$ 50,338**	**$ 121,141**	**$ 1,426,865**

As at December 31, 2016

(in thousands of dollars)	Manitoba	Newfoundland & Labrador	Quebec	Ontario	British Colombia	Alberta	Nova Scotia	Total
Securities issued or guaranteed	$ -	$ 2,460	$ 141,412	$ 104,033	$ 5,758	$ -	$ -	$ 253,663
Other securities	-	-	253,771	33,421	-	-	6,006	293,198
	$ -	$ 2,460	$ 395,183	$ 137,454	$ 5,758	$ -	$ 6,006	$ 546,861

Table 6 – Securities purchased under reverse repurchase agreements

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Residents	**$ 400,294**	$ 386,848
Non-residents	**-**	-
Total	**$ 400,294**	$ 386,848

In the normal course of business, the Company carries out securities lending transactions, which include repurchase and reverse purchase agreements and securities lending. As part of such transactions, the Company acts as custodian for the securities holder who authorizes it to lend the securities to a borrower for a commission, the form and terms of which are determined in a pre-arranged contract under which the Company may assume certain risks.

Table 7 – Allowance for credit losses

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Total	**$ -**	$ -

Table 8 – Deposits

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Type		
Payable on demand	**$ 140,010**	$ 134,727
Payable on a fixed date	**275,372**	280,966
Total	**$ 415,382**	$ 415,693

(in thousands of dollars)	As at December 31, 2017	As at December 31, 2016
Distribution by province		
Quebec	**$ 400,080**	$ 400,774
Ontario	**15,247**	14,869
New Brunswick	**55**	50
Total	**$ 415,382**	$ 415,693

Table 9 – Interest rate sensitivity and maturity matching

As at December 31, 2017	**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**	**Total**
Assets								
Cash and deposits with financial institutions	**$ -**	**$ 38,116**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 38,116**
Securities	**-**	**956,666**	**223,241**	**211,074**	**65,373**	**82,842**	**41**	**1,539,237**
Securities purchased under reverse repurchase agreements	**-**	**400,244**	**-**	**-**	**-**	**-**	**50**	**400,294**
Interest receivable	**-**	**-**	**-**	**-**	**-**	**-**	**688**	**688**
Amounts receivable from clients	**-**	**-**	**-**	**-**	**-**	**-**	**32,178**	**32,178**
Deferred tax assets	**-**	**-**	**-**	**-**	**-**	**-**	**490**	**490**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**3,302**	**3,302**
Total assets	**$ -**	**$ 1,395,026**	**$ 223,241**	**$ 211,074**	**$ 65,373**	**$ 82,842**	**$ 36,749**	**$ 2,014,305**
Liabilities and equity								
Deposits	**$ 140,010**	**$ 38,955**	**$ 38,175**	**$ 66,385**	**$ 62,308**	**$ 69,549**	**$ -**	**$ 415,382**
Commitments related to securities lent or sold under repurchase agreements	**-**	**1,439,258**	**-**	**-**	**-**	**-**	**180**	**1,439,438**
Net defined benefit plan liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**2,049**	**2,049**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**9,374**	**9,374**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**148,062**	**148,062**
Total liabilities and equity	**$ 140,010**	**$ 1,478,213**	**$ 38,175**	**$ 66,385**	**$ 62,308**	**$ 69,549**	**$ 159,665**	**$ 2,014,305**
Sensitivity gap - Balance Sheet items	**$ (140,010)**	**$ (83,187)**	**$ 185,066**	**$ 144,689**	**$ 3,065**	**$ 13,293**	**$ (122,916)**	**$ -**

As at December 31, 2016	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	Total
Assets								
Cash and deposits with financial institutions	$ -	$ 34,041	$ -	$ -	$ -	$ -	$ -	$ 34,041
Securities	-	251,428	70,442	188,362	152,660	54,572	42	717,506
Securities purchased under reverse repurchase agreements	-	386,814	-	-	-	-	34	386,848
Interest receivable	-	-	-	-	-	-	532	532
Amounts receivable from clients	-	-	-	-	-	-	32,281	32,281
Deferred tax assets	-	-	-	-	-	-	537	537
Other assets	-	-	-	-	-	-	2,198	2,198
Total assets	$ -	$ 672,283	$ 70,442	$ 188,362	$ 152,660	$ 54,572	$ 35,624	$ 1,173,943
Liabilities and equity								
Deposits	$ 134,726	$ 56,619	$ 31,087	$ 62,833	$ 60,278	$ 70,150	$ -	$ 415,693
Commitments related to securities lent or sold under repurchase agreements	-	612,448	-	-	-	-	34	612,482
Net defined benefit plan liabilities	-	-	-	-	-	-	2,053	2,053
Other liabilities	-	-	-	-	-	-	8,287	8,287
Equity	-	-	-	-	-	-	135,428	135,428
Total liabilities and equity	$ 134,726	$ 669,067	$ 31,087	$ 62,833	$ 60,278	$ 70,150	$ 145,802	$ 1,173,943
Sensitivity gap - Balance Sheet items	$ (134,726)	$ 3,216	$ 39,355	$ 125,529	$ 92,382	$ (15,578)	$ (110,178)	$ -

CAPITAL

Basel III

The 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 as of 2013. For the Tier 1 and total capital ratios, OSFI required the Company to meet the levels established for 2019 in the first quarter of 2014.

Capital ratios are expressed 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 exposures and securities financing transaction exposures.

Table 10 – Statement of capital

	All-in method[1]	
(In thousands of dollars and as a percentage)	**As at December 31, 2017**	As at December 31, 2016
Common Equity Tier 1 capital		
Common shares	**$ 59,972**	$ 59,972
Retained earnings	**88,344**	75,141
Accumulated other comprehensive income	**(254)**	315
Net Common Equity Tier 1 capital	**$ 148,062**	$ 135,428
Total risk-weighted assets	**$ 514,498**	$ 416,251
Total leverage ratio exposure	**$ 2,202,019**	$ 1,455,816
Ratios		
Common Equity Tier 1 capital ratio	**28.8%**	32.5%
Tier 1 capital ratio	**28.8**	32.5
Total capital ratio	**28.8**	32.5
Leverage ratio	**6.7**	9.3
Minimum ratios		
Common Equity Tier 1 capital ratio	**7.0%**	7.0%
Tier 1 capital ratio	**8.5**	8.5
Total capital ratio	**10.5**	10.5
Leverage ratio	**3.0**	3.0

[1] Regulatory capital is calculated using the all-in method, which involves applying all the regulatory adjustments under Basel III effective January 1, 2013 and phasing out the capital value 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, reputation risk, environmental risk and legal and regulatory environment 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 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, within set tolerance limits, 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 aimed, among other things, at giving management and the Board of Directors an appropriate level of confidence and comfort regarding the understanding and management of the full spectrum of risks associated with the achievement of its objectives.

This Integrated Risk Management Framework is consistent with that of Desjardins Group 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 is prepared to assume in pursuing its business, financial 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 risks on the Company's actual 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, contributing to the development of a sustainable and responsible economy and managing such risks conscientiously;
- Protecting the Company's reputation with 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;
- Modernizing the Company's technologies to adapt to the needs of members, clients and employees in order to simplify their experience;
- Thanks to adequate profitability in light of risk exposure, ensuring the Company's sustainability to be able to give back to members and communities and to meet its commitments;
- Maintaining financial stability within the market by preserving a capitalization level that meets market expectations and complies with regulatory requirements;
- Managing liquidities and refinancing activities in order to guard against liquidity risk;
- Avoiding excessively large risk concentrations;
- Adequately managing operational and regulatory risks.

The risk appetite framework also provides a system of qualitative and quantitative risk indicators that are monitored on a regular basis to ensure that the Company's risk profile remains within the risk appetite limits set by senior management and the Board of Directors. The Company's risk profile is analyzed quarterly by the Risk Management Executive Division and presented to senior management and the Board of Directors. In the event a level or limit for a risk appetite indicator is exceeded, a mechanism to implement an action plan is deployed and information is transmitted to 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 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, targets, levels and limits with the Desjardins Group 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 and practices to support its business development and meet its strategic objectives. They are either specific to a risk area or integrated (risk aggregation).

The Company takes the necessary measures to ensure that it implements, applies and maintains practices that allow it 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 framework;
- Strategic and business risk;
- 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;
- 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.

Market risk

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

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

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 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. During the quarter, the Company filed with OSFI the monthly reports on LCR and NCCF, which more than met the minimum requirements. Note that the NSFR ratio requirements implementation date has been postponed to January 1, 2019. The Company intends to comply with these requirements when they become effective.

Operational risk

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 of the Company’s activities, including management and control activities in other risk areas (credit, market, liquidity, etc.) as well as outsourced activities. 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.

In keeping with the global trend, Desjardins Group considers technology risk to be a major operational risk. To better respond to it, a specific management framework that is consistent with the operational risk management framework has been put in place in accordance with industry best practices.

Strategic risk

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 management and the Board of Directors to address and 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 systematically and regularly monitored by their management personnel 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 the organization's 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. 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.

Environmental risk

Environmental risk is the risk of financial, operational or reputational loss for Desjardins Group and the Company as a result of environmental impact or issues, whether they occur through the credit or investment activities or the operations of Desjardins Group and the Company.

In addition to the potential financial losses that could be incurred through poor management of environmental risk, there is increased credit risk through the impairment of assets pledged as security and greater reputational risk should assets taken as collateral become the subject of discussions in the media of social and environmental issues.

Environmental 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 environment risk

Legal and regulatory environment risk refers to the risk arising from the non-compliance by Desjardins Group, including the Company, with the laws, regulations, standards and practices in effect wherever the Company operates, as well as its various internal codes of conduct and its contractual commitments, which could lead in particular to financial losses, penalties, harm to its reputation, legal recourse or heightened monitoring by regulators.

Legal and regulatory environment 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 financial penalties or sanctions. Present and future judicial decisions and legislative activity 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, 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 Office of the Chief Compliance Officer of Desjardins Group fosters a proactive approach to compliance by fully integrating compliance into the organization's current operations. It is 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 overall management of compliance 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.