



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

For the period ended September 30, 2018

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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'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 Annual and Interim Financial Statements of the Company. Unless indicated otherwise, amounts are in Canadian dollars.

On January 1, 2018, the Company adopted retrospectively IFRS 9, "Financial Instruments", and IFRS 15, "Revenues from Contracts with Customers". As permitted by these standards, comparative figures have not been restated.

IFRS 9 replaces IAS 39, "Financial Instruments: Recognition and Measurement" and gives rise to new requirements for the classification and measurement of financial assets and liabilities and the impairment of financial instruments, as well as requirements for hedge accounting. However, the Company does not apply hedge accounting.

IFRS 15 introduces a single, comprehensive revenue recognition model for all contracts with customers other than those that are within the scope of other standards, such as financial instruments, insurance contracts and leases. The core principle of this standard is that revenue recognition should depict the transfer of control over a good or a service in an amount that reflects the consideration received or expected to be received in exchange for such good or service.

The adoption of these standards had no material impact on the Company's Balance Sheet as at January 1, 2018.

FINANCIAL INFORMATION

Table 1 – Balance Sheets

(In thousands of dollars)	As at September 30, 2018 ⁽¹⁾	As at December 31, 2017
Assets		
Cash and deposits with financial institutions	\$ 74,603	\$ 38,116
Securities		
Available-for-sale securities	N/A	1,539,237
Securities at fair value through other comprehensive income	496,458	N/A
Securities at amortized cost	1,694,905	N/A
Securities purchased under reverse repurchase agreements	149,093	400,294
Interest receivable	2,084	688
Amounts receivable from clients	25,896	32,178
Deferred tax assets	587	490
Other assets	3,588	3,302
Total assets	\$ 2,447,214	\$ 2,014,305
Liabilities and equity		
Liabilities		
Deposits	\$ 420,176	\$ 415,382
Commitments related to securities lent or sold under repurchase agreements	1,846,776	1,439,438
Net defined benefit plan liabilities	2,011	2,049
Other liabilities	15,555	9,374
Total liabilities	2,284,518	1,866,243
Equity		
Share capital	59,972	59,972
Retained earnings	103,343	88,344
Accumulated other comprehensive income	(619)	(254)
Total equity	162,696	148,062
Total liabilities and equity	\$ 2,447,214	\$ 2,014,305

⁽¹⁾ The information presented as at September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

Table 2 – Statements of Income

(in thousands of dollars)	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2018 ⁽¹⁾	2017	2018 ⁽¹⁾	2017
Income				
Fee and other income	\$ 25,131	\$ 24,322	\$ 73,941	\$ 69,768
Investment income				
Interest income	10,885	4,256	28,451	9,191
Interest expense	8,740	3,471	22,636	7,498
Net interest income	2,145	785	5,815	1,693
Other investment income (loss)				
Net realized losses on available-for-sale securities	N/A	(280)	N/A	(19)
Net realized losses on securities classified as at fair value through other comprehensive income	(49)	N/A	(59)	N/A
Other	(479)	(218)	(181)	(461)
	(528)	(498)	(240)	(480)
Net investment income	1,617	287	5,575	1,213
Total income	26,748	24,609	79,516	70,981
Provision for credit losses⁽²⁾	32	N/A	458	N/A
Non-interest expense				
Service agreements and outsourcing	13,792	13,810	40,640	43,102
Consulting fees	-	142	-	1,377
Custodian fees	2,810	2,592	8,742	7,092
Other	2,404	2,669	8,682	6,601
	19,006	19,213	58,064	58,172
Income before income taxes	7,710	5,396	20,994	12,809
Income taxes	2,059	1,491	5,605	3,494
Net income for the period	\$ 5,651	\$ 3,905	\$ 15,389	\$ 9,315

⁽¹⁾ The information presented for the three-month and nine-month periods ended September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

⁽²⁾ Represents the provision for expected credit losses on securities at amortized cost and classified as at fair value through other comprehensive income under IFRS 9.

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	
	2018 ⁽¹⁾	2017	2018 ⁽¹⁾	2017
Net income for the period	\$ 5,651	\$ 3,905	\$ 15,389	\$ 9,315
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 available-for-sale securities				
Net unrealized losses	N/A	(395)	N/A	(861)
Reclassification of net losses to the Statements of Income	N/A	205	N/A	14
	N/A	(190)	N/A	(847)
Net change in unrealized gains and losses on securities classified as at fair value through other comprehensive income				
Net unrealized losses	(537)	N/A	(636)	N/A
Reclassification of net losses to the Statements of Income	36	N/A	43	N/A
	(501)	N/A	(593)	N/A
Total other comprehensive income, net of income taxes	(501)	(190)	(593)	(847)
Comprehensive income for the period	\$ 5,150	\$ 3,715	\$ 14,796	\$ 8,468

⁽¹⁾ The information presented for the three-month and nine-month periods ended September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

Table 4 – Statements of Changes in Equity

For the nine-month periods ended September 30

	Share capital	Retained earnings	Accumulated other comprehensive income	Total equity
(in thousands of dollars)				
Balance as at December 31, 2017	\$ 59,972	\$ 88,344	\$ (254)	\$ 148,062
Impact of changes in accounting policies	-	(390)	228	(162)
Opening balance as at January 1, 2018⁽¹⁾	59,972	87,954	(26)	147,900
Net income for the period	-	15,389	-	15,389
Other comprehensive income for the period	-	-	(593)	(593)
Total comprehensive income for the period	-	15,389	(593)	14,796
Balance as at September 30, 2018⁽¹⁾	\$ 59,972	\$ 103,343	\$ (619)	\$ 162,696
Balance as at December 31, 2016	\$ 59,972	\$ 75,141	\$ 315	\$ 135,428
Net income for the period	-	9,315	-	9,315
Other comprehensive income for the period	-	-	(847)	(847)
Total comprehensive income for the period	-	9,315	(847)	8,468
Balance as at September 30, 2017	\$ 59,972	\$ 84,456	\$ (532)	\$ 143,896

⁽¹⁾ The information presented for the nine-month period ended September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

Table 5 – SecuritiesAs at September 30, 2018⁽¹⁾

	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	\$ 127,975	\$ 136,724	\$ -	\$ 264,699
Provincial government entities and municipal corporations in Canada	302,736	29,697	-	332,433
Other securities				
Financial institutions	1,383,061	7,205	-	1,390,266
Other issuers	203,924	-	41	203,965
Total securities	\$ 2,017,696	\$ 173,626	\$ 41	\$ 2,191,363

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

Footnotes to this table are presented on the next page.

Table 5 – Securities (continued)As at September 30, 2018⁽¹⁾

(in thousands of dollars)	Manitoba	Newfoundland & Labrador	Quebec	Ontario	British Columbia	Alberta	Nova Scotia	Total
Securities issued or guaranteed	\$ -	\$ -	\$ 247,939	\$ 77,159	\$ 822	\$ 6,513	\$ -	\$ 332,433
Other securities	-	-	681,142	687,894	8,486	71,983	144,726	1,594,231
	\$ -	\$ -	\$ 929,081	\$ 765,053	\$ 9,308	\$ 78,496	\$ 144,726	\$ 1,926,664

As at December 31, 2017

(in thousands of dollars)	Manitoba	Newfoundland & Labrador	Quebec	Ontario	British Columbia	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

⁽¹⁾ The information presented as at September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

Table 6 – Securities purchased under reverse repurchase agreements

(in thousands of dollars)	As at September 30, 2018	As at December 31, 2017
Residents	\$ 149,093	\$ 400,294
Non-residents	-	-
Total	\$ 149,093	\$ 400,294

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 September 30, 2018 ⁽¹⁾	As at December 31, 2017
On securities at fair value through other comprehensive income ⁽²⁾	\$ 37	N/A
On securities at amortized cost ⁽³⁾	940	N/A
Total	\$ 977	N/A

⁽¹⁾ The information presented as at September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

⁽²⁾ The allowance for credit losses on securities classified as at fair value through other comprehensive income is presented under "Accumulated other comprehensive income" in the Balance Sheet.

⁽³⁾ The allowance for credit losses on securities at amortized cost is presented as a deduction from securities in the Balance Sheet.

Table 8 – Deposits

(in thousands of dollars)	As at September 30, 2018	As at December 31, 2017
Type		
Payable on demand	\$ 145,193	\$ 140,010
Payable on a fixed date	274,983	275,372
Total	\$ 420,176	\$ 415,382

(in thousands of dollars)	As at September 30, 2018	As at December 31, 2017
Distribution by province		
Quebec	\$ 405,165	\$ 400,080
Ontario	14,952	15,247
New Brunswick	59	55
Total	\$ 420,176	\$ 415,382

Table 9 – Interest rate sensitivity and maturity matchingAs at September 30, 2018⁽¹⁾

As at September 30, 2018 ⁽¹⁾	Terms to maturity							Non-interest-sensitive	Total
	Floating rate	Under 3 months	3 to 6 months	6 to 12 months	1 to 2 years	Over 2 years			
(in thousands of dollars)									
Assets									
Cash and deposits with financial institutions	\$ -	\$ 74,603	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,603
Securities	-	1,419,450	162,661	435,585	105,272	68,354	41		2,191,363
Securities purchased under reverse repurchase agreements	-	149,067	-	-	-	-	26		149,093
Interest receivable	-	-	-	-	-	-	2,084		2,084
Amounts receivable from clients	-	-	-	-	-	-	25,896		25,896
Deferred tax assets	-	-	-	-	-	-	587		587
Other assets	-	-	-	-	-	-	3,588		3,588
Total assets	\$ -	\$ 1,643,120	\$ 162,661	\$ 435,585	\$ 105,272	\$ 68,354	\$ 32,222		\$ 2,447,214
Liabilities and equity									
Deposits	\$ 145,193	\$ 46,890	\$ 28,308	\$ 52,365	\$ 67,013	\$ 80,407	\$ -		\$ 420,176
Commitments related to securities lent or sold under repurchase agreements	-	1,846,167	-	-	-	-	609		1,846,776
Net defined benefit plan liabilities	-	-	-	-	-	-	2,011		2,011
Other liabilities	-	-	-	-	-	-	15,555		15,555
Equity	-	-	-	-	-	-	162,696		162,696
Total liabilities and equity	\$ 145,193	\$ 1,893,057	\$ 28,308	\$ 52,365	\$ 67,013	\$ 80,407	\$ 180,871		\$ 2,447,214
Sensitivity gap - Balance Sheet items	\$ (145,193)	\$ (249,937)	\$ 134,353	\$ 383,220	\$ 38,259	\$ (12,053)	\$ (148,649)		

As at December 31, 2017

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

⁽¹⁾ The information presented as at September 30, 2018 reflects the standards adopted on January 1, 2018. Comparative figures have not been restated. For more information, see the "Basis of presentation of financial information" section.

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

(In thousands of dollars and as a percentage)	All-in method ⁽¹⁾	
	As at September 30, 2018	As at December 31, 2017
Common Equity Tier 1 capital		
Common shares	\$ 59,972	\$ 59,972
Retained earnings	103,343	88,344
Accumulated other comprehensive income	(619)	(254)
Net Common Equity Tier 1 capital	\$ 162,696	\$ 148,062
Total risk-weighted assets	\$ 708,280	\$ 514,498
Total leverage ratio exposure	\$ 2,669,564	\$ 2,202,019
Ratios		
Common Equity Tier 1 capital ratio	23.0%	28.8%
Tier 1 capital ratio	23.0	28.8
Total capital ratio	23.0	28.8
Leverage ratio	6.1	6.7
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 was postponed to January 1, 2020. 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 that Desjardins Group and the Company incur a financial loss or suffer harm to their reputations as a result of environmental issues related to their operations or their financing, investment or insurance activities.

Climate change risk is an integral part of environmental risk. It refers to the vulnerability of an entity in coping with the adverse effects of climate change, including climate variability and extreme weather events, that could result in a deterioration of its financial position.

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

Legal and regulatory 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.