Desjardins

Cooperating in building the future

Additional Information on Risk Management

Third quarter
September 30, 2013

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NOTES TO READERS

Caution concerning forward-looking statements

Desjardins Group's public communications often include oral or written forward-looking statements. Such forward-looking statements are contained in this document, and may be incorporated in other filings with Canadian regulators or in any other communications. Forward-looking statements include, but are not limited to, comments with respect to Desjardins Group's objectives regarding financial performance, its priorities, its operations, the review of economic conditions and markets, as well as the outlook for the Canadian, U.S., European and other international economies. Such statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", and "may"; words and expressions of similar import; and future and conditional verbs.

By their very nature, such statements involve assumptions, uncertainties and inherent risks, both general and specific. It is therefore possible that the predictions, projections or other forward-looking statements as well as Desjardins Group's objectives and priorities may not materialize or may prove to be inaccurate because of a number of factors and that actual results differ materially. A number of factors beyond Desjardins Group's control could influence the accuracy of the forward-looking statements in this document. These factors include those discussed in section 4.0, "Risk management", of the Desjardins Group's 2012 Annual Report, in particular, credit, counterparty and issuer, market, foreign exchange, liquidity, operational, insurance, strategic and reputation risks. Additional risk factors include environmental risk, legislative or regulatory developments in Quebec, Canada or globally, such as changes in fiscal and monetary policies, reporting guidance and liquidity regulatory guidance, or interpretations thereof, and amendments to and new interpretations of capital guidelines.

There are also factors related to changes in economic and financial conditions in Quebec, Canada or globally, including the unemployment rate; the geographic concentration of operations; changes in interest rates and exchange rates; trade between Quebec and the United States; the ability of third parties to comply with their obligations to Desjardins Group; consumer spending; credit demand; the effects of increased competition in a market open to globalization; as well as competition from new entrants and established competitors. There is also fraud, including the use of new technologies in unprecedented ways against Desjardins Group, its members or its clients; legal or regulatory procedures and lawsuits; consumer saving habits; the effect of possible international conflicts, including terrorism or natural disasters; and new developments.

Furthermore, there are also operational risk factors, such as risk management models with intrinsic limitations, technological changes, service disruptions caused by the Internet or other technological issues, the ability to design new products and services and bring them to market in a timely fashion, the ability to collect complete and accurate information on clients and counterparties, as well as the ability to perform and integrate strategic acquisitions and alliances. Lastly, there are also changes to the accounting policies Desjardins Group uses to present its balance sheet and operating results, including the uncertainties associated with significant accounting assumptions and estimates, as well as changes to estimates; the impact of applying future accounting changes; the ability to recruit and retain key management personnel, including senior management; and management's ability to foresee and manage risk factors.

It is important to note that the above list of factors that could influence future results is not exhaustive. Other factors could have an adverse effect on results. Additional information about these and other factors is found in section 4.0, "Risk management", of Desjardins Group's 2012 Annual Report. Although Desjardins Group believes that the expectations expressed in these forward-looking statements are reasonable, it can give no assurance or guarantee that these expectations will prove to be correct. Desjardins Group cautions readers against placing undue reliance on forward-looking statements when making decisions.

Any forward-looking statements contained in this report represent the views of management only as at the date hereof, and are presented for the purpose of assisting members and analysts in understanding Desjardins Group's Combined Balance Sheets as at the dates indicated or its results for the periods then ended, as well as its strategic priorities and objectives. These statements may not be appropriate for other purposes. Desjardins Group does not undertake to update any oral or written forward-looking statements that could be made from time to time by or on behalf of Desjardins Group, except as required under applicable securities legislation.

Use of this document

This document is designed to support the transparency and disclosure of additional information on risk management regarding Desjardins Group so that the various capital market participants can assess its risk profile.

Desjardins Group profile

Desjardins Group is the largest cooperative financial institution in Quebec, with assets of $210.0 billion as at September 30, 2013, as well as the leading cooperative financial group in Canada. The organization brings together 376 caisses in Quebec and Ontario, the *Fédération des caisses Desjardins du Québec* (the Federation) and its subsidiaries (including *Capital Desjardins inc.*), *Caisse centrale Desjardins*, the *Fédération des caisses populaires de l'Ontario Inc.* and the *Fonds de sécurité Desjardins*. A number of its subsidiaries and components are active across Canada. Desjardins Group's "Personal Services and Business and Institutional Services", "Wealth Management and Life and Health Insurance", and "Property and Casualty Insurance" business segments offer a full range of financial products and services to members and clients, individuals and businesses alike, providing a customized response to their needs. As one of the largest employers in the country, Desjardins Group capitalizes on the skills of close to 45,000 employees and the commitment of more than 5,000 elected officers.

The roles of treasurer and official representative with the Bank of Canada and the Canadian banking system are assumed by *Caisse centrale Desjardins*, also a cooperative financial institution, which is an integral part of Desjardins Group.

Desjardins Group's financial reporting is based on accounting by operations structured according to the needs of members and clients, as well as the markets in which Desjardins Group operates, and reflects its internal management method. Accordingly, the caisse network in Quebec and Ontario can rely on three key business lines to support more agile product and service development, namely the Personal Services and Business and Institutional Services, the Wealth Management and Life and Health Insurance and the Property and Casualty Insurance segments.

The Personal Services and Business and Institutional Services business segment offers Desjardins Group's members and clients a broad range of regular financial products and services that are distributed mainly through the caisse network, and also through business centres and the major accounts team. This segment also offers its products and services through complementary distribution networks and mortgage representatives, by telephone, online, via mobile applications and through ATMs.

The Wealth Management and Life and Health Insurance business segment offers Desjardins Group's members and clients a range of products and services tailored to the changing wealth management and financial security needs of individuals, groups, businesses and cooperatives. These products and services are distributed through the caisse network and complementary distribution networks, by telephone, online and via mobile applications.

The Property and Casualty Insurance business segment offers insurance products allowing Desjardins Group's members and clients to protect themselves against disasters. It includes the operations of Desjardins General Insurance Group Inc. and of Western Financial Group Inc. In addition to being offered through the caisse network, the products of this segment are distributed by many client care centres and business centres, through a network of brokers and a network of exclusive agents in the field, online and via mobile applications.

Basis of presentation of financial information

The Interim and Annual Combined Financial Statements were prepared by Desjardins Group management in accordance with the International Financial Reporting Standards (IFRS) and the accounting requirements of the *Autorité des marchés financiers* (AMF) in Quebec, which do not differ from IFRS.

Desjardins Group's Annual and Quarterly Combined Financial Statements as well as its Management's Discussion and Analysis are available at **www.desjardins.com/en/a_propos/investisseurs** and on the SEDAR website at www.sedar.com (under the *Capital Desjardins inc.* profile).

SCOPE

The entities included in the accounting scope of Desjardins Group are also included in its regulatory scope. Only investments in insurance subsidiaries are excluded through deductions. The entities included in Desjardins Group's accounting scope of consolidation are presented in the "Scope of the group" section of Note 2 to Desjardins Group's Annual Combined Financial Statements.

CAPITAL STRUCTURE AND ADEQUACY

The purpose of capital management is to ensure that the capital structure and level of Desjardins Group and its components are adequate in terms of the risks taken by the organization, profitability targets, growth objectives, rating agencies' expectations and regulators' requirements. In addition, capital management serves to optimize the allocation of capital and internal capital flow mechanisms, and support growth, development and asset risk management at Desjardins Group.

Desjardins Group advocates prudent management of its capital. Its purpose is to maintain higher regulatory capital ratios than those of the Canadian banking industry and regulatory requirements. Desjardins Group's prudent capital management is further reflected in the attractive credit ratings assigned by the various rating agencies.

Desjardins Group's integrated capital management framework and policies are described on page 55 of Desjardins Group's 2012 Annual Report.

Desjardins Group's regulatory capital ratios are calculated according to the AMF guideline on adequacy of capital base standards applicable to financial services cooperatives. This guideline was updated effective January 1, 2013 to take into account the revised framework for international convergence of capital measurement and capital standards (Basel III) issued by the Bank for International Settlements, whose objective is to make the financial system safer and more resilient in periods of stress.

Basel III

The new Basel III regulatory framework increases capital requirements (the minimum levels to be met). This new framework, combined with global liquidity standards, forms an essential element of the global financial reform program. Even though the Basel III regulatory framework provides for a transitional period from 2013 to 2019 to mitigate the impact of the new rules on Desjardins Group's capitalization, the AMF required Desjardins Group to meet the Tier 1a capital ratio requirements for 2019 in the first quarter of 2013. For the Tier 1 and total capital ratios, the AMF requires Desjardins Group to meet the levels required in 2019 in the first quarter of 2014.

Under the AMF's "all-in" method, which defines Tier 1a[1], Tier 1 and total capital ratios, Desjardins Group is not entitled to a transitional period before applying the new adequacy of capital base standards.

The minimum Tier 1 capital ratio that institutions must maintain to meet the regulatory requirements of the Bank for International Settlements and to be considered adequately capitalized is now 8.5%. In addition, the Tier 1a[1] capital ratio must at least be above 7%, including a 2.5% capital conservation buffer. Lastly, the total capital ratio must be above 10.5%, also including the buffer.

In June 2013, the AMF determined that Desjardins Group met the criteria to be designated a domestic systemically important financial institution (D-SIFI). As a D-SIFI, beginning on January 1, 2016, Desjardins Group will be subject to an additional Tier 1a[1] capital requirement corresponding to 1% of risk-weighted assets. Therefore, from January 1, 2016, Desjardins Group's Tier 1a[1] capital requirement will be 8%. In addition, the Office of the Superintendent of Financial Institutions (OSFI) determined that the six major Canadian met the criteria to be designated as domestic systemically important financial institutions.

In addition to minimum Tier 1a [1], Tier 1 and total capital ratios, the AMF requires that Desjardins Group maintain an assets-to-regulatory capital ratio of under 20 to 1. This ratio determines overall capital adequacy with respect to total assets of the

(1) For purposes of comparison with the OSFI standards, Tier 1a capital is similar to "Common Equity Tier 1 capital". In turn, Tier 1 capital can be compared to "additional Tier 1 capital", while Tier 2 capital is similar under both standards.

entity, including certain off-balance sheet items. With a ratio of 10.4 to 1 as at September 30, 2013, Desjardins Group is amply within the limit set by the AMF.

In compliance with Basel requirements, capital instruments that no longer meet the eligibility criteria for tier capital have been excluded from the tier effective January 1, 2013. However, in accordance with the transitional provisions set out in the AMF guideline, instruments that meet certain conditions are being phased out from capital at an annual rate of 10% over a nine-year period that began January 1, 2013,. These instruments include permanent shares and surplus shares of $2.1 billion issued prior to September 12, 2010 that are subject to the 10% amortization. These shares were eligible for inclusion in Tier 1 capital under Basel II as at December 31, 2012. Desjardins Group has devised a strategy to mitigate the gradual impact of the amortization on its ratios.

In addition, senior bonds are also subject to the 10% amortization. In order to be fully eligible as Tier 2 capital, such senior bonds must meet Non-Viability Contingent Capital (NVCC) requirements. Discussions concerning the application of these requirements to cooperative entities are still in progress at the international level. Desjardins Group does not plan to issue any senior bonds until these requirements are further clarified.

It should be remembered that under the Basel II regulatory framework, the AMF approved Desjardins Group's use of the Internal Ratings-Based Approach, subject to certain conditions, for credit risk related to retail loan portfolios (individuals). Other credit exposures and market risk are measured according to the Standardized Approach, while operational risk is calculated based on the Basic Indicator Approach. This approval is still valid under the Basel III regulatory framework.

REGULATORY CAPITAL
(in millions of dollars and as a percentage)

	As at September 30[1]	As at December 31, 2012[2]
	All-in basis[3]	
Tier 1a capital		
Eligible capital Instruments	**$ 1,499**	$ 3,294
Capital instruments subject to phase out	**1,889**	N/A.
Reserves	**11,400**	10,216
Undistributed surplus earnings	**1,044**	1,282
Eligible accumulated other comprehensive income	**268**	N/A.
Deferral attributable to the amendment of IAS 19	**357**	N/A.
Non-controlling interests	**14**	60
Other deductions[4]	**(2,297)**	(1,927)
Total Tier 1a capital	**14,174**	12,925
Non-controlling interests	**21**	N/A
Total Tier 1b capital	**21**	N/A
Total Tier 1 capital	**14,195**	12,925
Tier 2 capital		
Senior notes subject to phase-out	**2,783**	3,092
Eligible collective allowance	**282**	261
Eligible qualifying shares	**24**	25
Other eligible securities	**5**	102
Other deductions[5]	**(700)**	(1,578)
Total Tier 2 capital	**2,394**	1,902
Total regulatory capital (Tier 1a, 1b and 2)	**$ 16,589**	$ 14,827
Ratios		
Tier 1a capital	**16.4 %**	N/A.
Tier 1 capital	**16.4**	16.8 %
Total capital	**19.2**	19.3

(1) According to the AMF guideline on adequacy of capital base standards applicable to financial services cooperatives under Basel III.
(2) According to the AMF guideline on adequacy of capital base standards applicable to financial services cooperatives under Basel II.
(3) “All-in basis” refers to the AMF’s method under which institutions must apply the new capital adequacy standards for 2019 as early as 2013.
(4) Mainly includes goodwill of $441 million ($341 million as at December 31, 2012), the provision deficit of $331 million ($309 million as at December 31, 2012) related to the Internal Ratings-Based Approach, the investments portion of $1,055 million ($2,624 million as at December 31, 2012) above a certain level in components deconsolidated for regulatory capital purposes (primarily Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.), intangible assets net of deferred tax liabilities of $460 million, including $172 million of software, as well as deferred tax assets of $71 million arising from tax loss carryforwards.
(5) Mainly includes $700 million of investments in preferred shares of a component deconsolidated for regulatory capital purposes (Desjardins Financial Security Life Assurance Company).

RISK-WEIGHTED ASSETS

(in millions of dollars and as a percentage)

	Internal Ratings-Based Approach		Standardized Approach		Total as at September 30, 2013			Total as at December 31, 2012
	Exposure(1)	Risk-weighted assets	Exposure(1)	Risk-weighted assets	Exposure(1)	Risk-weighted assets	Average risk-weighting rate	Risk-weighted assets Sovereign borrowers
Sovereign borrowers	$ —	$ —	$ 13,646	$ —	$ 13,646	$ —	—%	$ —
Financial institutions	—	—	9,446	1,890	9,446	1,890	20	1,607
Business	—	—	43,316	33,172	43,316	33,172	77	30,627
Mortgages(2)	52,724	4,475	205	52	52,929	4,527	9	4,373
Qualifying revolving retail exposures	27,159	7,479	—	—	27,159	7,479	28	7,589
Other retail client exposures(2)	34,969	4,227	3,704	2,377	38,673	6,604	17	6,653
Securitization(3)	—	—	1,667	3,636	1,667	3,636	218	1,026
Equities	—	—	161	161	161	161	100	155
Trading portfolio	—	—	1,227	349	1,227	349	28	334
Other assets(4)	—	—	—	—	14,053	7,968	57	3,917
Scaling factor(5)	—	971	—	—	—	971	—	961
Total credit risk	114,852	17,152	73,372	41,637	202,277	66,757	33	57,242
Market risk	—	—	—	2,759	—	2,759	—	1,644
Operational risk(6)	—	—	—	—	—	12,104	—	11,884
Transitional threshold adjustment(7)	—	—	—	—	—	4,876	—	6,125
Total risk-weighted assets	$ 114,852	$ 17,152	$ 73,372	$ 44,396	$ 202,277	$ 86,496	—%	$ 76,895

(1) Net exposure, after credit risk mitigation (net of specific allowances under the Standardized Approach but not under the Internal Ratings-Based Approach, in accordance with the AMF guideline).
(2) Starting in the third quarter of 2014, mortgage exposures currently included under "Other retail client exposures" will be considered to be under "Mortgages".
(3) In 2013, includes unrated securitizations now weighted at 1,250%.
(4) Other assets are measured using a method other than the Standardized Approach and the Internal Ratings-Based Approach. In 2013, other assets include the investments portion below a certain level in components that are deconsolidated for regulatory capital purposes (mainly Desjardins Financial Security Life Assurance Company and Desjardins General Insurance Group Inc.), the investments portion below a certain level in associates as well as the portion of other future tax assets below a certain level. These three items are weighted at 250% and the deducted portion (above a certain level) is weighted at 0%.
(5) The scaling factor is a 6.0% calibration of risk-weighted assets measured using the Internal Ratings-Based Approach for credit exposures in accordance with Section 1.3 of the AMF guideline.
(6) The Basic Indicator Approach was used to measure operational risk.
(7) As prescribed in Section 1.6 of the AMF guideline.

STRUCTURE AND ORGANIZATION OF THE RISK MANAGEMENT FUNCTION

Desjardins Group is exposed to different types of risk in its normal course of operations, including credit risk, counterparty and issuer risk, market risk, liquidity risk, operational risk, insurance risk, strategic risk and reputation risk. Strict and effective management of these risks is a priority for Desjardins Group, its purpose being to support its major directions, particularly regarding its financial stability as well as its sustained and profitable growth, while complying with Basel requirements.

Integrated Risk Management Framework

Desjardins Group'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, through the Integrated Risk Management Framework, a prudent and appropriate framework that complies with accepted accountability and independence principles.

Risk appetite and tolerance are important components of this management framework and determine the type and level of risk that Desjardins Group is prepared to assume to achieve its business and strategic objectives. Risk appetite and tolerance 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 Desjardins Group's risk profile matches the level of risk appetite and tolerance sought by senior management and the Board of Directors in view of Desjardins Group's mission, vision and values. The Board of Directors is responsible for approving the risk appetite and tolerance framework and ensuring it reflects Desjardins Group's financial and strategic objectives.

Risk management frameworks

The main risk management frameworks address in particular the following:

- Integrated risk management
- Risk appetite and tolerance
- Credit risk management
- Credit commitment authorization
- Market risk of trading portfolios
- Securitization and covered bonds
- Interest rate risk management
- Liquidity risk management
- Counterparty and issuer risk management
- Operational risk management
- Business continuity and crisis management
- Reputation risk management
- Internal capital adequacy assessment program
- Risk analyses for financial projects and products
- Stress testing
- Information risk management
- Risk management for the caisse network
- Caisses' liquidity adequacy

CREDIT RISK

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

Desjardins Group is exposed to credit risk first through its direct personal, business and government loans. It is also exposed through its various other commitments, including letters of credit, foreign exchange lines and transactions involving derivative financial instruments and securities.

LOAN PORTFOLIO BY PRODUCT
As at September 30, 2013
(in millions of dollars and as a percentage)

	Total		Guaranteed and/or insured loans (1)		Gross impaired loans	
Desjardins Group	**$**	**%**	**$**	**%**	**$**	**%**
Residential mortgages	90,063	64.7	30,698	**73.4**	133	27.4
Consumer, credit card and other personal loans	19,224	13.8	3,822	**9.1**	74	15.3
Business loans	29,903	21.5	7,327	**17.5**	278	57.3
Total	**139,190**	**100.0**	**41,847**	**100.0**	**485**	**100.0**

(1) Loans fully guaranteed and/or insured by a government or a government agency. Excluding private insurers.

LOAN PORTFOLIO BY ENTITY
As at September 30, 2013
(in millions of dollars and as a percentage)

	Total	
Desjardins Group	**$**	**%**
Caisse network	118,703	85.3
Desjardins Card Services	10,049	7.2
Caisse centrale Desjardins	6,755	4.8
Desjardins Financial Security	3,193	2.3
Other entities	490	0.4
Total	**139,190**	**100.0**

Residential mortgages

PERSONAL RESIDENTIAL MORTGAGE FINANCING PORTFOLIO (1)
Caisse network in Quebec and Ontario (2)
As at September 30, 2013
(in millions of dollars and as a percentage)

	Uninsured loans(3)		Home equity lines of credit(4)		Guaranteed and/or insured loans (5)		Total	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Quebec	38 939	96,5	6 989	94,9	28 925	97,2	74 854	96,6
Ontario	1 112	2,8	302	4,1	747	2,5	2 161	2,8
Other	297	0,7	74	1,0	90	0,3	462	0,6
All geographic areas7	**40 348**	**100,0**	**7 365**	**100,0**	**29 762**	**100,0**	**77 477**	**100,0**

(1) Represents all personal financings secured by a property with up to 4 units. Residential mortgage financings on properties with up to 4 units held outside of the caisse network in Quebec and Ontario total $204.8 million.
(2) Caisses in Quebec are under the jurisdiction of the AMF, while caisses in Ontario are under the jurisdiction of the Deposit Insurance Corporation of Ontario (DICO).
(3) Conventional term mortgages including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to 4 units.
(4) Unamortized portion of home equity lines of credit and consumer lines of credit secured by a property with up to 4 units.
(5) Term mortgages and amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.

AVERAGE LOAN-TO-VALUE (LTV) RATIO FOR UNINSURED PERSONAL RESIDENTIAL MORTGAGE FINANCINGS GRANTED DURING THE QUARTER
Caisse network in Quebec and Ontario [1]As at September 30, 2013
(in number and as a percentage of loans granted and average loan-to-value ratio, by geographic area)

	Uninsured loans[2]		Home equity lines of credit and related loans [3]		Total uninsured	
	#	%	#	%	#	%
Quebec	6 153	67,0	15 103	68,8	21 256	68,3
Ontario	216	67,3	349	72,6	565	70,8
Other	25	74,4	35	71,9	60	72,8
All geographic areas	**6 394**	**67,0**	**15 487**	**68,9**	**21 881**	**68,4**

(1) Caisses in Quebec are under the jurisdiction of the AMF, while caisses in Ontario are under the jurisdiction of the Deposit Insurance Corporation of Ontario (DICO).
(2) Conventional term mortgages excluding related loans and amortized consumer loans secured by a property with up to 4 units.
(3) Home equity lines of credit including related amortized loans and consumer lines of credit secured by a property with up to 4 units.

REMAINING AMORTIZATION PERIOD FOR PERSONAL RESIDENTIAL MORTGAGE FINANCINGS
Caisse network in Quebec and Ontario [1]
As at September 30, 2013
(gross loans and as a percentage of total by remaining amortization category)

	Uninsured loans[2]		Guaranteed/insured loans[3]		Total amortized loans	
	$	%	$	%	$	%
0-10 years	2 071	5,1	104	0,4	2 175	3,1
10-20 years	11 165	27,7	3 109	10,5	14 274	20,4
20-25 years	24 754	61,3	15 301	51,4	40 056	57,1
25-30 years	2 176	5,4	6 591	22,1	8 766	12,5
30-35 years	156	0,4	4 114	13,8	4 270	6,1
35 years and +	27	0,1	543	1,8	570	0,8
All amortization periods	**40 348**	**100,0**	**29 763**	**100,0**	**70 111**	**100,0**

(1) Caisses in Quebec are under the jurisdiction of the AMF, while caisses in Ontario are under the jurisdiction of the Deposit Insurance Corporation of Ontario (DICO).
(2) Conventional term mortgages including the conventional amortized portion of home equity lines of credit and amortized consumer loans secured by a property with up to 4 units.
(3) Term mortgages and amortized portion of home equity lines of credit for which Desjardins Group has a full or partial guarantee or insurance from a mortgage insurer (public or private) or a government.

Potential impact of a crisis situation on the residential mortgage financing portfolio

As part of its stress testing program, Desjardins Group assesses once a year the credit risk of its mortgage portfolio using various economic conditions. The impact on the provision for credit losses and capital ratios is determined based on these stress tests. The factors considered include the effect of changes in house prices, interest rates and unemployment rate. The latest studies show that, despite a real estate crisis in Canada, Desjardins Group’s capitalization would remain strong.

Business loans

The granting of credit to businesses is based on an analysis of the various parameters of each file, where each borrower is assigned a risk rating. These ratings are assigned individually following a detailed examination of the financial, market and management characteristics of the business. The scoring system used for the main commercial portfolios has 19 ratings, broken down into 12 levels, each representing a probability of default.

The following table provides a comparison of internal ratings and ratings assigned by external agencies.

Ratings by risk level

Rating	Moody's	S&P	Description
1 to 2	Aaa to Aa3	AAA to AA-	
2,5	A1 to A3	A+ to A-	High quality
3 to 4	Baa1 to Baa3	BBB+ to BBB-	
4,5 to 5,5	Ba1 to Ba3	BB+ to BB-	
6 to 7,5	B1 to Caa1	B+ to CCC+	Lower quality
8 and 9	Caa2 to C	CCC to C-	
10 to 12	D	D	Impaired loans or loans in default

Mitigating credit risk

In its lending operations, Desjardins Group obtains collateral, if deemed necessary, for a member's or client's borrowing facility following an assessment of their creditworthiness. Collateral normally takes the form of assets, such as capital assets, receivables, inventory, cash, government securities or equities. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation and *La Financière agricole du Québec* are used in addition to customary collateral. Loans guaranteed and/or insured by governments and other public and parapublic organizations represented 30.1% of total gross loans as at September 30, 2013, compared to 30.4% at the end of 2012. Policies and procedures, adapted to each product, contain the requirements for appraising collateral, its legal validation and follow-up.

Where required, Desjardins Group uses mechanisms for sharing risk with other financial institutions, such as loan syndication. The large number of borrowers—for the most part individuals, but also small- and medium-sized businesses from most sectors of the economy—helps ensure the sound diversification of the financing portfolio.

The items related to the structure and organization of the credit risk management function are described in further details in Section 4.0, "Risk management", and in the "Credit risk" subsection of Desjardins Group's 2012 Annual Management's Discussion and Analysis.

Additional information on credit risk

The following tables present additional data on credit risk. Used and unused exposures comprise the main credit risks, while off-balance sheet exposures include the credit equivalent amounts for repo-style transactions, over-the-counter derivatives, other off-balance sheet exposures and the entire trading portfolio.

RISK EXPOSURE BY ASSET CLASS (EXPOSURE AT DEFAULT [EAD])
As at September 30, 2013
(in millions of dollars)

	Exposure categories[1]				
	Exposure used	Unused exposure	Off-balance sheet exposure [2]	Total	Net exposure [3]
Standardized Approach					
Sovereign borrowers	**$ 12,992**	**$ 634**	**$ 20**	**$ 13,646**	**$ 13,646**
Financial institutions	**6,634**	**1,867**	**5,677**	**14,178**	**9,446**
Business	**39,674**	**3,716**	**1,283**	**44,673**	**43,316**
Mortgages [4]	**205**	**—**	**—**	**205**	**205**
Other retail client exposures [4]	**4,708**	**564**	**32**	**5,304**	**3,704**
Securitization	**1,667**	**—**	**—**	**1,667**	**1,667**
Equities	**161**	**—**	**—**	**161**	**161**
Trading portfolio	**—**	**—**	**16,649**	**16,649**	**1,227**
Internal Ratings-Based approach					
Mortgages	**44,586**	**8,138**	**—**	**52,724**	**52,724**
Revolving retail client exposures	**9,618**	**17,535**	**6**	**27,159**	**27,159**
Other retail client exposures [4]	**34,635**	**334**	**—**	**34,969**	**34,969**
Total	**$ 154,880**	**$ 32,788**	**$ 23,667**	**$ 211,335**	**$ 188,224**

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) Including repo-style transactions, over-the-counter derivatives and other off-balance sheet exposures.
(3) After credit risk mitigation (CRM) techniques, including the use of collateral, guarantees and credit derivatives.
(4) Effective with the third quarter of 2014, exposures related to mortgages currently included in the "Other retail client exposures" will be included in the "Mortgages" category.

RISK EXPOSURE BY ASSET CLASS [1] AND RISK TRANCHE (STANDARDIZED APPROACH) [2]
As at September 30, 2013
(in millions of dollars)

	Risk Tranches							
	0%	20%	35%	50%	75%	100%	Other	Total
Sovereign borrowers	**$ 13,646**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 13,646**
Financial institutions	**—**	**14,178**	**—**	**—**	**—**	**—**	**—**	**14,178**
Business	**—**	**931**	**—**	**345**	**—**	**43,071**	**399**	**44,746**
Mortgages	**—**	**—**	**200**	**—**	**—**	**5**	**—**	**205**
Other retail client exposures	**—**	**—**	**—**	**—**	**5,267**	**24**	**33**	**5,324**
Securitization	**—**	**1**	**—**	**—**	**—**	**749**	**917**	**1,667**
Equities	**—**	**—**	**—**	**—**	**—**	**161**	**—**	**161**
Trading portfolio	**3,815**	**8,129**	**—**	**311**	**—**	**4,394**	**—**	**16,649**
Total	**$ 17,461**	**$ 23,239**	**$ 200**	**$ 656**	**$ 5,267**	**$ 48,404**	**$ 1,349**	**$ 96,576**

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) Exposures before individual allowances for losses and before CRM techniques.

RISK EXPOSURE BY ASSET CLASS [1] AND REMAINING CONTRACTUAL TERM TO MATURITY
As at September 30, 2013
(in millions of dollars)

	Remaining contractual term to maturity			
	Less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
Internal Ratings-Based approach				
Mortgages [2]	**$ 22,736**	**$ 29,332**	**$ 656**	**$ 52,724**
Revolving retail client exposures [2]	**27,159**	**—**	**—**	**27,159**
Other retail client exposures	**5,119**	**25,380**	**4,470**	**34,969**
Total	**$ 55,014**	**$ 54,712**	**$ 5,126**	**$ 114,852**

(1) The definition of exposure classes related to regulatory capital requirements differs from the accounting classification.
(2) Effective with the third quarter of 2014, exposures related to mortgages currently included in the "Revolving retail client exposures" will be transferred to the "Mortgages" category.

COUNTERPARTY AND ISSUER RISK

Counterparty and issuer risk is a credit risk relative to different types of securities, derivative financial instruments and securities lending transactions.

The Office of the Chief Risk Officer sets the maximum exposure for each counterparty and issuer based on quantitative and qualitative criteria. The amounts are then allocated to the various Desjardins Group components based on their needs. A large proportion of Desjardins Group's exposure is to different levels of government in Canada, public or parapublic entities in Quebec and major Canadian banks. For most of this exposure, the credit rating is A- or higher. Furthermore, Desjardins Group is not directly exposed to the sovereign debt of Greece, Portugal, Italy, Ireland and Spain. Its exposure to U.S. and European financial institutions is marginal. The items related to the structure and organization of the counterparty and issuer risk management function are described in further details in Section 4.0, "Risk management", and in the "Credit risk" subsection of Desjardins Group's 2012 Annual Management's Discussion and Analysis.

SECURITIZATION EXPOSURE

This information is presented in Note 8, "Securitization and other transferred financial assets", to Desjardins Group's 2012 Annual Combined Financial Statements.

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.

Desjardins Group is exposed to market risk primarily through positions taken in the course of its traditional financing and savings recruitment activities. It is also exposed to market risk through its trading activities. Desjardins Group and its main components have adopted policies that set out the principles, limits, and procedures to use in managing market risk.

The analysis of the various risk components and measures as well as the structure and organization of the market risk management function are described in further details in the "Market risk" subsection of the Management's Discussion and Analysis contained in Desjardins Group's 2012 Annual Report. In addition, information on securities and interest rate risk is presented in Notes 6 and 30 to Desjardins Group's 2012 Annual Combined Financial Statements.

LIQUIDITY RISK

Liquidity risk refers to Desjardins Group'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 Combined Balance Sheets.

Desjardins Group manages liquidity risk in order to ensure that it has access, on a timely basis and in a profitable manner, to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations. Managing liquidity risk involves maintaining a sufficient level of liquid securities, ensuring a stable and diversified supply of funding, monitoring indicators and adopting 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. Desjardins Group and its components have established policies describing the principles, limits, risk appetite and tolerance levels as well as the procedures that apply to liquidity risk management. Policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated according to regulatory requirements and sound liquidity risk management practices.

The implementation of Basel III will strengthen minimum international liquidity requirements throughout the introduction of a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The Basel Committee recently issued a timetable and guidance for phase-in of the LCR effective 2015. The rules for applying NSFR requirements are still under review and should come into effect in 2018. As part of its liquidity risk management policy, Desjardins Group already monitors these two ratios on a regular basis and intends to comply with the new standards as soon as they come into effect.

In addition to regulatory ratios, a Desjardins-wide stress testing program has been set up. This program incorporates the concepts put forward by the Bank for International Settlements (BIS) under Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring. The scenarios make it possible to measure the extent of potential cash outflows in a crisis situation, to implement liquidity ratios and levels to be maintained across Desjardins Group and to assess the potential marginal cost of such events, depending on the type, severity and level of the crisis.

The items related to the structure and organization of the liquidity risk management function are described in further details in the “Liquidity risk” subsection of the Management’s Discussion and Analysis contained in Desjardins Group’s 2012 Annual Report.

OPERATIONAL RISK

Operational risk is defined as the risk of inadequacy or failure attributable to processes, people, internal systems or external events and 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. Losses can mainly arise from fraud, damage to tangible assets, illegal acts, system failures, or problems in process management.

The items related to the structure and organization of the operational risk management function are described in further details in the “Operational risk” subsection of the Management’s Discussion and Analysis contained in Desjardins Group’s 2012 Annual Report.

INSURANCE RISK

Insurance risk arises from the uncertainty that events may turn out differently from the assumptions used when designing, pricing or measuring actuarial reserves for insurance products, and that profitability of these products may be affected.

The items related to the structure and organization of the insurance risk management function are described in further details in the “Operational risk” subsection of the Management’s Discussion and Analysis contained in Desjardins Group’s 2012 Annual Report.

STRATEGIC RISK

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

The items related to strategic risk management function are described in further details in the “Strategic risk” subsection of the Management’s Discussion and Analysis contained in Desjardins Group’s 2012 Annual Report.

REPUTATION RISK

Reputation risk is the risk of being perceived negatively by stakeholders, whether justifiably or not, because of practices, actions or lack of action, which could have an unfavourable impact on Desjardins Group’s income and equity, and the trust of its stakeholders.

The items related to reputation risk management function are described in further details in the “Reputation risk” subsection of the Management’s Discussion and Analysis contained in Desjardins Group’s 2012 Annual Report.

DESJARDINS GROUP OVERALL COMPENSATION POLICY

Desjardins Group, Canada’s largest cooperative financial group and the world’s fifth largest, operates within a highly competitive market. Its overall compensation policy is influenced by both its need to be able to recruit the talent it requires to develop and by its cooperative nature. As with any responsible financial institution, Desjardins Group pays particular attention to risk management for the benefit of its members and clients. This is part of what enables it to maintain a capitalization level above industry standards. This is reflected in its overall compensation policy.

Desjardins Group’s overall compensation policy takes into account specific salary surveys among cooperative financial groups of comparable size to the Group in different countries as well as the median of the Canadian financial market so as to recruit and retain the talent it needs to develop.

Overall compensation governance and risk management

Several years ago, Desjardins Group implemented rigorous overall compensation corporate governance practices. This corporate governance is built around the responsibilities of the following decision-making bodies.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for determining Desjardins Group’s overall compensation policy, establishing annual objectives, and annually assessing the individual and collective results of the senior executives who are members of the Management Committee and the President and Chief Executive Officer of Desjardins Group. The Board is also responsible for annual development of the overall compensation of all employees. As such, it sets the annual salary review, sets objectives and assesses the results of the general incentive plan. It also establishes a framework for all individual incentive plans that apply to Desjardins Group’s sales and investment personnel.

All the plans entitle the Board of Directors to choose to reduce or cancel the payment of bonuses under exceptional circumstances. The Board did not exercise this right in 2012. The Board enlists the services of an independent expert, which has supported Desjardins Group in respect of overall compensation of senior executives since 2005.

THE HUMAN RESOURCES COMMISSION

The Human Resources Commission is made up of four members of the Board of Directors and the President and Chief Executive Officer of Desjardins Group. It is responsible for making recommendations to the Board of Directors with respect to all aspects of overall compensation for all Desjardins Group’s employees and executives other than the President and Chief Executive Officer. Its members, other than the President and Chief Executive Officer, are the same as those on the Overall Compensation Committee for the President and Chief Executive Officer of Desjardins Group.

The Commission also enlists the services of an independent expert the performance of its work.