

DESJARDINS – DISCLOSURE APPLICABLE TO BAIL-INABLE NOTES

Under the Québec resolution regime applicable to a cooperative group, the *Autorité des marchés financiers* (the "**AMF**") may, in circumstances where the failure of one or more deposit institutions (such as the *Fédération des caisses Desjardins du Québec* (the "**Federation**")) belonging to a cooperative group (a "**Deposit Institution**") is likely to cause the failure of other Deposit Institutions belonging to the same cooperative group and that the powers conferred on it by the *Act respecting financial services cooperatives* (Québec) (the "**Cooperatives Act**") are insufficient to remedy the situation, be designated as the receiver of all the legal persons belonging to the cooperative group, and may be granted broad powers by one or more orders of a resolution board, each of which we refer to as an "**Order**", including the power to sell or dispose of all or a part of the assets of the legal persons belonging to the cooperative group, and the power to carry out or cause the Federation to carry out a transaction or a series of transactions the purpose of which is to restructure the business of the *Groupe coopératif Desjardins* (as defined under the Cooperatives Act, the "**Cooperative Group**"). As part of the AMF's resolution powers, certain provisions of, and regulations under the *Deposit Institutions and Deposit Protection Act* (Québec) (the "**Deposit Institutions Act**") and certain other laws, regulations and guidelines collectively provide for a recapitalization regime (the "**bail-in regime**") for Deposit Institutions such as the Federation.

The stated objectives of resolution operations under the Québec resolution regime and of the bail-in regime include ensuring the sustainability of the activities of Deposit Institutions (such as the Federation) despite their failure, without resorting to public funds, and having holders of contributed capital securities and creditors absorb losses, thereby minimizing taxpayers' exposure to the losses.

Under the Deposit Institutions Act, the AMF must establish a resolution plan to implement resolution operations in the event of the failure of one or more Deposit Institutions. A resolution board must be formed to, among other things, approve the AMF's resolution plan and order the implementation and closure of resolution operations.

Under the Deposit Institutions Act, the AMF has to notify the resolution board (composed of the person appointed as Deputy Minister of Finance of Québec, the President and Chief Executive Officer of the AMF and a third person appointed by the Minister of Finance of Québec) without delay if it considers that the failure of one or more Deposit Institutions (such as the Federation) is likely to cause the failure of other Deposit Institutions belonging to the same cooperative group and that the powers conferred on it by the Cooperatives Act are insufficient to remedy the situation. If the resolution board deems that it is in the public interest to implement resolution operations in respect of the Deposit Institutions, it will order the implementation of such resolution operations by the AMF, which Order will be final and conclusive and not be questioned or reviewed in any court.

Under the resolution plan, the AMF may, pursuant to an Order:

- amalgamate all the Québec financial services cooperatives as well as the security fund (such as the *Fonds de sécurité Desjardins*) belonging to the same cooperative group and have them continue as one Québec savings company or have them wound-up;
- establish a financial services cooperative, a Québec savings company or a trust company in order to have it assume the liabilities relating to deposits of money of a Deposit Institution (such person is referred to as a "**bridge institution**");

- establish a business corporation with a view of transferring any part of the assets or liabilities of a legal person belonging to the cooperative group to such business corporation, except liabilities relating to deposits of money (such business corporation is referred to as an "**asset management company**");
- transfer, in its favour, in favour of the bridge institution or in favour of the asset management company, any part that it determines of the shares and subordinated debt obligations issued by the Deposit Institutions;
- transfer the assets and liabilities of a legal person belonging to the cooperative group to any acquirer (or renounce the exercise of a right or concede a right in an asset or a liability); and/or
- convert shares or bail-inable notes (as defined below).

More specifically, among other things, the Deposit Institutions Act provides that the AMF, as the resolution authority for financial services cooperatives in Québec, has the power (the "**bail-in powers**"), in the event the Cooperative Group becomes non-viable, to convert any part of the shares issued by the Deposit Institutions belonging to the Cooperative Group (such as Class F capital shares of the Federation) and/or bail-inable notes issued by the Federation into contributed capital securities of the Federation (such as Class Z shares – contingent capital), of a Deposit Institution belonging to the Cooperative Group, or of another legal person otherwise constituted for or resulting from the resolution process of the Cooperative Group (in each case, "**Conversion Securities**"). On December 8, 2021, Bill 3, *An act to amend various legislative provisions mainly with respect to the financial sector* ("**Bill 3**"), was sanctioned, and certain of its provisions came into force. Among other things, Bill 3 has amended the Deposit Institutions Act to remove the AMF's previous power to write-off part or all of any bail-inable notes and to cancel shares of the Federation.

The AMF released on March 21, 2019 the *Notice relating to the bail-in power set out in the second paragraph of section 40.50 of the Deposit Institutions Act* (the "**AMF Notice**"), which clarifies the current intention of the AMF with respect to the application of the bail-in regime. As stated therein, the AMF plans to convert bail-inable notes into capital shares of the Federation in accordance with the conversion measures set out in the bail-in regime. The AMF would then carry out an amalgamation/continuance operation, the purpose of which would be to amalgamate the entities belonging to the Cooperative Group and have them continued as one Québec savings company. This operation would result in the capital shares issued by the amalgamating entities being converted into common shares of the savings company.

The bail-in regime applicable to the Cooperative Group is substantially similar to the Canadian federal regime to which Canadian banks are subject. In addition, the bail-in regime is not retroactive in respect of bail-inable notes and will not apply to any such debt issued prior to March 31, 2019.

Subject to certain exceptions (as discussed in the paragraph below), (i) senior debt issued on or after March 31, 2019, with a term to maturity (including explicit or embedded extension options) greater than 400 days, that is unsecured and that has been assigned a CUSIP or ISIN or similar identification number for the purposes of trading and settlement, (ii) subordinated debt instruments that are not non-viability contingent capital instruments (together with senior debt referred to in (i), "**bail-inable notes**") and (iii) shares, are subject to the bail-in powers.

Notes which would otherwise be bail-inable but were issued before March 31, 2019 are not subject to the bail-in powers, and covered bonds, certain derivatives such as financial contracts, certain structured notes (as such term is used under the bail-in regime), any conversion or exchange privilege that is convertible at any time into shares of a Deposit Institution, including options or rights to purchase such shares or privileges, senior unsubordinated debt instruments that have a maturity of less than 400 days (including explicit or embedded extension options) or are not assigned a CUSIP or ISIN or similar identification number for the purposes of trading and settlement, and subordinated debt instruments that are non-viability contingent capital instruments (collectively, "**Excluded Securities**"), are not subject to the bail-in powers and therefore are not bail-inable notes. The terms and conditions of the bail-in conversion will be determined by the AMF in accordance with and subject to certain requirements discussed below.

Bail-in Conversion

Under the bail-in regime there is no fixed and pre-determined basis for any conversion ratio for the conversion of the bail-inable notes or shares into Conversion Securities. The AMF determines the timing of any bail-in conversion, the portion of shares or bail-inable notes to be converted and the terms and conditions of the conversion, subject to the parameters set out in the *Regulation respecting the classes of negotiable and transferable unsecured debts and the issuance of such debts and of shares* (Québec) and the AMF Notice, among others, which are discussed above and below.

Conversion Measures

In the event of the resolution of a cooperative group, the AMF may exercise several powers, including those conferred upon it under section 40.50 of the Deposit Institutions Act.

The AMF is responsible for resolution operations. In accordance with section 40.9 of the Deposit Institutions Act, the objective of such resolution operations is to ensure the sustainability of a cooperative group's deposit institution activities despite its failure and without recourse to public funds.

Based on the circumstances and the situation, the AMF will use its best efforts, when it exercises the powers conferred upon it under section 40.50 of the Deposit Institutions Act, to ensure fair treatment among the holders of debts and shares referred to in that section. In this regard, measures such as the following may be implemented by the AMF, as applicable:

- respect the respective ranks of the debts and shares referred to in section 40.50 of the Deposit Institutions Act that are still in existence, which ranks may be determined as if the cooperative group were the subject of an amalgamation/winding-up in accordance with the provisions of Chapter XIII.1 of the Cooperatives Act;
- ensure that such debts and shares are treated on a pro rata basis when they are of the same rank; and
- ensure that an instrument subject to the powers set out in section 40.50 of the Deposit Institutions Act is treated more advantageously than another instrument subject to those powers that is subordinated to it.

Indemnification Regime

The Deposit Institutions Act and regulations thereunder, including the *Regulation respecting the indemnification plan applicable pursuant to certain resolution operations* (Québec) (the "**Indemnification Regulation**"), collectively provide for an indemnification process for holders of bail-inable notes or shares who immediately prior to the making of an Order, directly or through an intermediary, own bail-inable notes or shares that are subject to the exercise of bail-in powers. While this process applies to successors of those holders, it does not apply to assignees or transferees of the holder following the making of the Order and does not apply if the amounts owing under the relevant bail-inable notes are paid in full.

Under the indemnification process, in summary, the indemnification amount to which such holders of bail-inable notes or shares are entitled is the difference, to the extent it is positive, between the estimated liquidation value and the estimated resolution value of the relevant bail-inable notes or shares. The estimated liquidation value is the estimated value of what the holders would have received in respect of a bail-inable note or share if, at the time of the Order, the Federation or the Cooperative Group had been wound up in accordance with the provisions of the Cooperatives Act, as if no Order had been made in respect of the Federation or the Cooperative Group and without taking into consideration any assistance, financial or other, that is or may be provided to the Federation or the Cooperative Group, directly or indirectly, by the AMF or by a government in Canada, or one of its departments or agencies, after an Order to wind up the Federation or the Cooperative Group. The Cooperatives Act provides that all the caisses Desjardins in Québec, the Federation and the *Fonds de sécurité Desjardins* may be amalgamated into a single legal entity to be wound up, as these entities cannot be wound up in any other manner.

The estimated resolution value in respect of relevant bail-inable notes or shares is the total of the estimated value of the following:

- the relevant bail-inable notes or shares, if they are not held by the AMF and they are not converted, after the making of the Order, into contributed capital securities;
- contributed capital securities that are the result of a bail-in conversion after the making of the Order;
- any dividend or interest payments made, after the making of the Order, with respect to the relevant bail-inable notes, shares or contributed capital securities received as a result of a bail-in conversion, to any person other than the AMF; and
- any other, cash, securities or other rights that are received or are to be received with respect to the relevant bail-inable notes, shares or contributed capital securities received as a result of a bail-in conversion as a direct or indirect result of the making of the Order or the implementation of the resolution operations, including from (i) the AMF or the Federation, or (ii) the liquidator of the Federation and the Cooperative Group, or the liquidator of a cooperative group, an asset management company or a bridge institution, if any of them is wound up or amalgamated/wound up.

Under the indemnification process, the AMF is required to estimate the liquidation value and the resolution value in respect of the portion of converted bail-inable notes or converted shares and is required to consider the difference between the estimated date on which the liquidation value

would be received and the estimated date on which the resolution value is, or would be, received.

The AMF must, within a reasonable delay following the exercise of bail-in powers, make an offer of indemnification by notice to the relevant holders that held bail-inable notes or shares equal to, or in value estimated to be equal to, the amount of the indemnity to which such holders are entitled or provide a notice stating that such holders are not entitled to any indemnity. In either case such notice is required to include certain prescribed information, including important information regarding the rights of such holders to have the AMF's decision concerning the right to an indemnity or the amount of such indemnity reviewed. A holder that considers that it is entitled to indemnification and that does not receive the previously-mentioned notice may require the AMF to determine whether or not such holder is indeed entitled to indemnification. The request for a review of the AMF's decision, or the request for a determination by the AMF, must be submitted within certain prescribed periods and must contain certain prescribed information, as more fully described in the Indemnification Regulation. Should there be a bail-in conversion, there is no guarantee that holders whose bail-inable notes or shares are converted as part of the bail-in conversion will receive any indemnification as the indemnity amount to which such holders are entitled as described above may be nil.

By its acquisition of an interest in any bail-inable note, each holder or beneficial owner of that bail-inable note is deemed to be bound by the exercise of bail-in powers and so will have no further rights in respect of its bail-inable notes to the extent those bail-inable notes are subject to the exercise of bail-in powers, other than those provided under the bail-in regime, including under the indemnification process.

A similar indemnification process to the one set out above applies, in certain circumstances, where as a result of the AMF's exercise of its resolution powers, notes are assigned to an entity which is then wound-up.

TLAC Guideline

In connection with the bail-in regime, the AMF's guideline (the "**TLAC Guideline**") on total loss absorbing capacity ("**TLAC**") applies to and establishes standards for the Federation. Under the TLAC Guideline, beginning April 1, 2022, the Federation will be required to maintain at all times a minimum loss absorbing capacity composed of unsecured external long-term debt that meets the prescribed criteria or regulatory capital instruments to support recapitalisation in the event of a failure. Bail-inable notes and regulatory capital instruments that meet the prescribed criteria will constitute TLAC of the Federation.

In order to comply with the TLAC Guideline, bail-inable notes must provide for terms and conditions necessary to meet the prescribed criteria and qualify at their issuance as TLAC instruments of the Federation under the TLAC Guideline. Those criteria include the following:

- the Federation cannot directly or indirectly have knowingly provided financing to any person for the express purpose of investing in the bail-inable notes;
- the bail-inable notes are not subject to set-off or netting rights;
- the bail-inable notes must not provide rights to accelerate repayment of principal or interest payments outside of bankruptcy, insolvency, dissolution or liquidation, except that events of default relating to the non-payment of scheduled principal and/or interest

payments will be permitted where they are subject to a cure period of no less than 30 business days and clearly disclose to investors that: (i) acceleration is only permitted where an Order has not been made in respect of any deposit institution being part of the Cooperative Group; and (ii) notwithstanding any acceleration, the instrument continues to be subject to a bail-in conversion prior to its repayment;

- the bail-inable notes may be redeemed or purchased for cancellation only at the initiative of the Federation and, where the redemption or purchase would lead to a breach of the Federation's TLAC requirements, that redemption or purchase would be subject to the prior approval of the AMF;
- the bail-inable notes do not have credit-sensitive dividend or coupon features that are reset periodically based in whole or in part on the Federation's credit standing; and
- where an amendment or variance of the bail-inable notes' terms and conditions would affect its recognition as TLAC, that amendment or variance will only be permitted with the prior approval of the AMF.

Risk Factors Relating to the Bail-inable Notes as a Result of Resolutions Powers Applicable to Financial Services Cooperatives

Bail-inable notes will be subject to risks, including non-payment in full or conversion in whole or in part under the resolution powers conferred on the AMF under the Deposit Institutions Act and the regulations thereunder.

In the event of the resolution of the Cooperative Group, the AMF may, among other things, exercise its bail-in powers in respect of bail-inable notes and, pursuant to Section 40.50 of the Deposit Institutions Act and the regulations thereunder, convert all or part of such bail-inable notes into Conversion Securities. Excluded Securities, however, are not subject to the AMF's bail-in powers. As a result, claims of some creditors whose claims would otherwise rank equally with those of the holders of bail-inable notes are not subject to the bail-in powers and thus the holders and beneficial owners of bail-inable notes will have to absorb losses ahead of these other creditors in the event of the exercise of bail-in powers while such other creditors may not be exposed to losses.

If the AMF were to take action under its bail-in powers with respect to the Federation, this could result in holders or beneficial owners of bail-inable notes being exposed to losses, which may potentially be severe. Upon a bail-in conversion, holders of bail-inable notes that are converted will be obligated to accept Conversion Securities, even if such holders do not at the time consider such securities to be an appropriate investment for them, and despite any change in the Federation or the fact that such securities are issued by the Federation or another entity or any disruption to, or lack of a market for, such securities or disruption to capital markets generally.

As a result, holders of bail-inable notes should consider the risk that they may lose some or all of their investment, including the principal amount plus any accrued interest, if the AMF were to take action under its resolution powers, including the bail-in powers, and that any remaining outstanding bail-inable notes, or Conversion Securities, may be of little value at the time of the exercise of bail-in powers and thereafter.

Bail-inable notes will provide only limited acceleration and enforcement rights and will include other provisions intended to qualify such Notes as TLAC.

In order to comply with the TLAC Guideline, where the bail-inable notes contain events of default, the terms of the bail-inable notes provide that acceleration will only be permitted (i) if the Federation defaults in the payment of the principal of, or interest on, such bail-inable notes and, in each case, the default continues for a period of 30 business days, or (ii) certain bankruptcy, insolvency, dissolution or liquidation events occur.

Holders and beneficial owners of bail-inable notes may only exercise, or direct the exercise of, such rights in respect of bail-inable notes where an Order has not been sought by the AMF and made by the resolution board pursuant to Section 40.12 of the Deposit Institutions Act. Notwithstanding the exercise of those rights, bail-inable notes will continue to be subject to the exercise of bail-in powers until repaid in full.

The terms of the bail-inable notes also provide that holders or beneficial owners of bail-inable notes will not be entitled to exercise, or direct the exercise of, any set-off or netting rights with respect to bail-inable notes. In addition, where an amendment, modification or other variance that can be made to the bail-inable notes would affect the recognition of the bail-inable notes by the AMF as TLAC, that amendment, modification or variance will require the prior approval of the AMF.

The circumstances surrounding the exercise of bail-in powers are unpredictable and can be expected to have an adverse effect on the market price of bail-inable notes.

The decision as to whether the Federation and/or other financial services cooperatives of the Cooperative Group has failed, and/or whether its failure is likely to cause the failure of other Deposit Institutions, is a subjective determination by the AMF that is outside the control of the Federation. Upon the exercise of bail-in powers, the interests of depositors and holders of liabilities and securities of the Federation that are not converted will effectively all rank in priority to the portion of bail-inable notes that are converted. In addition, except as provided for under the indemnification process, the rights of holders in respect of the bail-inable notes that have been converted into Conversion Securities will rank on parity with other holders of contributed capital securities of the issuer of the Conversion Securities.

There is no limitation on the type of Order that may be sought by the AMF and made by the resolution board pursuant to Section 40.12 of the Deposit Institutions Act where it has been determined that the Federation and/or other financial services cooperatives of the Cooperative Group has failed and/or that its failure is likely to cause the failure of other Deposit Institutions belonging to the Cooperative Group. As a result, holders of bail-inable notes may be exposed to losses through the use of resolution powers other than the bail-in powers. See "*Bail-inable notes will be subject to risks, including non-payment in full or conversion in whole or in part under the resolution powers conferred on the AMF under the Deposit Institutions Act and the regulations thereunder*" above.

Because of the uncertainty regarding when and whether an Order will be sought by the AMF and made by the resolution board pursuant to Section 40.12 of the Deposit Institutions Act, and the type of Order that may be sought and made, it will be difficult to predict when, if at all, bail-inable notes could be converted pursuant to the exercise of bail-in powers, and there will likely not be any advance notice of any such Order. As a result of this uncertainty, trading behavior in respect of bail-inable notes may not follow trading behavior associated with other securities of

the Federation. Any indication, whether real or perceived, that the Federation is trending towards failure can be expected to have an adverse effect on the market price of the bail-inable notes, whether or not the Federation has failed and/or its failure is likely to cause the failure of other Deposit Institutions belonging to the Cooperative Group. Therefore, in those circumstances, holders of bail-inable notes may not be able to sell their bail-inable notes easily or at prices comparable to those of senior debt securities or subordinated debt securities of the Federation, as applicable, not subject to the exercise of bail-in powers.

The number of Conversion Securities to be issued in connection with, and the number of Conversion Securities that will be outstanding following, a bail-in conversion are unknown. It is also unknown whether the Conversion Securities to be issued will be contributed capital securities of the Federation, those of a deposit-taking institution that is part of the Cooperative Group or those of a legal person constituted or resulting from an amalgamation/continuance or of another entity pursuant to a conversion carried out for the purposes of the resolution operations.

Under the bail-in regime there is no fixed and pre-determined basis for any conversion ratio for the conversion of the bail-inable notes into Conversion Securities. The AMF determines the timing of any conversion of bail-inable notes, the portion of bail-inable notes to be converted and the terms and conditions of the conversion, subject to the parameters set out in the bail-in regime and the AMF Notice, as set out above under "*Bail-in Conversion*".

As a result, it is not possible to anticipate the potential number of Conversion Securities that would be issued in respect of any bail-inable note converted on a bail-in conversion, the aggregate number of such securities that will be outstanding following any bail-in conversion, the terms and conditions of such securities (including voting powers in respect thereto, if any), the effect of dilution further to the issuances made in connection with a bail-in conversion or the value of any such Conversion Securities received by the holder, which could be significantly less than the principal amount of the converted bail-inable notes. Further, the market for any Conversion Securities issued in connection with a bail-in conversion may be illiquid, or there may be no market at all for such securities, such that holders may not be able to sell those securities at a price equal to the value of the converted bail-inable notes, and as a result may suffer significant losses that may not be offset by indemnification, if any, received as part of the indemnification process. Fluctuations in exchange rates may exacerbate any such losses.

There is no assurance that the Conversion Securities will be listed on a stock exchange.

While the Federation currently intends to use its commercially reasonable efforts to have the Conversion Securities issued upon a bail-in conversion listed on a recognized stock exchange, there is no assurance that such Conversion Securities will be listed. The Federation may not be in a position to list the Conversion Securities to be issued upon a bail-in conversion either promptly or at all, and there is no assurance that any such listing of the Conversion Securities would be maintained. In addition, any such listing would be made only as soon as the Federation, in its sole discretion, considers practicable following the issue of such Conversion Securities, and consequently there may be a significant delay between the bail-in conversion, on the one hand, and any such listing, if at all, on the other hand. There is currently no stock exchange through which any of the capital shares of the Federation may be sold and the Federation has not applied to list or quote any of its capital shares on a stock exchange.

By acquiring bail-inable notes, each holder of that bail-inable note is deemed to agree to be bound by the exercise of bail-in powers and so will have no further rights in respect of any of its bail-inable notes that are subject to the exercise of bail-in powers other than those provided under the bail-in regime. The amount of any potential indemnity to be provided through the indemnification process under the Deposit Institutions Act and the Indemnification Regulation is unknown, and may be nil.

The Deposit Institutions Act and the Indemnification Regulation together provide for an indemnification process for holders of bail-inable notes who immediately prior to the making of an Order, directly or through an intermediary, own bail-inable notes that are subject to the exercise of bail-in powers. By its acquisition of an interest in any bail-inable note, each holder of that bail-inable note is deemed to be bound by the exercise of bail-in powers and so will have no further rights in respect of its bail-inable notes to the extent those bail-inable notes are subject to the exercise of bail-in powers, other than those provided under the bail-in regime, including under the indemnification process.

Following the exercise of bail-in powers, holders that held bail-inable notes that have been subject to the exercise of bail-in powers will no longer have rights against the Federation as creditors.

Upon the exercise of bail-in powers, the rights, terms and conditions of the portion of bail-inable notes that are converted, including with respect to priority and rights on liquidation, will no longer apply as the portion of bail-inable notes converted pursuant to the exercise of bail-in powers will have converted on a full and permanent basis into Conversion Securities, ranking in parity with all other outstanding contributed capital securities of the issuer of such Conversion Securities. If a conversion occurs, then the interest of the depositors, other creditors and holders of liabilities of the Federation not converted will all rank in priority to those converted.

Given the nature of a bail-in conversion, holders of bail-inable notes that are converted will become holders or beneficial owners of Conversion Securities at a time when the Federation's (or the relevant issuer's) financial condition has deteriorated. They may also become holders or beneficial owners of Conversion Securities at a time when the relevant entity may have received or may receive a capital injection or equivalent support with terms that may rank in priority to the Conversion Securities issued in a bail-in conversion with respect to the payment of interest (or dividends), rights on liquidation or other terms although there is no certainty that any such capital injection or support will be forthcoming.

Bail-inable notes may be redeemed after the occurrence of a TLAC Disqualification Event.

If a TLAC Disqualification Event (as defined in a bail-inable note) is specified in the bail-inable note, the Federation may, at its option, redeem all, but not less than all of the outstanding bail-inable notes of a series prior to their stated maturity date after the occurrence of the TLAC Disqualification Event at the time and the redemption price or prices specified in the bail-inable note, together with unpaid interest accrued thereon to, but excluding the date fixed for redemption. If the Federation redeems the bail-inable notes of such series, holders may not be able to reinvest the redemption proceeds in securities offering a comparable anticipated rate of return. Additionally, although the terms of each series of bail-inable notes are anticipated to be established to satisfy the TLAC criteria within the meaning of the TLAC Guideline to which the Federation is subject, it is possible that any series of bail-inable notes may not satisfy the criteria in future rulemaking or interpretations.

