

2019 Financial Report

Caisse Desjardins de la Vallée des Pays-d'en-Haut

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March 20, 2020

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins de la Vallée des Pays-d'en-Haut (the “Caisse”) prepared by the management of the Caisse

To the members of the *Fédération des caisses Desjardins du Québec*

We are the independent auditor of the separate combined financial statements of the Desjardins caisses in Quebec (the “combined financial statements of the Desjardins caisses”), on which we expressed an unmodified opinion on February 26, 2020.

With respect to the accompanying financial report of the Caisse prepared by the management of the Caisse, we were engaged by the members of the *Fédération des caisses Desjardins du Québec* to agree the financial information contained in the financial report of the Caisse with the accounting records that include the Caisse’s specific accounting adjustments and were used to prepare the combined financial statements of the Desjardins caisses in Quebec for the year ended December 31, 2019 (the “procedures”).

We confirm that we agreed all financial information contained in the accompanying financial report of the Caisse for the year ended December 31, 2019 with the accounting records that include the Caisse’s specific accounting adjustments and were used to prepare the combined financial statements of the Desjardins caisses in Quebec for the year then ended, and we confirm that we found no exceptions.

In particular, as part of our procedures, we agreed the following financial information of the Caisse:

Total assets:	772,622,000	\$
Total equity:	63,309,000	\$
Net surplus earnings for the year after member dividends:	6,354,000	\$

These procedures do not constitute an audit of the financial report of the Caisse as at December 31, 2019, and therefore we express no opinion on the financial report of the Caisse as at December 31, 2019.

*PricewaterhouseCoopers LLP*¹

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“PwC” refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

BALANCE SHEET (unaudited)

(in thousands of Canadian dollars)	As at December 31, 2019 ⁽¹⁾	As at December 31, 2018
ASSETS		
Cash and deposits with financial institutions	\$ 5,983	\$ 7,197
Investment in liquidity fund under management	33,913	30,739
Loans		
Residential mortgages	561,147	517,386
Consumer and other personal loans	25,824	23,243
Business and government	83,527	70,472
	670,498	611,101
Allowance for credit losses	665	645
	669,833	610,456
Investments in the Federation	33,157	30,498
Other assets		
Derivative financial instruments	23,204	10,778
Right-of-use assets	173	-
Property, plant and equipment	2,764	2,863
Other	3,595	3,183
	29,736	16,824
TOTAL ASSETS	\$ 772,622	\$ 695,714
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Individuals	\$ 460,308	\$ 405,690
Business and government	119,271	105,244
	579,579	510,934
Borrowings	117,979	116,470
Other liabilities		
Derivative financial instruments	2,088	2,101
Lease liabilities	185	-
Net defined benefit plan liabilities	4,054	3,550
Other	5,428	4,987
	11,755	10,638
TOTAL LIABILITIES	709,313	638,042
EQUITY		
Capital stock	1,005	1,668
Distributable surplus earnings	4,885	10,167
Accumulated other comprehensive income	851	5
Reserves	56,568	45,832
TOTAL EQUITY	63,309	57,672
TOTAL LIABILITIES AND EQUITY	\$ 772,622	\$ 695,714

⁽¹⁾ The information presented as at December 31, 2019, reflects IFRS 16, "Leases" which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Combined Financial Statements of the Desjardins caisses in Quebec, for the year ended December 31, 2019, available at www.desjardins.com.

STATEMENT OF INCOME
(unaudited)

For the years ended December 31

(in thousands of Canadian dollars)	2019 ⁽¹⁾	2018
INTEREST INCOME	\$ 22,468	\$ 19,392
INTEREST EXPENSE	9,137	7,835
NET INTEREST INCOME	13,331	11,557
OTHER INCOME	5,695	5,549
PROVISION FOR CREDIT LOSSES	298	439
NON-INTEREST EXPENSE		
Salaries and fringe benefits	5,277	5,130
Assessments paid to Desjardins Group components	1,656	1,675
Computer services and other agreements	1,830	1,736
Community development expenses	82	91
Other	3,777	3,525
	12,622	12,157
OPERATING SURPLUS EARNINGS	6,106	4,510
Income on investments in the Federation	2,583	3,197
Income (loss) on fair value of derivative financial instruments	209	(201)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	8,898	7,506
Income taxes on surplus earnings	1,614	1,180
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	7,284	6,326
Member dividends	1,267	968
Tax recovery on member dividends	(337)	(258)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 6,354	\$ 5,616

⁽¹⁾ The information presented for the year ended December 31, 2019, reflects IFRS 16, "Leases" which was adopted on January 1, 2019. Comparative figures have not been restated. For more information, see Note 2, "Basis of presentation and significant accounting policies" to the Combined Financial Statements of the Desjardins caisses in Quebec, for the year ended December 31, 2019, available at www.desjardins.com.

STATEMENT OF CHANGES IN EQUITY
(unaudited)

For the years ended December 31

	Capital stock	Distributable surplus earnings	Accumulated other comprehensive income	Reserves							Total equity	
				Appreciation reserve (investments in the Federation's investment funds)	Appreciation reserve (derivative financial instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve	Reserve for future member dividends	Community Development Fund		Total reserves
(in thousands of Canadian dollars)												
BALANCE AS AT DECEMBER 31, 2017	\$ 3,007	\$ 2,590	\$ 1,592	\$ 17,947	\$ 198	\$ (2,708)	\$ 27,063	\$ 2,689	\$ 1,955	\$ 270	\$ 47,414	\$ 54,603
Impact of changes in accounting policies	-	-	(116)	111	-	-	145	-	-	-	256	140
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 3,007	\$ 2,590	\$ 1,476	\$ 18,058	\$ 198	\$ (2,708)	\$ 27,208	\$ 2,689	\$ 1,955	\$ 270	\$ 47,670	\$ 54,743
Distribution by members at the 2018 general meeting												
Interest on permanent and surplus shares	-	(94)	-	-	-	-	-	-	-	-	-	(94)
Transfer from (allocation to) reserves	-	(2,499)	-	-	-	-	2,399	-	-	100	2,499	-
Net adjustment for member dividends	-	3	-	-	-	-	-	-	-	-	-	3
Balance after distribution	3,007	-	1,476	18,058	198	(2,708)	29,607	2,689	1,955	370	50,169	54,652
Net surplus earnings for 2018 after member dividends	-	5,616	-	-	-	-	-	-	-	-	-	5,616
Other comprehensive income for the year	-	183	(1,471)	-	-	-	-	-	-	-	-	(1,288)
Statutory transfer	-	3,404	-	(3,356)	(148)	100	-	-	-	-	(3,404)	-
Net amounts used during the year	-	970	-	-	-	-	-	-	(903)	(67)	(970)	-
Equity transactions related to the investments in the Federation	-	-	-	73	-	-	-	-	-	-	73	73
Redemption of permanent shares	(1,308)	-	-	-	-	-	-	-	-	-	-	(1,308)
Other net change in capital stock	(31)	-	-	-	-	-	-	-	-	-	-	(31)
Interest on permanent and surplus shares	-	(3)	-	-	-	-	-	(36)	-	-	(36)	(39)
Net adjustment for member dividends	-	(3)	-	-	-	-	-	-	-	-	-	(3)
BALANCE AS AT DECEMBER 31, 2018	\$ 1,668	\$ 10,167	\$ 5	\$ 14,775	\$ 50	\$ (2,608)	\$ 29,607	\$ 2,653	\$ 1,052	\$ 303	\$ 45,832	\$ 57,672
Net adjustment for interest on permanent shares	-	-	-	-	-	-	(10)	-	-	-	(10)	(10)
Allocation to reserves adopted by the members at the general meeting	-	(10,167)	-	-	-	-	6,381	-	3,596	190	10,167	-
Net adjustment for member dividends	-	-	-	-	-	-	-	-	(2)	-	(2)	(2)
Balance after distribution	1,668	-	5	14,775	50	(2,608)	35,978	2,653	4,646	493	55,987	57,660
Net surplus earnings for 2019 after member dividends	-	6,354	-	-	-	-	-	-	-	-	-	6,354
Other comprehensive income for the year	-	(874)	846	-	-	-	-	-	-	-	-	(28)
Statutory transfer	-	(1,585)	-	1,813	155	(383)	-	-	-	-	1,585	-
Net amounts used during the year	-	989	-	-	-	-	-	-	(929)	(60)	(989)	-
Redemption of permanent shares	(625)	-	-	-	-	-	-	-	-	-	-	(625)
Other net change in capital stock	(38)	-	-	-	-	-	-	-	-	-	-	(38)
Interest on permanent and surplus shares	-	(1)	-	-	-	-	-	(15)	-	-	(15)	(16)
Net adjustment for member dividends	-	2	-	-	-	-	-	-	-	-	-	2
BALANCE AS AT DECEMBER 31, 2019	\$ 1,005	\$ 4,885	\$ 851	\$ 16,588	\$ 205	\$ (2,991)	\$ 35,978	\$ 2,638	\$ 3,717	\$ 433	\$ 56,568	\$ 63,309

NOTE TO THE FINANCIAL REPORT (unaudited)

NOTE 1 – TYPE OF OPERATIONS AND BASIS OF ACCOUNTING

Caisse Desjardins de la Vallée des Pays-d'en-Haut (the caisse) is a cooperative whose purpose is to accept and help grow the savings of its members, as well as to extend credit and provide other financial products and services to its members. Its mission also includes fostering cooperation and promoting economic, social and cooperative education. It is governed by the *Act Respecting Financial Services Cooperatives* (the Act).

The caisse is registered with the Autorité des marchés financiers in Quebec. It is also a member of the Fonds de sécurité Desjardins, whose main purpose is to establish and administer a security, liquidity and mutual aid fund for the benefit of Desjardins caisses in Quebec.

The caisse is a member of the Fédération des caisses Desjardins du Québec (the Federation), which controls other components that together make up Desjardins Group.

This financial report has been prepared in accordance with the requirements set out in the Act. The caisse applies accounting policies similar to those used to prepare the Combined Financial Statements of the Desjardins caisses in Quebec, which are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. Some figures from the prior year were reclassified for consistency with the presentation of the current year's financial statements. This reclassification did not affect the caisse's surplus earnings or total assets and liabilities.