

2017 Financial Report

Caisse Desjardins du Sud-Ouest de Montréal

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April 11, 2018

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins du Sud-Ouest de Montréal (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, 2018.

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, 2017 (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, 2017 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:	1,575,793,000	\$
Total equity:	173,584,000	\$
Net surplus earnings for the year after member dividends :	15,302,000	\$

These procedures do not constitute an audit of the financial report of the Caisse as at December 31, 2017, and therefore we express no opinion on the financial report of the Caisse as at December 31, 2017.

*PricewaterhouseCoopers LLP*¹

¹ FCPA auditor, FCA, public accountancy permit No. A108517

BALANCE SHEET (unaudited)

(in thousands of Canadian dollars)	As at December 31, 2017	As at December 31, 2016
ASSETS		
Cash and deposits with financial institutions	\$ 13,615	\$ 11,400
Securities		
Investment in liquidity fund under management	55,479	52,869
Term deposits and other	90	90
	55,569	52,959
Loans		
Personal	896,820	865,517
Business	476,720	472,591
	1,373,540	1,338,108
Allowance for credit losses	2,707	2,805
	1,370,833	1,335,303
Investments in the Federation	107,313	98,268
Other assets		
Derivative financial instruments	13,183	8,900
Property, plant and equipment	5,397	5,884
Other	9,883	10,820
	28,463	25,604
TOTAL ASSETS	\$ 1,575,793	\$ 1,523,534
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 371,076	\$ 394,958
Other	519,074	481,538
	890,150	876,496
Borrowings	494,069	464,260
Other liabilities		
Derivative financial instruments	1,480	377
Net defined benefit plan liabilities	7,807	6,581
Other	8,703	12,128
	17,990	19,086
TOTAL LIABILITIES	1,402,209	1,359,842
EQUITY		
Capital stock	8,919	12,587
Distributable surplus earnings	4,985	8,338
Accumulated other comprehensive income	5,717	4,684
Reserves	153,963	138,083
TOTAL EQUITY	173,584	163,692
TOTAL LIABILITIES AND EQUITY	\$ 1,575,793	\$ 1,523,534

STATEMENTS OF INCOME
 (unaudited)

For the years ended December 31

(in thousands of Canadian dollars)	2017	2016
INTEREST INCOME	\$ 42,488	\$ 42,211
INTEREST EXPENSE	17,407	16,863
NET INTEREST INCOME	25,081	25,348
OTHER INCOME	9,293	8,808
PROVISION FOR CREDIT LOSSES	166	409
NON-INTEREST EXPENSES		
Salaries and fringe benefits	10,998	10,684
Assessments paid to Desjardins Group components	4,049	4,268
Computer services	3,527	3,406
Community Development Fund expenses	140	77
Other	8,972	9,064
	27,686	27,499
OPERATING SURPLUS EARNINGS	6,522	6,248
Income on investments in the Federation	10,196	9,798
Income related to fair value of derivative financial instruments	1,366	348
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	18,084	16,394
Income taxes on surplus earnings	1,759	2,844
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	16,325	13,550
Member dividends	1,465	1,179
Tax recovery on member dividends	(442)	(317)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 15,302	\$ 12,688

STATEMENTS 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, 2015	\$ 15,610	\$ -	\$ 3,231	\$ 47,457	\$ 1,740	\$ (5,783)	\$ 73,126	\$ 5,057	\$ 6,254	\$ 362	\$ 128,213	\$ 147,054
Transfer from (allocation to) reserves	-	(15)	-	-	-	-	15	-	-	-	15	-
Net adjustment related to member dividends	-	15	-	-	-	-	-	-	-	-	-	15
Balance after distribution	15,610	-	3,231	47,457	1,740	(5,783)	73,141	5,057	6,254	362	128,228	147,069
Net surplus earnings for 2016 after member dividends	-	12,688	-	-	-	-	-	-	-	-	-	12,688
Other comprehensive income for the year	-	1,209	1,062	-	-	-	-	-	-	-	-	2,271
Statutory transfer	-	(5,601)	-	4,467	260	874	-	-	-	-	5,601	-
Net amounts used during the year	-	57	-	-	-	-	-	-	-	(57)	(57)	-
Equity transactions related to other investments in the Federation	-	-	-	4,311	-	-	-	-	-	-	4,311	4,702
Redemption of permanent shares	(2,746)	-	-	-	-	-	-	-	-	-	-	(2,746)
Other net change in capital stock	(277)	-	-	-	-	-	-	-	-	-	-	(277)
Net adjustment related to member dividends	-	(15)	-	-	-	-	-	-	-	-	-	(15)
BALANCE AS AT DECEMBER 31, 2016	\$ 12,587	\$ 8,338	\$ 4,684	\$ 56,235	\$ 2,000	\$ (4,909)	\$ 73,141	\$ 5,057	\$ 6,254	\$ 305	\$ 138,083	\$ 163,692
Distribution by members at the 2017 general meeting Interest on members' permanent and surplus shares	-	(481)	-	-	-	-	-	-	-	-	-	(481)
Transfer from (allocation to) reserves	-	(7,883)	-	-	-	-	7,883	-	-	-	7,883	-
Net adjustment related to member dividends	-	26	-	-	-	-	-	-	-	-	-	26
Balance after distribution	12,587	-	4,684	56,235	2,000	(4,909)	81,024	5,057	6,254	305	145,966	163,237
Net surplus earnings for 2017 after member dividends	-	15,302	-	-	-	-	-	-	-	-	-	15,302
Other comprehensive income for the year	-	(2,358)	1,033	-	-	-	-	-	-	-	-	(1,325)
Statutory transfer	-	(8,035)	-	7,934	1,005	(904)	-	-	-	-	8,035	-
Net amounts used during the year	-	102	-	-	-	-	-	-	-	(102)	(102)	-
Equity transactions related to other investments in the Federation	-	-	-	64	-	-	-	-	-	-	64	64
Redemption of permanent shares	(3,527)	-	-	-	-	-	-	-	-	-	-	(3,527)
Other net change in capital stock	(141)	-	-	-	-	-	-	-	-	-	-	(141)
Net adjustment related to member dividends	-	(26)	-	-	-	-	-	-	-	-	-	(26)
BALANCE AS AT DECEMBER 31, 2017	\$ 8,919	\$ 4,985	\$ 5,717	\$ 64,233	\$ 3,005	\$ (5,813)	\$ 81,024	\$ 5,057	\$ 6,254	\$ 203	\$ 153,963	\$ 173,584

NOTE TO THE FINANCIAL REPORT (unaudited)

NOTE 1 – TYPE OF OPERATIONS AND BASIS OF ACCOUNTING

The Caisse Desjardins du Sud-Ouest de Montréal (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 (AMF) 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 for 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.