

2018 Financial Report

Caisse Desjardins Des Rivières de Québec

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March 19, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins Des Rivières de Québec (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 27, 2019.

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, 2018 (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, 2018 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:	2,198,115,000	\$
Total equity:	202,288,000	\$
Net surplus earnings for the year after member dividends :	18,837,000	\$

These procedures do not constitute an audit of the financial report of the Caisse as at December 31, 2018, and therefore we express no opinion on the financial report of the Caisse as at December 31, 2018.

*PricewaterhouseCoopers LLP*¹

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

BALANCE SHEET (unaudited)

(in thousands of Canadian dollars)	As at December 31, 2018 ⁽¹⁾	As at December 31, 2017
ASSETS		
Cash and deposits with financial institutions	\$ 13,123	\$ 13,216
Investment in liquidity fund under management	94,305	89,213
Loans		
Personal	1,265,816	1,238,682
Business	692,609	665,011
	1,958,425	1,903,693
Allowance for credit losses	2,821	4,608
	1,955,604	1,899,085
Investments in the Federation	93,651	109,010
Other assets		
Derivative financial instruments	26,145	31,011
Property, plant and equipment	3,681	4,374
Other	11,606	14,092
	41,432	49,477
TOTAL ASSETS	\$ 2,198,115	\$ 2,160,001
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 918,490	\$ 913,863
Other	891,454	812,826
	1,809,944	1,726,689
Borrowings	146,859	205,664
Other liabilities		
Derivative financial instruments	7,376	6,952
Net defined benefit plan liabilities	11,699	10,277
Other	19,949	17,937
	39,024	35,166
TOTAL LIABILITIES	1,995,827	1,967,519
EQUITY		
Capital stock	5,831	9,735
Distributable surplus earnings	33,471	8,871
Accumulated other comprehensive income	50	5,108
Reserves	162,936	168,768
TOTAL EQUITY	202,288	192,482
TOTAL LIABILITIES AND EQUITY	\$ 2,198,115	\$ 2,160,001

⁽¹⁾ The information presented as at December 31, 2018, takes into account the standards adopted on January 1, 2018. The comparative data 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 Québec, for the year ended December 31, 2018, available at www.desjardins.com.

STATEMENTS OF INCOME
(unaudited)

For the years ended December 31

(in thousands of Canadian dollars)	2018 ⁽¹⁾	2017
INTEREST INCOME	\$ 65,324	\$ 59,988
INTEREST EXPENSE	27,011	24,224
NET INTEREST INCOME	38,313	35,764
OTHER INCOME	14,932	14,638
PROVISION FOR CREDIT LOSSES	427	767
NON-INTEREST EXPENSES		
Salaries and fringe benefits	14,298	14,722
Assessments paid to Desjardins Group components	5,256	5,392
Computer services	6,378	6,295
Community Development Fund expenses	503	516
Other	10,649	10,637
	37,084	37,562
OPERATING SURPLUS EARNINGS	15,734	12,073
Income on investments in the Federation	10,046	9,559
Loss related to fair value of derivative financial instruments	(66)	(8,463)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	25,714	13,169
Income taxes on surplus earnings	4,290	624
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	21,424	12,545
Member dividends	3,529	2,075
Tax recovery on member dividends	(942)	(556)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 18,837	\$ 11,026

⁽¹⁾ The information presented for the year ended December 31, 2018, takes into account the standards adopted on January 1, 2018. The comparative data 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 Québec, for the year ended December 31, 2018, available at www.desjardins.com.

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, 2016	\$ 15,125	\$ 14,085	\$ 4,163	\$ 49,804	\$ 6,128	\$ (6,607)	\$ 92,492	\$ 6,593	\$ 4,688	\$ 2,283	\$ 155,381	\$ 188,754
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(634)	-	-	-	-	-	-	-	-	-	(634)
Transfer from (allocation to) reserves	-	(13,414)	-	-	-	-	12,964	-	-	450	13,414	-
Net adjustment related to member dividends	-	(37)	-	-	-	-	-	-	-	-	-	(37)
Balance after distribution	15,125	-	4,163	49,804	6,128	(6,607)	105,456	6,593	4,688	2,733	168,795	188,083
Net surplus earnings for 2017 after member dividends	-	11,026	-	-	-	-	-	-	-	-	-	11,026
Other comprehensive income for the year	-	(2,279)	945	-	-	-	-	-	-	-	-	(1,334)
Statutory transfer	-	(291)	-	7,441	(6,210)	(940)	-	-	-	-	291	-
Net amounts used during the year	-	378	-	-	-	-	-	-	-	(378)	(378)	-
Equity transactions related to other investments in the Federation	-	-	-	60	-	-	-	-	-	-	60	60
Redemption of permanent shares	(5,122)	-	-	-	-	-	-	-	-	-	-	(5,122)
Other net change in capital stock	(268)	-	-	-	-	-	-	-	-	-	-	(268)
Net adjustment related to member dividends	-	37	-	-	-	-	-	-	-	-	-	37
BALANCE AS AT DECEMBER 31, 2017	\$ 9,735	\$ 8,871	\$ 5,108	\$ 57,305	\$ (82)	\$ (7,547)	\$ 105,456	\$ 6,593	\$ 4,688	\$ 2,355	\$ 168,768	\$ 192,482
Impact of changes in accounting methods ⁽¹⁾	-	-	(369)	355	-	-	479	-	-	-	834	465
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 9,735	\$ 8,871	\$ 4,739	\$ 57,660	\$ (82)	\$ (7,547)	\$ 105,935	\$ 6,593	\$ 4,688	\$ 2,355	\$ 169,602	\$ 192,947
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(298)	-	-	-	-	-	-	-	-	-	(298)
Transfer from (allocation to) reserves	-	(8,575)	-	-	-	-	7,975	-	-	600	8,575	-
Net adjustment related to member dividends	-	2	-	-	-	-	-	-	-	-	-	2
Balance after distribution	9,735	-	4,739	57,660	(82)	(7,547)	113,910	6,593	4,688	2,955	178,177	192,651
Net surplus earnings for 2018 after member dividends	-	18,837	-	-	-	-	-	-	-	-	-	18,837
Other comprehensive income for the year	-	(695)	(4,689)	-	-	-	-	-	-	-	-	(5,384)
Statutory transfer	-	11,788	-	(10,691)	(48)	(1,049)	-	-	-	-	(11,788)	-
Net amounts used during the year	-	3,557	-	-	-	-	-	-	(3,189)	(368)	(3,557)	-
Equity transactions related to other investments in the Federation	-	-	-	233	-	-	-	-	-	-	233	233
Redemption of permanent shares	(3,626)	-	-	-	-	-	-	-	-	-	-	(3,626)
Other net change in capital stock	(278)	-	-	-	-	-	-	-	-	-	-	(278)
Interest on permanent and surplus shares	-	(14)	-	-	-	-	-	(129)	-	-	(129)	(143)
Net adjustment related to member dividends	-	(2)	-	-	-	-	-	-	-	-	-	(2)
BALANCE AS AT DECEMBER 31, 2018	\$ 5,831	\$ 33,471	\$ 50	\$ 47,202	\$ (130)	\$ (8,596)	\$ 113,910	\$ 6,464	\$ 1,499	\$ 2,587	\$ 162,936	\$ 202,288

⁽¹⁾ The information presented for the year ended December 31, 2018, takes into account the standards adopted on January 1, 2018. The comparative data 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 Québec, for the year ended December 31, 2018, available at www.desjardins.com.

NOTE TO THE FINANCIAL REPORT (unaudited)

NOTE 1 – TYPE OF OPERATIONS AND BASIS OF ACCOUNTING

The Caisse Desjardins Des Rivières de Québec (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.