

2018

ANNUAL REPORT



**Caisse Desjardins du
Sud-Ouest de Montréal**

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NOTE TO READERS

We've updated our annual report format as at December 31, 2018. This year's report provides a brief overview of our key financial data.

This document complies with the reporting requirements of the *Act respecting financial services cooperatives* and the Autorité des marchés financiers and was approved by the caisse board of directors.

Claude Lanthier, Chair
Pierre Lacoste, Secretary

About Caisse Desjardins du Sud-Ouest de Montréal:

- 45,015 members
- \$197,834 given back through our Community Development Fund
- A dynamic management team led by Christiane Oligny

• Dedicated officers

Claude Lanthier	Chair
Nicole Ranger	Vice-Chair
Pierre Lacoste	Secretary
André Proulx	Director
Daniel Bélanger	Director
Marie-Josée Choquette	Director
Nadia Larivée	Director
Nathalie Boutin	Director
Rolland Dionne	Director
Stela Alivodej	Director
Stéphane Renaud	Director
Sylvie Bertrand	Director
Valérie Bélanger	Director
Yves Jubinville	Director
Yves Rouleau	Director

Desjardins Group Highlights

- Surplus earnings before member dividends up \$175 million compared to 2017, for a total of \$2,326 million, including:
 - \$1,272 million from Personal and Business Services
 - \$894 million from Wealth Management and Life and Health Insurance
 - \$173 million from Property and Casualty Insurance
- Outstanding loans and acceptances up \$13.1 billion
- \$57.4 billion in assets under management
- 17.3% Tier 1A capital ratio
- 9.3% return on equity compared to 9.1% in 2017
- 8.9% adjusted return on equity compared to 8% in 2017
- Total assets up \$20.4 billion
- \$16,576 million in operating income
- \$389 million given back to members and the community

CAISSE FINANCIALS

- Assets of \$1,583,036K, up 0.5%
- Liabilities of \$1,404,115K, an increase of 0.1%
- Equity of \$178,921K, up 3.1%
 - Capital stock: \$4,557K
 - Distributable surplus earnings: \$28,831K
 - Accumulated other comprehensive income: \$337K
 - Reserves: \$145,196K
 - Stabilization reserve: \$4,948K
 - Reserve for future member dividends: \$4,513K
 - Community Development Fund: \$258K
- Operating surplus earnings of \$8,479K, up 30.0%
- Total Interest income of \$46,986K, an increase of 10.6%
- Interest expenses of \$20,662K, up 18.7%
- Other income totalling \$9,429K, up 1.5%
- Non-interest expenses of \$26,794K, a decrease of 3.2%

All loans to restricted parties* were granted in accordance with the caisse's applicable rules of professional conduct. Loans granted to restricted parties totalled \$588,359.

*Restricted parties include:

- a) Caisse directors and the caisse general manager, including their relatives
- b) The Federation's directors, including their relatives

Investment Funds

The money that caisses invest in these funds allows the Fédération des caisses Desjardins du Québec (the Federation) to invest in Desjardins Group subsidiaries and regional projects. The table below indicates the caisse's interest in each investment fund and the fund's return at the end of the fiscal year.

	Value of shares held as at December 31, 2018 (\$)	Average return (%)
Provincial Funds		
Société de Services des caisses Desjardins (SER)	(1,006)	0.0
Desjardins Capital Management (INV)	158,982	8.0
Desjardins Financial Holding (FINSA)	61,487,734	11.3

The Federation's obligation to holders of permanent shares

Further to a recommendation issued by the Autorité des marchés financiers, the Federation guarantees that it will indemnify Quebec caisse members holding permanent shares in the event of losses resulting from misinformation in the audited Combined Financial Statements and annual Desjardins Group Management's Discussion and Analysis available at www.sedar.com. The Federation's obligation in this matter is subject to certain conditions. Holders of permanent shares can request more information at their caisse.

The Combined Financial Statements of the Desjardins caisses in Quebec are also available to the public at www.desjardins.com.

SUMMARY OF THE DEPOSIT PORTFOLIO

As at December 31, 2018, the caisse's member deposits totalled \$949,637K, up \$59,487K, or 6.7%, year over year. Deposits made by individual members provide the main source of funding for the caisse's expansion. These deposits represent 74.0% of total deposits as at December 31, 2018. The following table shows the breakdown of deposits by type of depositor with amounts by type of savings *.

(in thousands of Canadian dollars)	Checking accounts	Tiered savings accounts	Regular savings accounts	Term savings	Registered savings plans	Total as at December 31 2018	Total as at December 31 2017
Individuals	126,425	82,653	95,273	155,551	242,810	702,712	659,681
Businesses	101,720	12,313	66,096	31,562	-	211,691	201,423
Public sector and other	23,422	1,197	6,877	3,738	-	35,234	29,046
Total	251,567	96,163	168,246	190,851	242,810	949,637	890,150

*See Note 2 to the Combined Financial Statements of the Desjardins caisses in Quebec available at www.desjardins.com for additional information on presentation and significant accounting policies.

SUMMARY OF THE LOAN PORTFOLIO

The information in the table below was determined in accordance with IFRS 9 as at December 31, 2018, and in accordance with IAS 39 as at December 31, 2017. 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, 2018, available at www.desjardins.com.

As at December 31, 2018, the quality of the caisse's loan portfolio remained high. Gross impaired loans represented only 0.5% of total gross loans. The table below shows the carrying amount of loans and their allowance balance by stage:

	Non-credit impaired		Credit-impaired				Total		Net carrying amount
	Stage 1		Stage 2		Stage 3				
As at December 31, 2018 (in thousands of Canadian dollars)	Gross carrying amount	Allowance for credit losses	Gross carrying amount	Allowance for credit losses	Gross carrying amount	Allowance for credit losses	Gross carrying amount	Allowance for credit losses	
Personal									
Residential							684,467		
Consumer and other							266,005		
	905,977	317	41,844	383	2,651	279	950,472	979	949,493
Business									
Commercial and industrial							415,965		
Agriculture, forestry and fishing							195		
Public administration and institutions							22,091		
	404,002	229	29,598	299	4,651	522	438,251	1,050	437,201
Total	1,309,979	546	71,442	682	7,302	801	1,388,723	2,029	1,386,694

The following table shows the credit quality of loans:

	Gross loans	Gross loans past due but not impaired	Gross impaired loans	Individual allowances	Collective allowance	Net loans
As at December 31, 2017 (in thousands of Canadian dollars)						
Personal						
Residential	646,658					
Consumer and other	250,162					
	896,820	23,944	1,190	124	592	896,104
Business						
Commercial and industrial	452,900					
Agriculture, forestry and fishing	720					
Public administration and institutions	23,101					
	476,721	9,608	4,456	946	1,045	474,730
Total	1,373,541	33,552	5,646	1,070	1,637	1,370,834

Further to adoption of IFRS 9 of January 1, 2018, all loans included in Stage 3 of the impairment model are considered impaired. The criteria for considering a loan to be impaired were different under IAS 39.