

# 2018 Financial Report

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

### TABLE OF CONTENTS

#### Report on the results of applying specified auditing procedures

#### Financial report

Balance Sheet .....	2
Statements of Income .....	3
Statements of Changes in Equity .....	4

#### Note to the financial report

Note 1 – Type of operations and basis of accounting .....	5
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March 19, 2019

**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 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:	695,715,000	\$
Total equity:	57,673,000	\$
Net surplus earnings for the year after member dividends :	5,617,000	\$

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*<sup>1</sup>

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<sup>1</sup> FCPA auditor, FCA, public accountancy permit No. A108517

**BALANCE SHEET (unaudited)**

(in thousands of Canadian dollars)	As at December 31, 2018 <sup>(1)</sup>	As at December 31, 2017
<b>ASSETS</b>		
<b>Cash and deposits with financial institutions</b>	<b>\$ 7,197</b>	<b>\$ 9,682</b>
<b>Securities</b>		
Investment in liquidity fund under management	30,739	28,866
Term deposits and other	-	138
	<b>30,739</b>	<b>29,004</b>
<b>Loans</b>		
Personal	508,851	480,096
Business	102,250	90,691
	<b>611,101</b>	<b>570,787</b>
Allowance for credit losses	645	712
	<b>610,456</b>	<b>570,075</b>
<b>Investments in the Federation</b>	<b>30,498</b>	<b>35,322</b>
<b>Other assets</b>		
Derivative financial instruments	10,778	12,449
Property, plant and equipment	2,863	2,741
Other	3,184	5,134
	<b>16,825</b>	<b>20,324</b>
<b>TOTAL ASSETS</b>	<b>\$ 695,715</b>	<b>\$ 664,407</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposits</b>		
Term savings	\$ 246,964	\$ 224,177
Other	263,970	253,346
	<b>510,934</b>	<b>477,523</b>
<b>Borrowings</b>	<b>116,470</b>	<b>122,159</b>
<b>Other liabilities</b>		
Derivative financial instruments	2,101	1,883
Net defined benefit plan liabilities	3,550	3,688
Other	4,987	4,550
	<b>10,638</b>	<b>10,121</b>
<b>TOTAL LIABILITIES</b>	<b>638,042</b>	<b>609,803</b>
<b>EQUITY</b>		
Capital stock	1,668	3,007
Distributable surplus earnings	10,168	2,591
Accumulated other comprehensive income	6	1,593
Reserves	45,831	47,413
<b>TOTAL EQUITY</b>	<b>57,673</b>	<b>54,604</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 695,715</b>	<b>\$ 664,407</b>

<sup>(1)</sup> 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](http://www.desjardins.com).

**STATEMENTS OF INCOME**  
**(unaudited)**
**For the years ended December 31**

(in thousands of Canadian dollars)	2018 <sup>(1)</sup>	2017
<b>INTEREST INCOME</b>	<b>\$ 19,392</b>	<b>\$ 17,270</b>
<b>INTEREST EXPENSE</b>	<b>7,835</b>	<b>6,509</b>
<b>NET INTEREST INCOME</b>	<b>11,557</b>	<b>10,761</b>
<b>OTHER INCOME</b>	<b>5,549</b>	<b>5,569</b>
<b>PROVISION FOR CREDIT LOSSES</b>	<b>439</b>	<b>689</b>
<b>NON-INTEREST EXPENSES</b>		
Salaries and fringe benefits	5,130	5,080
Assessments paid to Desjardins Group components	1,675	1,700
Computer services	1,736	1,632
Community Development Fund expenses	91	40
Other	3,525	3,484
	<b>12,157</b>	<b>11,936</b>
<b>OPERATING SURPLUS EARNINGS</b>	<b>4,510</b>	<b>3,705</b>
Income on investments in the Federation	3,197	2,999
Loss related to fair value of derivative financial instruments	(201)	(551)
<b>SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS</b>	<b>7,506</b>	<b>6,153</b>
Income taxes on surplus earnings	1,179	725
<b>SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS</b>	<b>6,327</b>	<b>5,428</b>
Member dividends	968	695
Tax recovery on member dividends	(258)	(186)
<b>NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS</b>	<b>\$ 5,617</b>	<b>\$ 4,919</b>

<sup>(1)</sup> 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](http://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)												
<b>BALANCE AS AT DECEMBER 31, 2016</b>	\$ 4,364	\$ 4,277	\$ 1,299	\$ 15,591	\$ 602	\$ (2,273)	\$ 23,021	\$ 2,689	\$ 1,955	\$ 249	\$ 41,834	\$ 51,774
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(188)	-	-	-	-	-	-	-	-	-	(188)
Transfer from (allocation to) reserves	-	(4,093)	-	-	-	-	4,043	-	-	50	4,093	-
Net adjustment related to member dividends	-	4	-	-	-	-	-	-	-	-	-	4
Balance after distribution	4,364	-	1,299	15,591	602	(2,273)	27,064	2,689	1,955	299	45,927	51,590
Net surplus earnings for 2017 after member dividends	-	4,919	-	-	-	-	-	-	-	-	-	4,919
Other comprehensive income for the year	-	(857)	294	-	-	-	-	-	-	-	-	(563)
Statutory transfer	-	(1,496)	-	2,336	(404)	(436)	-	-	-	-	1,496	-
Net amounts used during the year	-	29	-	-	-	-	-	-	-	(29)	(29)	-
Equity transactions related to other investments in the Federation	-	-	-	19	-	-	-	-	-	-	19	19
Redemption of permanent shares	(1,319)	-	-	-	-	-	-	-	-	-	-	(1,319)
Other net change in capital stock	(38)	-	-	-	-	-	-	-	-	-	-	(38)
Net adjustment related to member dividends	-	(4)	-	-	-	-	-	-	-	-	-	(4)
<b>BALANCE AS AT DECEMBER 31, 2017</b>	\$ 3,007	\$ 2,591	\$ 1,593	\$ 17,946	\$ 198	\$ (2,709)	\$ 27,064	\$ 2,689	\$ 1,955	\$ 270	\$ 47,413	\$ 54,604
Impact of changes in accounting methods <sup>(1)</sup>	-	-	(116)	111	-	-	145	-	-	-	256	140
<b>OPENING BALANCE AS AT JANUARY 1, 2018</b>	\$ 3,007	\$ 2,591	\$ 1,477	\$ 18,057	\$ 198	\$ (2,709)	\$ 27,209	\$ 2,689	\$ 1,955	\$ 270	\$ 47,669	\$ 54,744
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(95)	-	-	-	-	-	-	-	-	-	(95)
Transfer from (allocation to) reserves	-	(2,499)	-	-	-	-	2,399	-	-	100	2,499	-
Net adjustment related to member dividends	-	3	-	-	-	-	-	-	-	-	-	3
Balance after distribution	3,007	-	1,477	18,057	198	(2,709)	29,608	2,689	1,955	370	50,168	54,652
Net surplus earnings for 2018 after member dividends	-	5,617	-	-	-	-	-	-	-	-	-	5,617
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 other investments in the Federation	-	-	-	73	-	-	-	-	-	-	73	73
Redemption of permanent shares	(1,309)	-	-	-	-	-	-	-	-	-	-	(1,309)
Other net change in capital stock	(30)	-	-	-	-	-	-	-	-	-	-	(30)
Interest on permanent and surplus shares	-	(3)	-	-	-	-	-	(36)	-	-	(36)	(39)
Net adjustment related to member dividends	-	(3)	-	-	-	-	-	-	-	-	-	(3)
<b>BALANCE AS AT DECEMBER 31, 2018</b>	\$ 1,668	\$ 10,168	\$ 6	\$ 14,774	\$ 50	\$ (2,609)	\$ 29,608	\$ 2,653	\$ 1,052	\$ 303	\$ 45,831	\$ 57,673

<sup>(1)</sup> 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](http://www.desjardins.com).

## NOTE TO THE FINANCIAL REPORT (unaudited)

### NOTE 1 – TYPE OF OPERATIONS AND BASIS OF ACCOUNTING

The 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 (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.