

2018 Financial Report

Caisse Desjardins de Hull-Aylmer

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March 29, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins de Hull-Aylmer (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:	2,716,639,000	\$
Total equity:	248,247,000	\$
Net surplus earnings for the year after member dividends :	20,069,000	\$

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	\$ 20,732	\$ 16,661
Investment in liquidity fund under management	95,853	90,028
Loans		
Personal	1,724,737	1,607,611
Business	724,501	720,648
	2,449,238	2,328,259
Allowance for credit losses	3,512	2,677
	2,445,726	2,325,582
Investments in the Federation	115,215	133,854
Other assets		
Derivative financial instruments	24,678	31,950
Property, plant and equipment	1,623	1,646
Other	12,812	18,841
	39,113	52,437
TOTAL ASSETS	\$ 2,716,639	\$ 2,618,562
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 829,298	\$ 825,146
Other	860,421	795,993
	1,689,719	1,621,139
Borrowings	742,876	728,591
Other liabilities		
Derivative financial instruments	6,919	5,640
Net defined benefit plan liabilities	10,404	10,391
Other	18,474	17,991
	35,797	34,022
TOTAL LIABILITIES	2,468,392	2,383,752
EQUITY		
Capital stock	4,626	6,234
Distributable surplus earnings	39,132	10,626
Accumulated other comprehensive income	131	6,265
Reserves	204,358	211,685
TOTAL EQUITY	248,247	234,810
TOTAL LIABILITIES AND EQUITY	\$ 2,716,639	\$ 2,618,562

⁽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	\$ 79,155	\$ 68,345
INTEREST EXPENSE	37,045	29,672
NET INTEREST INCOME	42,110	38,673
OTHER INCOME	14,986	15,020
PROVISION FOR CREDIT LOSSES	1,909	1,049
NON-INTEREST EXPENSES		
Salaries and fringe benefits	16,003	15,678
Assessments paid to Desjardins Group components	6,099	6,142
Computer services	4,990	4,281
Community Development Fund expenses	461	510
Other	10,452	10,293
	38,005	36,904
OPERATING SURPLUS EARNINGS	17,182	15,740
Income on investments in the Federation	12,232	11,593
Loss related to fair value of derivative financial instruments	(2,601)	(1,792)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	26,813	25,541
Income taxes on surplus earnings	4,035	3,346
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	22,778	22,195
Member dividends	3,696	3,531
Tax recovery on member dividends	(987)	(946)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 20,069	\$ 19,610

⁽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	\$ 10,876	\$ 15,190	\$ 5,123	\$ 60,788	\$ 3,026	\$ (6,723)	\$ 116,991	\$ 7,022	\$ 8,263	\$ 1,180	\$ 190,547	\$ 221,736
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(424)	-	-	-	-	-	-	-	-	-	(424)
Transfer from (allocation to) reserves	-	(14,743)	-	-	-	-	14,743	-	-	-	14,743	-
Net adjustment related to member dividends	-	(23)	-	-	-	-	-	-	-	-	-	(23)
Balance after distribution	10,876	-	5,123	60,788	3,026	(6,723)	131,734	7,022	8,263	1,180	205,290	221,289
Net surplus earnings for 2017 after member dividends	-	19,610	-	-	-	-	-	-	-	-	-	19,610
Other comprehensive income for the year	-	(2,685)	1,142	-	-	-	-	-	-	-	-	(1,543)
Statutory transfer	-	(6,695)	-	9,024	(1,313)	(1,016)	-	-	-	-	6,695	-
Net amounts used during the year	-	373	-	-	-	-	-	-	-	(373)	(373)	-
Equity transactions related to other investments in the Federation	-	-	-	73	-	-	-	-	-	-	73	73
Redemption of permanent shares	(4,298)	-	-	-	-	-	-	-	-	-	-	(4,298)
Other net change in capital stock	(344)	-	-	-	-	-	-	-	-	-	-	(344)
Net adjustment related to member dividends	-	23	-	-	-	-	-	-	-	-	-	23
BALANCE AS AT DECEMBER 31, 2017	\$ 6,234	\$ 10,626	\$ 6,265	\$ 69,885	\$ 1,713	\$ (7,739)	\$ 131,734	\$ 7,022	\$ 8,263	\$ 807	\$ 211,685	\$ 234,810
Impact of changes in accounting methods ⁽¹⁾	-	-	(447)	430	-	-	199	-	-	-	629	182
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 6,234	\$ 10,626	\$ 5,818	\$ 70,315	\$ 1,713	\$ (7,739)	\$ 131,933	\$ 7,022	\$ 8,263	\$ 807	\$ 212,314	\$ 234,992
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(205)	-	-	-	-	-	-	-	-	-	(205)
Transfer from (allocation to) reserves	-	(10,421)	-	-	-	-	9,721	-	-	700	10,421	-
Balance after distribution	6,234	-	5,818	70,315	1,713	(7,739)	141,654	7,022	8,263	1,507	222,735	234,787
Net surplus earnings for 2018 after member dividends	-	20,069	-	-	-	-	-	-	-	-	-	20,069
Other comprehensive income for the year	-	501	(5,687)	-	-	-	-	-	-	-	-	(5,186)
Statutory transfer	-	14,894	-	(12,969)	(1,911)	(14)	-	-	-	-	(14,894)	-
Net amounts used during the year	-	3,681	-	-	-	-	-	-	(3,344)	(337)	(3,681)	-
Equity transactions related to other investments in the Federation	-	-	-	282	-	-	-	-	-	-	282	282
Redemption of permanent shares	(1,464)	-	-	-	-	-	-	-	-	-	-	(1,464)
Other net change in capital stock	(144)	-	-	-	-	-	-	-	-	-	-	(144)
Interest on permanent and surplus shares	-	(13)	-	-	-	-	-	(84)	-	-	(84)	(97)
BALANCE AS AT DECEMBER 31, 2018	\$ 4,626	\$ 39,132	\$ 131	\$ 57,628	\$ (198)	\$ (7,753)	\$ 141,654	\$ 6,938	\$ 4,919	\$ 1,170	\$ 204,358	\$ 248,247

⁽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 de Hull-Aylmer (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.