

2018 Financial Report

Caisse Desjardins des Versants du mont Royal

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March 26, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins des Versants du mont Royal (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:	1,176,630,000	\$
Total equity:	76,519,000	\$
Net surplus earnings for the year after member dividends :	6,228,000	\$

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	\$ 28,744	\$ 26,551
Investment in liquidity fund under management	42,146	39,595
Loans		
Personal	741,591	654,862
Business	313,969	261,041
	1,055,560	915,903
Allowance for credit losses	1,604	1,545
	1,053,956	914,358
Investments in the Federation	35,395	40,811
Other assets		
Derivative financial instruments	8,599	8,788
Property, plant and equipment	2,725	3,244
Other	5,065	6,990
	16,389	19,022
TOTAL ASSETS	\$ 1,176,630	\$ 1,040,337
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 248,076	\$ 204,635
Other	417,832	392,950
	665,908	597,585
Borrowings	418,541	357,949
Other liabilities		
Derivative financial instruments	2,689	1,806
Net defined benefit plan liabilities	3,833	4,395
Other	9,140	5,987
	15,662	12,188
TOTAL LIABILITIES	1,100,111	967,722
EQUITY		
Capital stock	2,152	3,515
Distributable surplus earnings	12,071	2,938
Accumulated other comprehensive income	(30)	1,755
Reserves	62,326	64,407
TOTAL EQUITY	76,519	72,615
TOTAL LIABILITIES AND EQUITY	\$ 1,176,630	\$ 1,040,337

⁽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	\$ 32,784	\$ 25,980
INTEREST EXPENSE	15,772	11,377
NET INTEREST INCOME	17,012	14,603
OTHER INCOME	7,657	7,642
PROVISION FOR CREDIT LOSSES	847	678
NON-INTEREST EXPENSES		
Salaries and fringe benefits	5,933	5,664
Assessments paid to Desjardins Group components	2,333	2,191
Computer services	2,568	2,357
Community Development Fund expenses	45	97
Other	6,880	6,731
	17,759	17,040
OPERATING SURPLUS EARNINGS	6,063	4,527
Income on investments in the Federation	3,642	3,368
Income (loss) related to fair value of derivative financial instruments	(1,085)	365
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	8,620	8,260
Income taxes on surplus earnings	1,373	1,180
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	7,247	7,080
Member dividends	1,390	1,157
Tax recovery on member dividends	(371)	(310)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 6,228	\$ 6,233

⁽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	\$ 3,945	\$ 4,636	\$ 1,429	\$ 17,202	\$ 1,196	\$ (2,754)	\$ 38,550	\$ 2,030	\$ 1,137	\$ 198	\$ 57,559	\$ 67,569
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(154)	-	-	-	-	-	-	-	-	-	(154)
Transfer from (allocation to) reserves	-	(4,476)	-	-	-	-	4,426	-	-	50	4,476	-
Net adjustment related to member dividends	-	(6)	-	-	-	-	-	-	-	-	-	(6)
Balance after distribution	3,945	-	1,429	17,202	1,196	(2,754)	42,976	2,030	1,137	248	62,035	67,409
Net surplus earnings for 2017 after member dividends	-	6,233	-	-	-	-	-	-	-	-	-	6,233
Other comprehensive income for the year	-	(950)	326	-	-	-	-	-	-	-	-	(624)
Statutory transfer	-	(2,422)	-	2,626	269	(473)	-	-	-	-	2,422	-
Net amounts used during the year	-	71	-	-	-	-	-	-	-	(71)	(71)	-
Equity transactions related to other investments in the Federation	-	-	-	21	-	-	-	-	-	-	21	21
Redemption of permanent shares	(350)	-	-	-	-	-	-	-	-	-	-	(350)
Other net change in capital stock	(80)	-	-	-	-	-	-	-	-	-	-	(80)
Net adjustment related to member dividends	-	6	-	-	-	-	-	-	-	-	-	6
BALANCE AS AT DECEMBER 31, 2017	\$ 3,515	\$ 2,938	\$ 1,755	\$ 19,849	\$ 1,465	\$ (3,227)	\$ 42,976	\$ 2,030	\$ 1,137	\$ 177	\$ 64,407	\$ 72,615
Impact of changes in accounting methods ⁽¹⁾	-	-	(130)	125	-	-	240	-	-	-	365	235
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 3,515	\$ 2,938	\$ 1,625	\$ 19,974	\$ 1,465	\$ (3,227)	\$ 43,216	\$ 2,030	\$ 1,137	\$ 177	\$ 64,772	\$ 72,850
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(96)	-	-	-	-	-	-	-	-	-	(96)
Transfer from (allocation to) reserves	-	(2,843)	-	-	-	-	2,793	-	-	50	2,843	-
Net adjustment related to member dividends	-	1	-	-	-	-	-	-	-	-	-	1
Balance after distribution	3,515	-	1,625	19,974	1,465	(3,227)	46,009	2,030	1,137	227	67,615	72,755
Net surplus earnings for 2018 after member dividends	-	6,228	-	-	-	-	-	-	-	-	-	6,228
Other comprehensive income for the year	-	523	(1,655)	-	-	-	-	-	-	-	-	(1,132)
Statutory transfer	-	4,159	-	(3,774)	(796)	411	-	-	-	-	(4,159)	-
Net amounts used during the year	-	1,170	-	-	-	-	-	-	(1,137)	(33)	(1,170)	-
Equity transactions related to other investments in the Federation	-	-	-	82	-	-	-	-	-	-	82	82
Redemption of permanent shares	(1,280)	-	-	-	-	-	-	-	-	-	-	(1,280)
Other net change in capital stock	(83)	-	-	-	-	-	-	-	-	-	-	(83)
Interest on permanent and surplus shares	-	(8)	-	-	-	-	-	(42)	-	-	(42)	(50)
Net adjustment related to member dividends	-	(1)	-	-	-	-	-	-	-	-	-	(1)
BALANCE AS AT DECEMBER 31, 2018	\$ 2,152	\$ 12,071	\$ (30)	\$ 16,282	\$ 669	\$ (2,816)	\$ 46,009	\$ 1,988	\$ -	\$ 194	\$ 62,326	\$ 76,519

⁽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 Versants du mont Royal (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.