

2018 Financial Report

Caisse Desjardins de la Rouge

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March 25, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins de la Rouge (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:	314,225,000	\$
Total equity:	35,183,000	\$
Net surplus earnings for the year after member dividends :	2,724,000	\$

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	\$ 3,469	\$ 2,870
Securities		
Investment in liquidity fund under management	16,102	15,372
Term deposits and other	7,043	8,356
	23,145	23,728
Loans		
Personal	239,078	228,965
Business	26,152	23,633
	265,230	252,598
Allowance for credit losses	405	409
	264,825	252,189
Investments in the Federation	15,602	18,278
Other assets		
Derivative financial instruments	4,002	4,506
Property, plant and equipment	1,138	1,260
Other	2,044	2,678
	7,184	8,444
TOTAL ASSETS	\$ 314,225	\$ 305,509
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 132,298	\$ 129,129
Other	137,747	128,519
	270,045	257,648
Borrowings	3,039	8,678
Other liabilities		
Derivative financial instruments	1,312	1,377
Net defined benefit plan liabilities	2,056	1,868
Other	2,590	2,440
	5,958	5,685
TOTAL LIABILITIES	279,042	272,011
EQUITY		
Capital stock	709	967
Distributable surplus earnings	5,099	1,187
Accumulated other comprehensive income	11	891
Reserves	29,364	30,453
TOTAL EQUITY	35,183	33,498
TOTAL LIABILITIES AND EQUITY	\$ 314,225	\$ 305,509

⁽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	\$ 9,207	\$ 8,747
INTEREST EXPENSE	3,011	2,889
NET INTEREST INCOME	6,196	5,858
OTHER INCOME	2,239	2,322
PROVISION FOR CREDIT LOSSES	382	295
NON-INTEREST EXPENSES		
Salaries and fringe benefits	2,695	2,734
Assessments paid to Desjardins Group components	783	810
Computer services	890	853
Community Development Fund expenses	90	68
Other	1,800	1,826
	6,258	6,291
OPERATING SURPLUS EARNINGS	1,795	1,594
Income on investments in the Federation	1,720	1,666
Income (loss) related to fair value of derivative financial instruments	68	(1,466)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	3,583	1,794
Income taxes on surplus earnings	498	(6)
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	3,085	1,800
Member dividends	493	320
Tax recovery on member dividends	(132)	(86)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 2,724	\$ 1,566

⁽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	\$ 1,206	\$ 2,126	\$ 725	\$ 8,653	\$ 731	\$ (1,277)	\$ 17,865	\$ 633	\$ 1,652	\$ 206	\$ 28,463	\$ 32,520
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(50)	-	-	-	-	-	-	-	-	-	(50)
Transfer from (allocation to) reserves	-	(2,072)	-	-	-	-	1,982	-	-	90	2,072	-
Net adjustment related to member dividends	-	(4)	-	-	-	-	-	-	-	-	-	(4)
Balance after distribution	1,206	-	725	8,653	731	(1,277)	19,847	633	1,652	296	30,535	32,466
Net surplus earnings for 2017 after member dividends	-	1,566	-	-	-	-	-	-	-	-	-	1,566
Other comprehensive income for the year	-	(475)	166	-	-	-	-	-	-	-	-	(309)
Statutory transfer	-	42	-	1,298	(1,080)	(260)	-	-	-	-	(42)	-
Net amounts used during the year	-	50	-	-	-	-	-	-	-	(50)	(50)	-
Equity transactions related to other investments in the Federation	-	-	-	10	-	-	-	-	-	-	10	10
Redemption of permanent shares	(218)	-	-	-	-	-	-	-	-	-	-	(218)
Other net change in capital stock	(21)	-	-	-	-	-	-	-	-	-	-	(21)
Net adjustment related to member dividends	-	4	-	-	-	-	-	-	-	-	-	4
BALANCE AS AT DECEMBER 31, 2017	\$ 967	\$ 1,187	\$ 891	\$ 9,961	\$ (349)	\$ (1,537)	\$ 19,847	\$ 633	\$ 1,652	\$ 246	\$ 30,453	\$ 33,498
Impact of changes in accounting methods ⁽¹⁾	-	-	(64)	62	-	-	128	-	-	-	190	126
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 967	\$ 1,187	\$ 827	\$ 10,023	\$ (349)	\$ (1,537)	\$ 19,975	\$ 633	\$ 1,652	\$ 246	\$ 30,643	\$ 33,624
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(26)	-	-	-	-	-	-	-	-	-	(26)
Transfer from (allocation to) reserves	-	(1,159)	-	-	-	-	1,034	-	-	125	1,159	-
Net adjustment related to member dividends	-	(2)	-	-	-	-	-	-	-	-	-	(2)
Balance after distribution	967	-	827	10,023	(349)	(1,537)	21,009	633	1,652	371	31,802	33,596
Net surplus earnings for 2018 after member dividends	-	2,724	-	-	-	-	-	-	-	-	-	2,724
Other comprehensive income for the year	-	(91)	(816)	-	-	-	-	-	-	-	-	(907)
Statutory transfer	-	1,958	-	(1,862)	49	(145)	-	-	-	-	(1,958)	-
Net amounts used during the year	-	506	-	-	-	-	-	-	(439)	(67)	(506)	-
Equity transactions related to other investments in the Federation	-	-	-	41	-	-	-	-	-	-	41	41
Redemption of permanent shares	(259)	-	-	-	-	-	-	-	-	-	-	(259)
Other net change in capital stock	1	-	-	-	-	-	-	-	-	-	-	1
Interest on permanent shares	-	-	-	-	-	-	-	(15)	-	-	(15)	(15)
Net adjustment related to member dividends	-	2	-	-	-	-	-	-	-	-	-	2
BALANCE AS AT DECEMBER 31, 2018	\$ 709	\$ 5,099	\$ 11	\$ 8,202	\$ (300)	\$ (1,682)	\$ 21,009	\$ 618	\$ 1,213	\$ 304	\$ 29,364	\$ 35,183

⁽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 la Rouge (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.