

2018 Financial Report

Caisse Populaire de Saint-Claude

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April 4, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Populaire de Saint-Claude (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:	272,964,000	\$
Total equity:	36,354,000	\$
Net surplus earnings for the year after member dividends :	3,064,000	\$

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	\$ 3,497	\$ 4,061
Securities		
Investment in liquidity fund under management	11,392	10,617
Term deposits and other	9,000	8,000
	20,392	18,617
Loans		
Personal	134,568	117,864
Business	94,005	95,474
	228,573	213,338
Allowance for credit losses	343	258
	228,230	213,080
Investments in the Federation	16,792	19,824
Other assets		
Derivative financial instruments	2,383	2,648
Property, plant and equipment	290	308
Other	1,380	2,154
	4,053	5,110
TOTAL ASSETS	\$ 272,964	\$ 260,692
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 112,546	\$ 114,737
Other	108,826	101,225
	221,372	215,962
Borrowings	10,668	5,438
Other liabilities		
Derivative financial instruments	1,046	1,137
Net defined benefit plan liabilities	1,471	1,357
Other	2,053	2,087
	4,570	4,581
TOTAL LIABILITIES	236,610	225,981
EQUITY		
Capital stock	1,291	1,795
Distributable surplus earnings	-	1,175
Accumulated other comprehensive income	58	1,055
Reserves	35,005	30,686
TOTAL EQUITY	36,354	34,711
TOTAL LIABILITIES AND EQUITY	\$ 272,964	\$ 260,692

⁽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	\$ 7,484	\$ 6,949
INTEREST EXPENSE	2,723	2,480
NET INTEREST INCOME	4,761	4,469
OTHER INCOME	1,436	1,778
PROVISION FOR CREDIT LOSSES	193	10
NON-INTEREST EXPENSES		
Salaries and fringe benefits	1,809	1,849
Assessments paid to Desjardins Group components	646	686
Computer services	608	565
Other	1,248	1,382
	4,311	4,482
OPERATING SURPLUS EARNINGS	1,693	1,755
Income on investments in the Federation	1,906	1,890
Income (loss) related to fair value of derivative financial instruments	168	(584)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	3,767	3,061
Income taxes on surplus earnings	435	256
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	3,332	2,805
Member dividends	366	455
Tax recovery on member dividends	(98)	(122)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 3,064	\$ 2,472

⁽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	\$ 2,303	\$ 1,333	\$ 864	\$ 10,336	\$ 193	\$ (783)	\$ 16,128	\$ 1,018	\$ 1,724	\$ -	\$ 28,616	\$ 33,116
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(94)	-	-	-	-	-	-	-	-	-	(94)
Transfer from (allocation to) reserves	-	(1,235)	-	-	-	-	1,235	-	-	-	1,235	-
Net adjustment related to member dividends	-	(4)	-	-	-	-	-	-	-	-	-	(4)
Balance after distribution	2,303	-	864	10,336	193	(783)	17,363	1,018	1,724	-	29,851	33,018
Net surplus earnings for 2017 after member dividends	-	2,472	-	-	-	-	-	-	-	-	-	2,472
Other comprehensive income for the year	-	(478)	191	-	-	-	-	-	-	-	-	(287)
Statutory transfer	-	(823)	-	1,469	(430)	(216)	-	-	-	-	823	-
Equity transactions related to other investments in the Federation	-	-	-	12	-	-	-	-	-	-	12	12
Redemption of permanent shares	(458)	-	-	-	-	-	-	-	-	-	-	(458)
Other net change in capital stock	(50)	-	-	-	-	-	-	-	-	-	-	(50)
Net adjustment related to member dividends	-	4	-	-	-	-	-	-	-	-	-	4
BALANCE AS AT DECEMBER 31, 2017	\$ 1,795	\$ 1,175	\$ 1,055	\$ 11,817	\$ (237)	\$ (999)	\$ 17,363	\$ 1,018	\$ 1,724	\$ -	\$ 30,686	\$ 34,711
Impact of changes in accounting methods ⁽¹⁾	-	-	(73)	70	-	-	34	-	-	-	104	31
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 1,795	\$ 1,175	\$ 982	\$ 11,887	\$ (237)	\$ (999)	\$ 17,397	\$ 1,018	\$ 1,724	\$ -	\$ 30,790	\$ 34,742
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(54)	-	-	-	-	-	-	-	-	-	(54)
Transfer from (allocation to) reserves	-	(1,117)	-	-	-	-	1,117	-	-	-	1,117	-
Net adjustment related to member dividends	-	(4)	-	-	-	-	-	-	-	-	-	(4)
Balance after distribution	1,795	-	982	11,887	(237)	(999)	18,514	1,018	1,724	-	31,907	34,684
Net surplus earnings for 2018 after member dividends	-	3,064	-	-	-	-	-	-	-	-	-	3,064
Other comprehensive income for the year	-	13	(924)	-	-	-	-	-	-	-	-	(911)
Statutory transfer	-	2,066	-	(2,108)	124	(82)	-	-	-	-	(2,066)	-
Net amounts used during the year	-	295	-	-	-	-	-	-	(295)	-	(295)	-
Transfer from (allocation to) reserves pursuant to a merger agreement	-	(5,440)	-	-	-	-	5,274	-	135	31	5,440	-
Equity transactions related to other investments in the Federation	-	-	-	46	-	-	-	-	-	-	46	46
Redemption of permanent shares	(486)	-	-	-	-	-	-	-	-	-	-	(486)
Other net change in capital stock	(18)	-	-	-	-	-	-	-	-	-	-	(18)
Interest on permanent and surplus shares	-	(2)	-	-	-	-	-	(27)	-	-	(27)	(29)
Net adjustment related to member dividends	-	4	-	-	-	-	-	-	-	-	-	4
BALANCE AS AT DECEMBER 31, 2018	\$ 1,291	\$ -	\$ 58	\$ 9,825	\$ (113)	\$ (1,081)	\$ 23,788	\$ 991	\$ 1,564	\$ 31	\$ 35,005	\$ 36,354

⁽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.

NOTES TO THE FINANCIAL REPORT (unaudited)

NOTE 1 – TYPE OF OPERATIONS AND BASIS OF ACCOUNTING

The Caisse Populaire de Saint-Claude (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.

NOTE 2 – FEDERATION'S OBLIGATION TO HOLDERS OF PERMANENT SHARES

Further to a recommendation issued by the AMF, 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 from their newly formed caisse.

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