

2018 Financial Report

Caisse Desjardins du Lac-Memphrémagog

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March 29, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins du Lac-Memphrémagog (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:	952,389,000	\$
Total equity:	108,890,000	\$
Net surplus earnings for the year after member dividends :	10,248,000	\$

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	\$ 11,624	\$ 11,797
Securities		
Investment in liquidity fund under management	45,510	43,051
Term deposits and other	-	1,839
	45,510	44,890
Loans		
Personal	583,154	552,456
Business	253,942	226,170
	837,096	778,626
Allowance for credit losses	1,265	1,384
	835,831	777,242
Investments in the Federation	43,047	50,462
Other assets		
Derivative financial instruments	7,734	7,898
Property, plant and equipment	3,117	3,165
Other	5,526	7,162
	16,377	18,225
TOTAL ASSETS	\$ 952,389	\$ 902,616
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 281,176	\$ 258,958
Other	426,272	396,516
	707,448	655,474
Borrowings	120,559	130,047
Other liabilities		
Derivative financial instruments	2,968	3,370
Net defined benefit plan liabilities	5,192	5,355
Other	7,332	7,198
	15,492	15,923
TOTAL LIABILITIES	843,499	801,444
EQUITY		
Capital stock	3,731	4,539
Distributable surplus earnings	16,234	4,521
Accumulated other comprehensive income	68	2,507
Reserves	88,857	89,605
TOTAL EQUITY	108,890	101,172
TOTAL LIABILITIES AND EQUITY	\$ 952,389	\$ 902,616

⁽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	\$ 28,080	\$ 24,477
INTEREST EXPENSE	9,405	7,602
NET INTEREST INCOME	18,675	16,875
OTHER INCOME	7,168	7,198
PROVISION FOR CREDIT LOSSES	773	736
NON-INTEREST EXPENSES		
Salaries and fringe benefits	7,118	6,948
Assessments paid to Desjardins Group components	2,276	2,174
Computer services	2,778	2,811
Community Development Fund expenses	440	616
Other	4,400	4,338
	17,012	16,887
OPERATING SURPLUS EARNINGS	8,058	6,450
Income on investments in the Federation	4,759	4,617
Income (loss) related to fair value of derivative financial instruments	809	(3,059)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	13,626	8,008
Income taxes on surplus earnings	2,340	734
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	11,286	7,274
Member dividends	1,416	1,637
Tax recovery on member dividends	(378)	(439)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 10,248	\$ 6,076

⁽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	\$ 5,886	\$ 6,379	\$ 2,045	\$ 24,850	\$ 1,311	\$ (3,361)	\$ 54,717	\$ 3,362	\$ 924	\$ 1,305	\$ 83,108	\$ 97,418
Distribution by members at the 2017 general meeting												
Interest on permanent and surplus shares	-	(247)	-	-	-	-	-	-	-	-	-	(247)
Transfer from (allocation to) reserves	-	(6,141)	-	-	-	-	5,841	-	-	300	6,141	-
Net adjustment related to member dividends	-	9	-	-	-	-	-	-	-	-	-	9
Balance after distribution	5,886	-	2,045	24,850	1,311	(3,361)	60,558	3,362	924	1,605	89,249	97,180
Net surplus earnings for 2017 after member dividends	-	6,076	-	-	-	-	-	-	-	-	-	6,076
Other comprehensive income for the year	-	(1,219)	462	-	-	-	-	-	-	-	-	(757)
Statutory transfer	-	(778)	-	3,596	(2,246)	(572)	-	-	-	-	778	-
Net amounts used during the year	-	451	-	-	-	-	-	-	-	(451)	(451)	-
Equity transactions related to other investments in the Federation	-	-	-	29	-	-	-	-	-	-	29	29
Redemption of permanent shares	(1,252)	-	-	-	-	-	-	-	-	-	-	(1,252)
Other net change in capital stock	(95)	-	-	-	-	-	-	-	-	-	-	(95)
Net adjustment related to member dividends	-	(9)	-	-	-	-	-	-	-	-	-	(9)
BALANCE AS AT DECEMBER 31, 2017	\$ 4,539	\$ 4,521	\$ 2,507	\$ 28,475	\$ (935)	\$ (3,933)	\$ 60,558	\$ 3,362	\$ 924	\$ 1,154	\$ 89,605	\$ 101,172
Impact of changes in accounting methods ⁽¹⁾	-	-	(178)	171	-	-	348	-	-	-	519	341
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 4,539	\$ 4,521	\$ 2,329	\$ 28,646	\$ (935)	\$ (3,933)	\$ 60,906	\$ 3,362	\$ 924	\$ 1,154	\$ 90,124	\$ 101,513
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(131)	-	-	-	-	-	-	-	-	-	(131)
Transfer from (allocation to) reserves	-	(4,388)	-	-	-	-	4,238	-	-	150	4,388	-
Net adjustment related to member dividends	-	(2)	-	-	-	-	-	-	-	-	-	(2)
Balance after distribution	4,539	-	2,329	28,646	(935)	(3,933)	65,144	3,362	924	1,304	94,512	101,380
Net surplus earnings for 2018 after member dividends	-	10,248	-	-	-	-	-	-	-	-	-	10,248
Other comprehensive income for the year	-	296	(2,261)	-	-	-	-	-	-	-	-	(1,965)
Statutory transfer	-	4,446	-	(5,158)	594	118	-	-	-	-	(4,446)	-
Net amounts used during the year	-	1,247	-	-	-	-	-	-	(924)	(323)	(1,247)	-
Equity transactions related to other investments in the Federation	-	-	-	112	-	-	-	-	-	-	112	112
Redemption of permanent shares	(727)	-	-	-	-	-	-	-	-	-	-	(727)
Other net change in capital stock	(81)	-	-	-	-	-	-	-	-	-	-	(81)
Interest on permanent and surplus shares	-	(5)	-	-	-	-	-	(74)	-	-	(74)	(79)
Net adjustment related to member dividends	-	2	-	-	-	-	-	-	-	-	-	2
BALANCE AS AT DECEMBER 31, 2018	\$ 3,731	\$ 16,234	\$ 68	\$ 23,600	\$ (341)	\$ (3,815)	\$ 65,144	\$ 3,288	\$ -	\$ 981	\$ 88,857	\$ 108,890

⁽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 du Lac-Memphrémagog (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.