

2018 Financial Report

Caisse Desjardins de la Pommeraie

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March 26, 2019

Report on the results of applying specified auditing procedures to the financial report of the Caisse Desjardins de la Pommeraie (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:	691,991,000	\$
Total equity:	76,558,000	\$
Net surplus earnings for the year after member dividends :	7,788,000	\$

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	\$ 4,998	\$ 6,980
Securities		
Investment in liquidity fund under management	26,701	26,213
Term deposits and other	10	1,535
	26,711	27,748
Loans		
Personal	362,994	351,056
Business	249,360	234,993
	612,354	586,049
Allowance for credit losses	1,028	1,073
	611,326	584,976
Investments in the Federation	35,286	41,289
Other assets		
Derivative financial instruments	7,727	10,094
Property, plant and equipment	1,667	1,516
Other	4,276	4,786
	13,670	16,396
TOTAL ASSETS	\$ 691,991	\$ 677,389
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits		
Term savings	\$ 242,204	\$ 236,991
Other	247,078	240,006
	489,282	476,997
Borrowings	113,618	116,441
Other liabilities		
Derivative financial instruments	2,370	2,376
Net defined benefit plan liabilities	4,071	3,556
Other	6,092	6,259
	12,533	12,191
TOTAL LIABILITIES	615,433	605,629
EQUITY		
Capital stock	2,266	3,456
Distributable surplus earnings	12,856	3,596
Accumulated other comprehensive income	85	2,065
Reserves	61,351	62,643
TOTAL EQUITY	76,558	71,760
TOTAL LIABILITIES AND EQUITY	\$ 691,991	\$ 677,389

⁽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	\$ 21,103	\$ 18,705
INTEREST EXPENSE	7,789	6,546
NET INTEREST INCOME	13,314	12,159
OTHER INCOME	4,988	4,823
PROVISION FOR CREDIT LOSSES	655	247
NON-INTEREST EXPENSES		
Salaries and fringe benefits	4,947	4,869
Assessments paid to Desjardins Group components	1,721	1,735
Computer services	1,582	1,619
Community Development Fund expenses	147	134
Other	2,889	3,070
	11,286	11,427
OPERATING SURPLUS EARNINGS	6,361	5,308
Income on investments in the Federation	3,845	3,745
Income (loss) related to fair value of derivative financial instruments	46	(2,075)
SURPLUS EARNINGS BEFORE TAXES AND MEMBER DIVIDENDS	10,252	6,978
Income taxes on surplus earnings	1,703	818
SURPLUS EARNINGS BEFORE MEMBER DIVIDENDS	8,549	6,160
Member dividends	1,039	1,009
Tax recovery on member dividends	(278)	(271)
NET SURPLUS EARNINGS FOR THE YEAR AFTER MEMBER DIVIDENDS	\$ 7,788	\$ 5,422

⁽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	\$ 4,382	\$ -	\$ 1,689	\$ 19,708	\$ 1,221	\$ (2,339)	\$ 39,513	\$ 2,296	\$ 663	\$ 530	\$ 61,592	\$ 67,663
Transfer from (allocation to) reserves	-	(1)	-	-	-	-	1	-	-	-	1	-
Net adjustment related to member dividends	-	1	-	-	-	-	-	-	-	-	-	1
Balance after distribution	4,382	-	1,689	19,708	1,221	(2,339)	39,514	2,296	663	530	61,593	67,664
Net surplus earnings for 2017 after member dividends	-	5,422	-	-	-	-	-	-	-	-	-	5,422
Other comprehensive income for the year	-	(799)	376	-	-	-	-	-	-	-	-	(423)
Statutory transfer	-	(1,124)	-	2,920	(1,523)	(273)	-	-	-	-	1,124	-
Net amounts used during the year	-	98	-	-	-	-	-	-	-	(98)	(98)	-
Equity transactions related to other investments in the Federation	-	-	-	24	-	-	-	-	-	-	24	24
Redemption of permanent shares	(858)	-	-	-	-	-	-	-	-	-	-	(858)
Other net change in capital stock	(68)	-	-	-	-	-	-	-	-	-	-	(68)
Net adjustment related to member dividends	-	(1)	-	-	-	-	-	-	-	-	-	(1)
BALANCE AS AT DECEMBER 31, 2017	\$ 3,456	\$ 3,596	\$ 2,065	\$ 22,652	\$ (302)	\$ (2,612)	\$ 39,514	\$ 2,296	\$ 663	\$ 432	\$ 62,643	\$ 71,760
Impact of changes in accounting methods ⁽¹⁾	-	-	(144)	139	-	-	330	-	-	-	469	325
OPENING BALANCE AS AT JANUARY 1, 2018	\$ 3,456	\$ 3,596	\$ 1,921	\$ 22,791	\$ (302)	\$ (2,612)	\$ 39,844	\$ 2,296	\$ 663	\$ 432	\$ 63,112	\$ 72,085
Distribution by members at the 2018 general meeting												
Interest on members' permanent and surplus shares	-	(103)	-	-	-	-	-	-	-	-	-	(103)
Transfer from (allocation to) reserves	-	(3,497)	-	-	-	-	3,097	-	-	400	3,497	-
Net adjustment related to member dividends	-	4	-	-	-	-	-	-	-	-	-	4
Balance after distribution	3,456	-	1,921	22,791	(302)	(2,612)	42,941	2,296	663	832	66,609	71,986
Net surplus earnings for 2018 after member dividends	-	7,788	-	-	-	-	-	-	-	-	-	7,788
Other comprehensive income for the year	-	(223)	(1,836)	-	-	-	-	-	-	-	-	(2,059)
Statutory transfer	-	4,530	-	(4,184)	33	(379)	-	-	-	-	(4,530)	-
Net amounts used during the year	-	771	-	-	-	-	-	-	(663)	(108)	(771)	-
Equity transactions related to other investments in the Federation	-	-	-	91	-	-	-	-	-	-	91	91
Redemption of permanent shares	(1,104)	-	-	-	-	-	-	-	-	-	-	(1,104)
Other net change in capital stock	(86)	-	-	-	-	-	-	-	-	-	-	(86)
Interest on permanent and surplus shares	-	(6)	-	-	-	-	-	(48)	-	-	(48)	(54)
Net adjustment related to member dividends	-	(4)	-	-	-	-	-	-	-	-	-	(4)
BALANCE AS AT DECEMBER 31, 2018	\$ 2,266	\$ 12,856	\$ 85	\$ 18,698	\$ (269)	\$ (2,991)	\$ 42,941	\$ 2,248	\$ -	\$ 724	\$ 61,351	\$ 76,558

⁽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 Pommeraie (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.