Financial Statements

Caisse d’économie Desjardins des employés en Télécommunication

Transit no.: 92239

As at December 31, 2011

Contents

Independent Auditor's Report

Financial Statements

Additional Information – Unaudited

Independent Auditor's Report

To the members of Caisse d'économie Desjardins des employés en Télécommunication,

Report on the financial statements

Pursuant to section 139 of the Act respecting Financial Services Cooperatives (the Act), we have audited the accompanying financial statements of the Caisse d'économie Desjardins des employés en Télécommunication (the "Caisse"), which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of income, of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Caisse as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010, in accordance with IFRS.

Report related to a legal obligation

In accordance with section 159(2) of the Act, we declare that in our opinion, IFRS have been applied in the same manner as during the previous year, which was the subject of restatement upon the adoption of IFRS as explained in Note 2 to the financial statements, "Significant Accounting Policies – Adoption of International Financial Reporting Standards (IFRS)".

Audit Department [1]

[1] Chartered accountant auditor permit No. 13312

Montréal (Québec), April 4, 2012

Desjardins Group Monitoring Office
7400, boulevard les Galeries d'Anjou, bureau 500
Anjou (Québec) H1M 3M2
514 448-6886 – 1 866 448-6886, poste 6001
Télécopieur : 514 448-6885

Caisse d'économie Desjardins des employés en Télécommunication
Statement of Financial Position

(Audited)

(in thousands of Canadian dollars)	Note	December 31, 2011	December 31, 2010 (note 4)	January 1, 2010 (note 4)
Assets				
Cash		$1,550	$2,020	$2,432
Investment in liquidity fund under management and other		4,808	4,758	4,634
		6,358	6,778	7,066
Loans	5			
Personal		131,742	126,277	118,292
Business		7,198	5,593	4,530
		138,940	131,870	122,822
Loan allowance		111	150	147
		138,829	131,720	122,675
Equity investments				
In Desjardins subsidiary companies	6	5,122	4,237	3,371
In the Federation		1,633	270	270
Prepaid expenses		1,701	1,678	1,135
Other assets	7	2,507	2,330	2,675
		10,963	8,515	7,451
Total assets		$156,150	$147,013	$137,192
Liabilities and Equity				
Liabilities				
Deposits				
Term savings		$82,717	$79,932	$75,834
Other		27,765	28,097	27,551
		110,482	108,029	103,385
Borrowings	9	28,781	23,642	20,203
Defined benefit plan liability	11	1,274	1,544	1,588
Other liabilities	10	2,455	2,128	2,180
		32,510	27,314	23,971
Total liabilities		142,992	135,343	127,356
Equity				
Capital stock	13	3,966	3,863	2,539
Distributable surplus earnings		306	21	(1,287)
Accumulated other comprehensive income		300	272	168
Reserves		8,586	7,514	8,416
Total equity		13,158	11,670	9,836
Total liabilities and equity		$156,150	$147,013	$137,192

The accompanying notes are an integral part of the financial statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statement of Income
(Audited)
for the year ended December 31

(in thousands of Canadian dollars)	Note	2011	2010 (note 4)
Interest income		$5,952	$5,532
Interest expense		2,755	2,500
Net interest income		3,197	3,032
Recovery of provision and loan losses	5	(10)	(8)
Net interest income after recovery of provision and loan losses		3,207	3,040
Other income	14	1,351	1,357
Other expenses			
Personnel	11	1,506	1,935
Assessments paid to Desjardins components		498	459
Computer services		469	509
General expenses	15	1,443	1,377
		3,916	4,280
Operating surplus earnings		642	117
Income (losses) related to fair value of derivative instruments		458	(115)
Income related to investments in Desjardins subsidiary companies	6	583	504
Surplus earnings before taxes and member dividends		1,683	506
Income taxes on surplus earnings	12	259	(1)
Surplus earnings before member dividends		1,424	507
Member dividends		-	66
Recovery related to member dividends		-	(13)
Net surplus earnings for the year after member dividends		$1,424	$454

The accompanying notes are an integral part of the financial statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statement of Comprehensive Income
(Audited)
for the year ended December 31

(in thousands of Canadian dollars)	2011	2010 (note 4)
Net surplus earnings for the year after member dividends	$1,424	$454
Other comprehensive income, net of income taxes		
Share of other comprehensive income from Desjardins subsidiary companies	107	114
Reclassification to the statement of income related to share of other comprehensive income from Desjardins subsidiary companies	(76)	(7)
Other	(3)	(3)
Total other comprehensive income	28	104
Comprehensive income for the year	$1,452	$558

The accompanying notes are an integral part of the financial statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statement of Changes in Equity
(Audited)

(in thousands of Canadian dollars)	Capital stock	Distributable surplus earnings	Reserves: Appreciation reserve (investment in Desjardins subsidiary companies)	Appreciation reserve (derivative instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve	Reserve for future member dividends	Total reserves	Accumulated other comprehensive income	Total equity attributable to members
Balance as at December 31, 2010	$3,863	$21	$877	$242	$(1,190)	$7,365	$219	$1	$7,514	$272	$11,670
Distribution by members at the 2011 general meeting											
Interest on permanent shares and surplus shares, net of income taxes	-	(128)	-	-	-	-	-	-	-	-	(128)
Transfer from (allocation to) reserves	-	103	-	-	-	-	(103)	-	(103)	-	-
Balance after distribution	3,863	(4)	877	242	(1,190)	7,365	116	1	7,411	272	11,542
Net surplus earnings for 2011 after member dividends	-	1,424	-	-	-	-	-	-	-	-	1,424
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	28	28
Statutory transfer	-	(1,114)	550	350	214	-	-	-	1,114	-	-
Equity transaction related to Desjardins subsidiary companies	-	-	61	-	-	-	-	-	61	-	61
Net change in capital stock	103	-	-	-	-	-	-	-	-	-	103
Balance as at December 31, 2011	$3,966	$306	$1,488	$592	$(976)	$7,365	$116	$1	$8,586	$300	$13,158

The accompanying notes are an integral part of the financial statements.

Caisse d’économie Desjardins des employés en Télécommunication
Statement of Changes in Equity
(Audited)

(in thousands of Canadian dollars)	Capital stock	Distributable surplus earnings	Reserves							Accumulated other comprehensive income	Total equity attributable to members
			Appreciation reserve (investment in Desjardins subsidiary companies)	Appreciation reserve (derivative instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve	Reserve for future member dividends	Total reserves		
Balance as at January 1, 2010 (Note 4)	$2,539	$(1,287)	$391	$347	$-	$7,365	$259	$54	$8,416	$168	$9,836
Distribution by members at 2010 general meeting											
Interest on permanent shares and surplus shares, net of income taxes	-	(40)	-	-	-	-	-	-	-	-	(40)
Transfer from (allocation to) reserves	-	42	-	-	-	-	(40)	(2)	(42)	-	-
Net adjustment related to member dividends	-	(2)	-	-	-	-	-	-	-	-	(2)
Balance after distribution	2,539	(1,287)	391	347	-	7,365	219	52	8,374	168	9,794
Net surplus earnings for 2010 after member dividends	-	454	-	-	-	-	-	-	-	-	454
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	104	104
Statutory transfer	-	802	493	(105)	(1,190)	-	-	-	(802)	-	-
Net sums used during the year	-	51	-	-	-	-	-	(51)	(51)	-	-
Equity transactions related to Desjardins subsidiary companies	-	-	(7)	-	-	-	-	-	(7)	-	(7)
Net change in capital stock	1,324	-	-	-	-	-	-	-	-	-	1,324
Net adjustment related to member dividends	-	2	-	-	-	-	-	-	-	-	2
Fees for issue of permanent shares, net of income taxes	-	(1)	-	-	-	-	-	-	-	-	(1)
Balance as at December 31, 2010 (Note 4)	$3,863	$21	$877	$242	$(1,190)	$7,365	$219	$1	$7,514	$272	$11,670

The accompanying notes are an integral part of the financial statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statement of Cash Flows

(Audited)
for the year ended December 31

(in thousands of Canadian dollars)	2011	2010 (note 4)
Cash flow provided by (used in) operating activities		
Surplus earnings before income taxes and member dividends	$1,683	$506
Adjustments for:		
Net provision and loan losses	(19)	(8)
Amortization of property, plant and equipment	130	119
Losses on disposal of property, plant and equipment	91	-
Defined benefit plan liability	(270)	(44)
Losses (income) related to recognition of derivative instruments at fair value	(458)	115
Income accounted for using the equity method	(550)	(493)
Change in operating assets and liabilities:		
Net change in loans	(7,090)	(9,037)
Net change in member deposits	2,262	4,161
Other changes	540	(79)
Income taxes on surplus earnings received (paid) during the year	(175)	139
Member dividends paid	(62)	(103)
	(3,918)	(4,724)
Financing activities		
Transactions related to borrowings:		
Net change in line of credit	(4,520)	(5,334)
Change in term loans	9,659	8,773
New issue of permanent shares	95	1,319
Other net change in capital stock	8	4
Remuneration of permanent shares and surplus shares, net of income taxes recovered	(128)	(40)
	5,114	4,722
Investing activities		
Net change in investments accounted for using the equity method	(1,609)	(275)
Net change in investments	(50)	(124)
Acquisition of property, plant and equipment	(7)	(11)
	(1,666)	(410)
Net decrease in cash	(470)	(412)
Cash at beginning of year	2,020	2,432
Cash at end of year	$1,550	$2,020
Other information on cash flow provided by (used in) operating activities		
Interest paid	$2,473	$2,511

The accompanying notes are an integral part of the financial statements.

Dollars amount presented in the Notes to the financial statements are in thousands of Canadian dollars, unless otherwise stated.

Note 1. Applicable Legislation and Operations Carried on by the Caisse

The Caisse is a cooperative whose object is to receive the savings of its members and to invest them profitably, to extend credit and supply 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 listed with the Autorité des marchés financiers (the AMF). It is also a member of Fonds de sécurité Desjardins, whose main object is to establish and administer a security, liquidity or mutual benefit fund for the benefit of the Desjardins caisses in Québec.

The Caisse is a member of the Fédération des caisses Desjardins du Québec, which controls other components that form Desjardins Group.

The head office of the Caisse is located at 340-1050, côte du Beaver Hall, Montréal (Québec).

The Board of Directors of the Caisse decided and approved its financial statements for the year ended December 31, 2011 on April 4, 2012.

Note 2. Significant Accounting Policies

General information

Adoption of International Financial Reporting Standards (IFRS)

Pursuant to the Act, these financial statements have been prepared by the Caisse in accordance with International Financial Reporting Standards ("IFRS") and the accounting requirements of the Autorité des marches financiers (AMF) in Québec, which do not differ from IFRS.

These financial statements are the first financial statements of the Caisse to be prepared under IFRS, in accordance with the decision of the Canadian Accounting Standards Board to require that publicly accountable enterprises apply this new framework to the years that have begun since January 1, 2011. Previously, the Caisse applied Canadian generally accepted accounting principles (GAAP). IFRS were applied retrospectively, with the exception of certain optional exemptions and mandatory exceptions under IFRS 1, "First-Time Adoption of International Financial Reporting Standards". The effects of this change of accounting framework on the Caisse's income and financial position, and the methods used to calculate them, are presented in Note 4.

Statement of compliance

The financial statements of the Caisse have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB).

Scope of the Caisse

The Caisse participates in a Business Centre and an Administrative Centre which is defined as a contractual agreement between caisses with the aim of sharing certain activities such as managing business loans and administrative activities. Under the agreement, major decisions require the consent of the member caisses based on a double majority.

Note 2. Significant Accounting Policies (cont.)

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that are described in the following significant accounting policies with respect to fair value measurement of financial instruments, allowance for credit losses, objective evidence of impairment of available-for-sale securities, member dividends, provisions for litigation and other, impairment of non-financial assets, income taxes on surplus earnings and employee benefits. These estimates are revised periodically and adjustments will be made as needed to profit or loss for the year in which they become known.

Financial assets and liabilities

Financial assets mainly consist of securities, investments, loans and derivative financial instruments, whereas financial liabilities mainly include deposits, borrowings and derivative financial instruments.

Financial assets and liabilities are recognized on the date the Caisse becomes a party to their contractual provisions.

Classification and measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. Initial recognition refers to when the financial assets and liabilities are recorded in the Caisse's books for the first time. Subsequent recognition is the accounting treatment implemented during subsequent periods during which these assets and liabilities appear on the statement of financial position.

The classification of the financial assets held by the Caisse can be summarized as follows:

	Recognition	
Classes	Initial	Subsequent
Financial assets held for trading(i)	Fair value	Fair value
Loans and receivables(ii)	Fair value	Amortized cost
Financial assets available for sale(iii)	Fair value	Fair value

(i) Financial assets classified as "Held for trading" consist only of derivative financial instruments.

(ii) Securities classified in the "Loans and receivables" category are measured at amortized cost using the effective interest method. Income recognized on these assets is presented under "Interest income" in the statement of income. Financial assets classified in this category include:

- cash;
- investments;
- loans.

(iii) The "Financial assets available for sale" category is composed of the liquidity fund investment under management. This investment is recognized at fair value, which corresponds to cost, taking into account the specific conditions of the instrument.

Note 2. Significant Accounting Policies (cont.)

The classification of financial liabilities can be summarized as follows:

Classes	Recognition Initial	Recognition Subsequent
Financial liabilities held for trading(iv)	Fair value	Fair value
Financial liabilities at amortized cost(v)	Fair value	At amortized cost

(iv) Financial liabilities classified as "Held for trading" consist only of derivative financial instruments.

(v) Financial liabilities in the "At amortized cost" category are measured at amortized cost using the effective interest method. Interest expense on these liabilities is recognized in "Interest expense" in the statement of income. Financial liabilities classified in this category include:

- deposits;
- borrowings.

Fair value measurement of financial instruments

The fair value of financial instruments is determined using present value or other valuation methods, which are influenced by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk, including liquidity risk, credit risk, interest rates, exchange rates and price and rate volatility. Given the role that judgment plays in applying many of the acceptable estimation and valuation techniques for calculating fair values, they are not identical. Fair value reflects market conditions on a given date and for this reason cannot be representative of future fair values. It also cannot be considered as being realizable in the event of immediate settlement of these instruments.

Loans

Changes in interest rates and in the creditworthiness of borrowers are the main causes of changes in the fair value of loans held by the Caisse, which result in a favourable or unfavourable difference compared to their carrying amount. The fair value of loans is estimated by discounting expected cash flows using market interest rates charged for similar new loans at the reporting date. The fair value of impaired loans is assumed to be equal to their carrying amount, in accordance with the valuation methods described below under "Loans".

Deposits and borrowings

The fair value of deposits and borrowings with floating rate features or with no stated maturity is assumed to be equal to their carrying amounts.

The fair value of fixed rate deposits and borrowings is determined by discounting expected cash flows using market interest rates currently being offered for deposits and borrowings with relatively the same term.

Note 2. Significant Accounting Policies (cont.)

Derivative financial instruments

The nature of the derivative financial instruments held by the Caisse is presented in this note under "Derivative financial instruments". The fair value of derivative financial instruments is determined using pricing models that incorporate the current market prices and the contractual prices of the underlying instruments, the time value of money and volatility factors.

Transaction costs

Transaction costs for financial instruments are capitalized and then amortized over the life of the instrument using the effective interest method, using the effective interest method, except if such instruments are classified or designated as part of the "Financial assets held for trading" category, in which case these costs are expensed as incurred.

Cash

The "Cash" item includes cash and other sums used in current operations. These financial instruments are classified as "Loans and receivables".

Investments

Investments may include the investment in the liquidity fund under management, term deposits and other investments. So that the Caisse can manage liquidity risk, it keeps the amounts necessary to maintain a minimum level of liquidity in a fund under management designed specifically for this purpose. The amounts paid into this fund are excluded from cash because regulations do not permit them to be used for current operations. The investment in the liquidity fund is therefore classified as "Financial assets available for sale". Term and other deposits are classified as "Loans and receivables".

Loans

Loans are recorded at amortized cost using the effective interest method, net of the loan allowance.

The fees collected and the direct costs related to the origination, restructuring, and renegotiation of loans are treated as being integral to the yield of the loan, unless the terms and conditions were changed in such a way that the transaction is treated as the granting of a new loan, in which case fees and direct costs are recorded in profit or loss for the year.

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the financial asset and substantially all risks and rewards of ownership of the asset are transferred to a third party.

When the cash flows from a financial asset have been transferred but the Caisse has retained substantially all the risks and rewards of ownership of the financial asset, it recognizes a separate asset and a separate liability representing the rights and obligations created or retained in the asset transfer. If control of the financial asset is retained, the Caisse continues to recognize the asset in the statement of financial position to the extent of its continuing involvement in this asset.

When a financial asset is derecognized in full, a gain or a loss is recognized in the statement of income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Note 2. Significant Accounting Policies (cont.)

Equity investment in Desjardins subsidiary companies

The Caisse holds securities in a number of Investment Funds issued by the Federation which entitle the Caisse to the return from the Desjardins subsidiary companies. Since the Caisse is able to exercise significant influence over these subsidiary companies, the investments are accounted for using the equity method. The income from these investments is presented separately in the statement of income under "Income (loss) related to investments in Desjardins subsidiary companies".

Equity investment in the Federation

The Caisse has shares of capital stock, Series A, B, C and D capital shares and PL and PL2 investment shares issued by the Federation. The investments in these shares are accounted for at fair value, which corresponds to cost, given the specific characteristics of this investment. Interest income from these investments is recorded at the time entitlement is established by the Federation. This income is presented in the statement of income under "Income (losses) related to investments in Desjardins subsidiary companies".

Impairment of financial assets

At the reporting date, the Caisse assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Allowance for credit losses

Evidence of depreciation results from a loss event that occurred after the loan was granted but before the reporting date and that has an impact on the estimated future cash flows of loans. The impairment of a loan or a group of loans is determined by discounting future expected cash flows at the interest rate inherent to the financial asset. The allowance is equal to the difference between this value and the carrying amount. This allowance is presented in deduction of loans under "Loan allowance". To determine the estimated recoverable amount of a loan, Desjardins Group discounts the estimated future cash flows at the effective interest rate inherent to the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using either the fair value of any security underlying the loan, net of expected costs of realization.

The allowance resulting from this impairment is established using two components: individual allowances and collective allowance.

Individual allowances

The Caisse reviews its loan portfolios on a loan-by-loan basis to assess credit risk and determine if there is any objective evidence of impairment for which a loss should be recognized in the statement of income.

There is objective evidence of impairment when one of the following conditions is met:

- There is reason to believe that a portion of the principal or interest cannot be collected.
- The interest or principal repayment is contractually 90 days or more past due, unless the loan is fully secured and in the process of collection.
- The interest or principal is more than 180 days in arrears.

When a loan is impaired, the interest previously accrued but not collected is capitalized to the loan. Payments received subsequently are recorded as a deduction of the principal. A loan ceases to be considered impaired when principal and interest payments are up to date and there is no doubt as to the collection of the loan, or when it is restructured, in which case it is treated as a new loan, and there is no doubt as to the collection of the principal and interest.

Note 2. Significant Accounting Policies (cont.)

A loan is written off when all attempts at restructuring or collection have been made and the likelihood of future recovery is remote. When a loan is written off completely, any subsequent payments are recorded under "Expense related to provision and loan losses" in the statement of income.

Changes in the individual allowance for credit losses due to the passage of time are recognized under "Interest income", while those that are due to a revision of expected receipts are recognized under "Expense related to provision and loan losses" in the statement of income.

Collective allowance

Loan portfolios for which an individual allowance has not been established are included in groups of financial assets having similar credit characteristics and are subject to a collective allowance.

The method used by the Caisse to determine the collective allowance takes into account the risk parameters of the various loan portfolios, in particular through the integration of sophisticated credit risk models. These collective allowance impairment models take into account certain factors such as probabilities of default (loss frequency), loss given default (extent of losses) and gross exposures at default. These parameters, which are based on historical losses, are determined according to the category and the risk rating of each loan. The measurement of the collective allowance also depends on management's assessment of current credit quality trends with respect to business sectors, the impact of changes to its credit policies and economic conditions.

Finally, the allowance related to off-balance sheet exposures, such as letters of guarantee and certain unrecognized credit commitments, is recognized under "Other liabilities" in the statement of financial position and "General expenses – Other" in the statement of income.

Transferred loans retained as assets

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act Mortgage-Backed Securities Program. Under this program, the Caisse transferred CMHC-guaranteed mortgage loans to a Desjardins subsidiary company. In addition, under this same program, the Caisse transferred a mortgage loan securitization interest to the same counterparty. Then, once the loans covered by the securitization interests are converted into pools of loans by the subsidiary, the loans in the pool are transferred from the Caisse to the CMHC. However, as part of these transactions, the Caisse retains substantially all the risks and rewards related to the mortgage loan securitization interests and the loans concerned, in particular interest rate risk, prepayment risk and counterparty risk. Consequently, the loans continue to be recognized on the Caisse's statement of financial position. Furthermore, the Caisse in certain cases recognizes a liability equal to the consideration received from the purchaser when liquidity or other assets have been received in consideration of the transferred assets.

Note 2. Significant Accounting Policies (cont.)

In addition, the Caisse transferred to this Desjardins subsidiary company residential mortgage loans insured by the CMHC under a program for the issuance of covered bonds. The mortgage loans are then transferred to a consolidated special purpose entity by this Desjardins subsidiary company. As part of these transactions, the Caisse retains substantially all the risks and rewards related to the loans concerned, in particular prepayment risk and counterparty risk. Consequently, the loans continue to be recognized on the Caisse's statement of financial position. The Caisse furthermore undertook to make its mortgage loans available to the Desjardins subsidiary company, to a maximum of the eligible loans for the covered bond programs.

Property, plant and equipment

Property, plant and equipment may include land, buildings, equipment, furniture and other as well as leasehold improvements. These assets are recognized at cost less any accumulated depreciation and any impairment losses, and are depreciated based on the expected useful life of each of their significant parts, using the straight-line method. With respect to buildings, these parts are structure and foundation, building envelope and technical installations as well as interior layout.

When an item of property, plant and equipment is made up of several parts that may be replaced at regular intervals, having different uses or providing economic benefits according to different patterns, each part is recognized separately and is depreciated using its own depreciation rate. The component approach has therefore been chosen for property, plant and equipment.

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs to sell. Since the useful life of property, plant and equipment is generally equal to their expected useful life, no residual value is taken into consideration.

Depreciation expense is recognized under "Other expenses" in the statement of income.

Property, plant and equipment are depreciated using the following depreciation rates.

	Depreciation rates
Equipment, furniture and other	3 to 20 years
Leasehold improvements	10 to 16 years

Impairment of non-financial assets

The Caisse assesses at the reporting date whether there is an indication that an asset may be impaired. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use, which corresponds to the present value of the recoverable future cash flows. Any impairment loss recognized in the statement of income represents the excess of the carrying amount of the asset over the recoverable amount. Impairment losses on that asset may be subsequently reversed and are recognized in the statement of income in the year in which they occur.

Estimating the recoverable amount of a non-financial asset to determine if it is impaired requires also that management make estimates and assumptions, and any change in these estimates and assumptions could impact the determination of the recoverable amount of non-financial assets and, therefore, the outcome of the impairment test.

Note 2. Significant Accounting Policies (cont.)

Deposits

Deposits are financial liabilities classified in the category "Financial liabilities at amortized cost". Interest expense calculated based on the effective interest is recognized in profit or loss for the year under "Interest expense".

Borrowings

Borrowings are classified as "Financial liabilities at amortized cost". Interest expense calculated based on the effective interest is recognized in profit or loss for the year under "Interest expense".

Provision for litigation

Provisions are recorded when the Caisse has an obligation (legal or constructive) as a result of past events which are likely to be settled through a disbursement made by the Caisse and this amount can be reliably estimated. These provisions are reviewed on a regular basis and adjustments are made to reflect management's best estimate. The amount of the expected disbursement is discounted if the effect of the time value of money is significant.

Derivative financial instruments

Derivative financial instruments are financial contracts whose value depends on assets, interest rates, foreign exchange rates and other financial indexes. Derivative financial instruments are negotiated by private agreement between the Caisse and the counterparty and include interest rate swaps, total return swaps and stock index options.

The Caisse essentially uses derivative financial instruments for asset/liability management purposes. These instruments enable it to transfer, modify or reduce actual or expected risks related to market risk.

Derivative financial instruments are mainly used to manage the interest rate risk exposure of the assets and liabilities recorded on the statement of financial position, firm commitments and forecasted transactions.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

The foreign exchange contracts to which the Caisse is a party are forward exchange contracts. Forward exchange contracts are commitments to exchange, at a future date, two currencies based on a rate agreed upon by both parties at the inception of the contract.

These derivative financial instruments are recognized at fair value in the statement of financial position, and any changes in their fair value are recognized under "Income (losses) related to fair value of derivative instruments" in the statement of income.

Distributable surplus earnings

Distribution comes under the jurisdiction of the general meeting. However, according to the standards of the Federation, distributable surplus earnings must be applied first for the purpose of ensuring the payment of interest on the permanent shares, as well as for the purpose of establishing or maintaining the required level of capitalization through transfers to the stabilization reserve and the general reserve.

Note 2. Significant Accounting Policies (cont.)

Reserves

The appreciation reserve consists of the following three components:

- The "Appreciation reserve – investments in Desjardins subsidiary companies" is composed of uncollected income generated by shares of Desjardins subsidiary companies recognized under the equity method.
- The "Appreciation reserve – derivative instruments" comprises capital gains and losses as a result of the net fair value of derivative instruments.
- The "Appreciation reserve – employee benefit plans" includes the Caisse's share of the actuarial deficit of the common pension and group insurance plans.

The general reserve is made up of amounts appropriated by the Caisse, according to the conditions stipulated in the standards. This reserve can be used only to eliminate a deficit and cannot be divided amongst members or used to pay a member dividend.

The stabilization reserve consists of amounts appropriated by the Caisse. Amounts appropriated to the stabilization reserve are essentially used for the payment of interest on permanent shares when the surplus earnings of the Caisse are not sufficient.

The reserve for future member dividends is made up of amounts appropriated by the Caisse. This reserve allows it to manage over time the impact of changes in annual surplus earnings on the payment of member dividends.

The community development fund is a reserve that includes the amounts allocated by the general meeting. The amounts recorded in these accounts are to be used to assist in community development, according to the conditions stipulated in the Caisse's standards.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Caisse and that they can be measured reliably. In addition to the items mentioned in "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenues can be recognized.

Net interest income

Interest income and expense are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period to obtain the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Caisse estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes transaction costs and income between parties to the contract as well as premiums or discounts. Transaction costs and income that form an integral part of the effective rate of the contract, such as file set-up fees and business getter commissions, are assimilated to supplemental interest.

Note 2. Significant Accounting Policies (cont.)

Other income

The Caisse collects income from deposit administration, administration of other services and distribution of Desjardins products and services.

Income accrued from deposit administration consists mainly of service charges and charges related to payment orders issued without sufficient funds, while income accrued from the administration of other services is made up of charges relating to collections made on behalf of various organizations, and of income accrued from intercaisse transactions. This income is recognized at the time the transaction is performed based on the agreement in effect with the member.

Income accrued from the distribution of Desjardins products and services comprises fees for the financial activities carried on by Desjardins subsidiary companies through the Caisse. This income is recognized at the time the service is rendered, based on the agreements in effect with the various Desjardins subsidiary companies.

Foreign currency translation

The financial statements are presented in Canadian dollars, the functional currency and presentation currency of the Caisse.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical rates. Income and expenses are translated at the average exchange rate for the period. Realized and unrealized gains and losses resulting from the translation are recognized in the statement of income under "Other income".

Leases

Leases in which the lessor retains substantially all the risks and rewards inherent to the leased asset are known as operating leases.

Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease period.

Lease income from operating leases is recognized in income on a straight-line basis over the lease period.

Leases in which the lessor transfers to the lessee substantially all the risks and rewards inherent to the asset are known as finance leases. An asset and a liability of an equivalent amount are recognized at the lesser of the fair value of the asset acquired or the present value of minimum lease payments.

The asset is presented on the statement of financial position under "Other assets". Depreciation expense is recognized in profit or loss on a straight-line basis over the lease period. The corresponding liability is presented in the statement of financial position under "Other liabilities". Interest expense is recognized in profit or loss under "General expenses" based on the lease's effective interest rate.

Note 2. Significant Accounting Policies (cont.)

Income taxes on surplus earnings

The calculation of income taxes on surplus earnings is based on the expected tax treatment of the transactions recorded in the statement of income, the statement of comprehensive income and the statement of changes in equity. To determine the current and deferred portions of income taxes on surplus earnings, assumptions must be made concerning the dates on which deferred income tax assets and liabilities will be reversed. If the Caisse's interpretation differs from that of the taxation authorities or if the reversal dates do not correspond with the forecasted dates, the provision for income taxes on surplus earnings may increase or decrease in subsequent years.

Current income taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Tax rates and tax laws applied to determine these amounts are those that have been enacted or substantively enacted at the reporting date.

Deferred income taxes

Deferred taxes are recognized, using the liability method, for all temporary differences existing at the reporting date between the tax basis of assets and liabilities and their carrying amount in the statement of financial position.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Member dividends

The Board of Directors of the Caisse recommends for approval the surplus earnings distribution plan at the annual general meeting, which is held within four months following the reporting date. The amount of member dividends to be paid is part of this plan. The amount of the provision is estimated based on, among other things, the surplus earnings recorded for the year taking the standards into consideration. The difference between the amounts of member dividends actually paid, in cash or in shares, following the general meeting held by the Caisse, and the estimated amount of the provision is charged to profit or loss for the period in which the payments are made.

The allocation basis of member dividends depends on the interest recorded on loans and deposits, the average outstanding amount of Desjardins investment funds, guaranteed market-linked investments, AccordD loans obtained by the member through the caisse, and the various service charges collected from the member depending on the services used. The surplus earnings distribution plan takes into account a program under which members may elect to receive their dividends in the form of shares; these dividends are then increased compared to those paid in cash.

Employee benefits

Short-term benefits

Short-term benefits are benefits payable within twelve months after the reporting date, other than termination benefits, such as salaries, social security contributions and certain bonuses. An expense is recorded for these short-term benefits in the period during which the services giving entitlement to them were rendered.

Note 2. Significant Accounting Policies (cont.)

Post-employment benefits

Pension plans

The Caisse offers its personnel a pension plan as well as a supplemental pension plan, which provides pension benefits in excess of statutory limits, through the group plans in which all employers of Desjardins Group may participate. These group plans represent defined benefit pension plans of which the risks are shared by the Desjardins Group participating entities. These plans represent a related party for the Caisse. The main Desjardins pension plan is funded by contributions from both employees and employers, which are determined based on the financial position and the funding policy of the plan. The contributions needed to fund benefits are collected based on the pensionable salaries of the Caisse as a percentage of total pensionable salaries for Desjardins Group as a whole. The supplemental pension plan is unfunded.

The Caisse also provides additional defined benefit pension plans to certain active and retired management employees. These plans provide pension benefits in excess of statutory limits and are not funded.

Defined benefit pension plans are plans in which the Caisse participates and for which it has formally committed to a level of benefits and therefore assumes actuarial risk and, for funded plans, investment risk. Benefits are calculated on the basis of the number of years of membership in the pension plans and take into consideration the average salary of the employee's five most highly-paid years. Since the terms of the plan are such that future changes in salary levels will have an impact on the amount of future benefits, the cost of the benefits and the fair value of the defined benefit plan obligation are actuarially determined using the projected unit credit method and management's best estimate assumptions concerning the expected rate of return of the plans' investments, the obligation discount rate, and also, but to a lesser extent, salary increases, the retirement age of employees, the mortality rate and the rate of increase in pension benefits. A complete actuarial valuation is performed each year by a qualified actuary.

Actuarial gains (actuarial losses) result from the difference between the actual return on plan assets and the expected return for funded plans, the changes made to the actuarial assumptions used to determine the defined benefit plan obligation and the experience gains or losses on this obligation. Any net actuarial gain or loss exceeding 10% of the greater of the value of the defined benefit plan obligation and the fair value of plan assets at the end of the previous year is amortized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, vested past service cost is recognized in profit or loss immediately.

The defined benefit asset or liability corresponds to the present value of the defined benefit obligation minus past service cost not yet recognized, the fair value of pension plan assets and unamortized actuarial losses, plus unamortized actuarial gains. The value of any asset is limited to the total of any actuarial losses, unrecognized past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the pension plans.

The defined benefit pension plan liability is recognized under "Defined benefit plan liability" in the statement of financial position.

Note 2. Significant Accounting Policies (cont.)

The Caisse's share in the cost recognized and the liability for the defined benefit group pension plan is determined based on the pensionable salaries of the Caisse as a percentage of the total pensionable salaries for Desjardins Group as a whole.

Other plans

The Caisse also offers medical, dental and life insurance coverage to retiring employees and their dependents. The Desjardins defined benefit group plan is the main plan in which the Caisse participates. The terms of these plans are such that future changes in salary levels or health costs will have an impact on the amount of future benefits. The cost of these benefits is accrued over the service life of employees according to accounting policies similar to those used for defined benefit pension plans, and the increase in costs will have an impact on future benefits. The Caisse's share in the costs of these group plans of Desjardins Group is determined based on the number of employees of the Caisse as a percentage of the total number of employees of Desjardins Group as a whole.

Plan liabilities are recognized under "Defined benefit plan liability" in the statement of financial position.

Note 3. Future Accounting Changes

IFRS 7, "Financial Instruments: Disclosures"

The IASB issued IFRS 7, "Financial Instruments: Disclosures" in October 2010 and amended it in December 2011. The amendments have to do with disclosure requirements and have no impact on the profit or loss and financial position of the Caisse.

Transfers of financial assets

The amendments expand the disclosure requirements for transfers of financial assets that result in derecognition. They provide greater transparency around risk exposures relating to transfers of financial assets that are not derecognized in their entirety or are derecognized in their entirety, but with which the entity continues to have some continuing involvement, as well as about the effect of those risks on the entity's financial position. The Caisse will have to apply these amendments prospectively for the year beginning January 1, 2012.

Offsetting of financial assets and liabilities

The amendments improve the disclosure requirements with respect to offsetting of financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how an entity manages the credit risk associated with such agreements. The Caisse will have to apply these amendments retrospectively for the year beginning January 1, 2013.

IFRS 9, "Financial Instruments – Phase 1"

The IASB issued in November 2009 and amended in October 2010 the first phase of a project that will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). This standard defines a new way to classify and measure financial assets and liabilities. Financial assets will be classified in three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the entity's business model to manage its financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities will be classified in the same categories as those defined in IAS 39, but measurement of financial liabilities under the fair value option has been modified.

Note 3. Future Accounting Changes (cont.)

Impairment of financial asset methodology, offsetting of financial assets and liabilities, and hedge accounting will be covered in future phases that will complete IFRS 9.

The Caisse is currently assessing the impact of adopting IFRS 9. Since the impact of the adoption depends on the financial instruments held by the Caisse on the date of adoption, we cannot quantify it. The application of all phases of the standard is expected for the years beginning on or after January 1, 2015 on a prospective basis. Upon adoption, additional disclosures will have to be provided on the transition from IAS 39 to IFRS 9 to help users of financial statements understand the impact of the first-time adoption of IFRS 9 on the classification and measurement of financial instruments.

IFRS 10, "Consolidated Financial Statements"

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements" which defines the principle of control and establishes that control serves as the basis to determine which entities are included in the scope of consolidation. This new standard replaces the requirements on consolidated financial statements included in IAS 27, "Consolidated and Separate Financial Statements" and SIC 12, "Consolidation – Special Purpose Entities".

The Caisse is currently assessing the impact of the adoption of this new standard, which applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 11, "Joint Arrangements"

In May 2011, the IASB issued IFRS 11, "Joint Arrangements" which supersedes IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". This standard establishes principles for the recognition of two types of joint arrangement, namely a joint operation and a joint venture, and eliminates the option of recognizing joint ventures using the proportionate consolidation method.

The adoption of this new standard will have no impact on the Caisse, since under the Caisse's accounting policies, interests in joint ventures are already recognized using the equity method. The new standard applies retrospectively to annual periods beginning on or after January 1, 2013.

IFRS 12, "Disclosure of Interests in Other Entities"

In May 2011, the IASB issued IFRS 12 "Disclosure of Interests in Other Entities" which expands disclosure requirements for interests held by an entity in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Some of the disclosures were already required by the current standards, while others are new, such as the significant judgments and assumptions the entity has made in determining the nature of its interests in another entity as well as the nature of, and risks associated with, its interests in other entities.

The Caisse is currently assessing the impact of the adoption of this new standard applicable retrospectively to annual periods beginning on or after January 1, 2013.

Note 3. Future Accounting Changes (cont.)

IFRS 13, "Fair Value Measurements"

In May 2011, the IASB issued IFRS 13, "Fair Value Measurements", which defines fair value, sets out a specific framework for measuring fair value applying to all transactions and balances for which IFRS require or permit fair value measurement and prescribes disclosure requirements for fair value measurements. This will eliminate inconsistencies between the definitions of fair value appearing in the various existing standards. In addition, it carries forward disclosure requirements concerning the fair value of financial instruments and expands their scope to all items measured at fair value.

The Caisse is currently assessing the impact of the adoption of this new standard applicable prospectively to annual periods beginning on or after January 1, 2013.

IAS 1, "Presentation of Financial Statements"

In June 2011, the IASB issued amendment to IAS 1, "Presentation of Financial Statements" which improve the presentation of items of other comprehensive income. The amendments require the presentation by nature of items of other comprehensive income by distinguishing those that will be reclassified to the statement of income in a subsequent period from those that will not.

The Caisse is currently assessing the impact of the adoption of this new standard. Since the effective date of the standard is July 1, 2012, the Caisse will apply these amendments retrospectively to the year beginning on January 1, 2013.

IAS 19, "Employee Benefits"

In June 2011, the IASB issued an amended version of IAS 19, "Employee Benefits" which requires that the funding status of a defined benefit plan be entirely reflected in the statement of financial position. This change therefore eliminates the option to defer the recognition of actuarial gains and losses, known as the "corridor approach". The presentation and recognition of changes in the defined benefit plan obligation and plan assets will be modified, and disclosures about the characteristics of defined benefit plans and the risks to which an entity is exposed through its participation in such plans will be enhanced.

The Caisse is currently assessing the impact of the adoption of this new standard. It will have to apply retrospectively the amended version of IAS 19 to the year beginning January 1, 2013.

IAS 32, "Financial Instruments – Presentation"

In December 2011, the IASB issued amendments to IAS 32, "Financial Instruments – Presentation" to clarify the criteria for offsetting a financial asset and a financial liability.

The Caisse will have to apply these amendments retrospectively for the year beginning on January 1, 2014.

Note 4. Impact of IFRS Adoption

These financial statements are the first financial statements of the Caisse prepared in accordance with IFRS. Previously, the Caisse issued its financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

The financial statements of the Caisse were prepared under the IFRS in effect on or after January 1, 2011, as described in Note 2. When preparing these financial statements, the Caisse prepared a statement of financial position as at January 1, 2010, the date of its transition to IFRS. This note illustrates the primary adjustments made by the Caisse to restate its statement of financial position under GAAP as at January 1, 2010 and as at December 31, 2010, and its statement of income and statement of comprehensive income for the year ended December 31, 2010.

The effects of this change of accounting framework and the methods used to calculate them are presented on the following pages.

Note 4. Impact of IFRS Adoption (cont.)

IFRS impact on the statement of financial position

Items according to IFRS

(in thousands of Canadian dollars)	Note	As at January 1, 2010 Amount according to Canadian GAAP	As at January 1, 2010 Impact of transition to IFRS	As at January 1, 2010 Amount according to IFRS	As at December 31, 2010 Amount according to Canadian GAAP	As at December 31, 2010 Impact of transition to IFRS	As at December 31, 2010 Amount according to IFRS
ASSETS							
Cash		$2,432	$-	$2,432	$2,020	$-	$2,020
Investment in liquidity fund under management and other		4,634	-	4,634	4,758	-	4,758
		7,066	-	7,066	6,778	-	6,778
Loans	4 b)						
Personal		118,292	-	118,292	125,725	552	126,277
Business		4,530	-	4,530	5,593	-	5,593
		122,822	-	122,822	131,318	552	131,870
Loan allowance		147	-	147	150	-	150
		122,675	-	122,675	131,168	552	131,720
Equity investments							
In Desjardins subsidiary companies and other	4 a)	3,747	(376)	3,371	4,651	(414)	4,237
In the Federation		270	-	270	270	-	270
Prepaid expenses		1,135	-	1,135	1,678	-	1,678
Other assets		2,648	27	2,675	2,299	31	2,330
		7,800	(349)	7,451	8,898	(383)	8,515
Total assets		$137,541	$(349)	$137,192	$146,844	$169	$147,013
LIABILITIES AND EQUITY							
LIABILITIES							
Deposits							
Term savings		$75,834	$-	$75,834	$79,932	$-	$79,932
Other		27,551	-	27,551	28,097	-	28,097
		103,385	-	103,385	108,029	-	108,029
Borrowings	4 b)	20,203	-	20,203	23,090	552	23,642
Defined benefit plan liability	4 c)	-	1,588	1,588	-	1,544	1,544
Other liabilities		2,454	(274)	2,180	2,450	(322)	2,128
		22,657	1,314	23,971	25,540	1,774	27,314
Total liabilities		126,042	1,314	127,356	133,569	1,774	135,343
EQUITY							
Capital stock		2,539	-	2,539	3,863	-	3,863
Distributable surplus earnings	4 b)	-	(1,287)	(1,287)	22	(1)	21
Accumulated other comprehensive income	4 a)	56	112	168	171	101	272
Reserves	4 a)c)	8,904	(488)	8,416	9,219	(1,705)	7,514
Total equity		11,499	(1,663)	9,836	13,275	(1,605)	11,670
Total liabilities and equity		$137,541	$(349)	$137,192	$146,844	$169	$147,013

Note 4. Impact of IFRS Adoption (cont.)

IFRS impact on the statement of comprehensive income

For the year ended	Note	December 31, 2010
Comprehensive income - Canadian GAAP		$489
Increase (decrease) in surplus earnings after member dividends		
Defined benefit plan	4 c)	45
Income (losses) related to investments in Desjardins subsidiary companies	4 a)	(17)
Other	4 d)e)	52
		80
Increase (decrease) in other comprehensive income		
Share of other comprehensive income of Desjardins subsidiary companies for which the Caisse records its interest using the equity method	4 a)	(11)
Comprehensive income – IFRS		$558

Nature of primary restatements

The nature of the primary restatements in the statement of financial position, the statement of income and the statement of comprehensive income as a result of the IFRS changeover and the related amounts were as follows as at January 1, 2010 and December 31, 2010:

a) Income (losses) related to investments in Desjardins subsidiary companies

The Caisse recognizes its investments in the Investment Funds of Desjardins subsidiary companies using the equity method. Consequently, the Caisse must record its share in the adjustments made by Desjardins subsidiary companies following the adoption of IFRS.

As a result, the item "Investment in Desjardins subsidiary companies" was reduced by $376 as at January 1, 2010 and $414 as at December 31, 2010. An adjustment of $17 was recorded in the statement of income and of $11 in the statement of comprehensive income. The total adjustment of $488 as at January 1, 2010 and of $515 as at December 31, 2010 was recognized in the item "Appreciation reserve – Investment in Desjardins subsidiary companies".

b) Financial instruments

Securitization of mortgage loans

As part of its liquidity and capital management strategy, Desjardins Group participates in the National Housing Act Mortgage-Backed Securities Program. Under this program, the Caisse transferred CMHC-guaranteed mortgage loans to a Desjardins subsidiary company. Even though, according to GAAP, these securitization transactions are recognized as transfers of loans, they do not meet IFRS derecognition criteria. According to GAAP, the derecognition criteria for a financial asset were based on control or, more specifically, on the surrender of control. According to IFRS, an assessment must be made of a set of criteria based mainly on the transfer of risks and rewards as well as control of the financial asset.

Note 4. Impact of IFRS Adoption (cont.)

As permitted by regulatory authorities, no restatement was recognized in the statement of financial position as at January 1, 2010. However, all transfers of loans carried out after January 1, 2010, and for which the IFRS derecognition criteria are not met, will need to be maintained in assets with a corresponding borrowing for the acquirer.

These transfers of loans resulted in a $552 increase in personal loans and a $552 increase in borrowings recognized in the statement of financial position as at December 31, 2010.

c) Defined benefit plan liability

Primary changes from GAAP

According to GAAP, no asset or liability was recognized by the Caisse for employee defined benefit plans offered to most Desjardins Group employees, since these plans were recognized by the participating employers as defined contribution plans. According to IFRS, the defined benefit plans in which most Desjardins Group employers participate are group defined benefit plans and must be recognized according to the recommendations of IAS 19, "Employee Benefits". As a result, the Caisse must recognize its share of the group defined benefit plan obligation. This share is calculated on the basis of eligible earnings when calculating the pension as a percentage of the total pensionable earnings for Desjardins Group as a whole, which complies with Desjardins Group's practice regarding the funding needs of its defined benefit plans.

Options at first-time adoption

According to the provisions of IFRS 1, the Caisse has elected to use the optional exemption offered, which allows an enterprise adopting IFRS for the first time to depart from the retrospective application of IAS 19. As a result, on the date of transition to IFRS, the Caisse charged all unamortized cumulative net actuarial gains and losses related to defined benefit pension plans and other plans to distributable surplus earnings.

Therefore, as at January 1, 2010, defined benefit liabilities increased by $1,588. The effect, as at January 1, 2010, of this election on first-time adoption was a $1,286 reduction in distributable surplus earnings, net of income taxes. For the year ended December 31, 2010, an amount of $45 was recognized as a reduction in the expense for the year. As at December 31, 2010, a total adjustment of $1,190, net of income taxes, was transferred from distributable surplus earnings to the Appreciation reserve – Employee benefits plan, as provided for in the Caisse's normative framework.

d) Tax impact of IFRS adoption

Adjustment of accounting balances in the statement of financial position as at January 1, 2010 and December 31, 2010 resulted in an adjustment of $360 as at December 31, 2010 and of $302 as at January 1, 2010 for the deferred tax liability. As a result, an amount of $52 was recognized as an adjustment of the tax expense on surplus earnings for the year ended December 31, 2010.

e) Equity

Under the Act, the caisses must distribute all their distributable surplus earnings during the general meeting. Such surplus earnings were affected by several major adjustments arising from the IFRS adoption and they will be covered mainly by the appreciation reserve. These adjustments are set out in detail above.

Note 4. Impact of IFRS Adoption (cont.)

Adjustments to the statement of cash flows

The IFRS statement of cash flows and the GAAP statement of cash flows have similar objectives and are based on similar principles. As a result, following the adoption of the new standards, no significant adjustment was required to be made to the presentation of the IFRS statement of cash flows for the year ended December 31, 2010, except for the adjustment below.

Cash flows related to net changes in deposits and loans are classified under operating activities according to IFRS while previously deposits and loans were classified retrospectively under financing activities and investing activities.

Note 5. Loans

Loans by borrower category

	2011	2010
Personal		
Mortgages	$101,090	$97,163
Consumer and other	30,652	29,114
Business		
Commercial and industrial	7,198	5,593
Agriculture, forestry and fishing	-	-
Government and public institutions	-	-
	$138,940	$131,870

Loans and provision

2011				
	Personal	Business	Collective allowance	Total
Gross loans, neither impaired nor past due	$129,704	$7,193	$-	$136,897
Gross loans, past due but not impaired	1,982	-	-	1,982
Gross impaired loans	56	5	-	61
Total gross loans	131,742	7,198	-	138,940
Individual allowance	(53)	-	-	(53)
Collective allowance	-	-	(58)	(58)
Total net loans	$131,689	$7,198	$(58)	$138,829

Note 5. Loans (cont.)

2010	Personal	Business	Collective allowance	Total
Gross loans, neither impaired nor past due	$124,053	$5,571	$-	$129,624
Gross loans, past due but not impaired	2,015	-	-	2,015
Gross impaired loans	209	22	-	231
Total gross loans	126,277	5,593	-	131,870
Individual allowance	(54)	(4)	-	(58)
Collective allowance	-	-	(92)	(92)
Total net loans	$126,223	$5,589	$(92)	$131,720

Past due loans are loans on which the counterparty has failed to make a payment when contractually due.

Gross loans, past due but not impaired

2011	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	$1,968	$14	$-	$-	$1,982

2010	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	$1,977	$29	$9	$-	$2,015

Change in the loan allowance

2011	Individual allowance Personal	Individual allowance Business	Collective allowance	Total
Balance at beginning of year	$54	$4	$92	$150
Recovery of provision and loan losses shown in the statement of income	22	2	(34)	(10)
Write-offs and other	(23)	(6)	-	(29)
Balance at end of year	$53	$-	$58	$111

Note 5. Loans (cont.)

	2010			
	Specific allowances Personal	Specific allowances Business	General allowance	Total
Balance at beginning of year	$48	$-	$99	$147
Recovery of provision and loan losses shown in the statement of income	(7)	6	(7)	(8)
Write-offs and other	13	(2)	-	11
Balance at end of year	$54	$4	$92	$150

Transferred loans retained as assets

The table below presents the carrying amount of mortgage loans legally transferred by the Caisse under the programs described in Note 2 "Significant Accounting Policies – Transferred loans retained as assets" but which are still recognized on the statement of financial position with their related liability.

	2011		2010	
	Asset	Liability	Asset	Liability
Mortgage loans transferred for securitization purposes	$613	$592	$552	$552

Furthermore, certain other transferred loans are still partly recognized on the statement of financial position. The total carrying amount of these original loans is $182 ($332 in 2010). The carrying amount of assets corresponding to the retained interests that the Caisse continues to recognize, relative to these transfers, is $2 ($4 in 2010).

Note 6. Equity Investment in Desjardins Subsidiary Companies

The Caisse invests in Desjardins subsidiary companies by way of several Federation investment funds that enable it to obtain the return associated with these subsidiary companies. Financial information on the Caisse's investment in the Federation is summarized in the table below.

	December 31, 2011	December 31, 2010	January 1, 2010
The Caisse's share of:			
Total assets	$5,501	$4,537	$3,611
Total liabilities	379	300	240
Equity investment in Desjardins subsidiary companies	$5,122	$4,237	$3,371

	December 31, 2011	December 31, 2010
The Caisse's share of:		
Total income	$592	$676
Net income	$556	$499
Other	27	5
Income (losses) related to investments in Desjardins subsidiary companies	$583	$504

The Caisse considers that it is able to exercise significant influence over Desjardins subsidiary companies, even though it holds less than 20% of the voting rights, given that it is able to exercise influence over these subsidiary companies by participating in the various bodies, commissions and advisory groups mandated to establish operating policies, the extent of intercompany transactions disclosed in Note 16 and the numerous exchanges of a technical and other nature with these subsidiary companies and their parent corporation, the Federation.

Note 7. Other Assets

Other assets presented in the statement of financial position are primarily composed of:

	Note	2011	2010
Interest receivable		$357	$287
Derivative financial instruments		774	432
Trade receivables		1,083	1,066
Property, plant and equipment	8	281	495
Other		12	50
		$2,507	$2,330

Note 8. Property, Plant and Equipment

Change in property, plant and equipment can be broken down as follows:

	Equipment, furniture and other	Leasehold improvements	Total
Cost			
January 1, 2010	$1,044	$813	$1,857
Acquisitions	11	-	11
December 31, 2010	1,055	813	1,868
Acquisitions	7	-	7
Disposals	-	(151)	(151)
December 31, 2011	$1,062	$662	$1,724
Accumulated depreciation			
January 1, 2010	$842	$412	$1,254
Depreciation	72	47	119
December 31, 2010	914	459	1,373
Depreciation	60	70	130
Disposals	-	(60)	(60)
December 31, 2011	$974	$469	$1,443
Net carrying amount			
January 1, 2010	$202	$401	$603
December 31, 2010	141	354	495
December 31, 2011	88	193	281

Note 9. Borrowings

	2011	2010
Line of credit with an interest rate varying between 1.35% and 2.37%	$7,046	$11,566
Term loan with an interest rate of 2.97%, repayable at their maturity on April 2014	1,500	1,500
Term loans with interest rates ranging from 1.98% to 2.52%, renegotiable quarterly, repayable periodically, maturing until June 2016	15,200	6,200
Subtotal	$23,746	$19,266

Note 9. Borrowings (cont.)

			2011	2010
Subtotal carried forward			$23,746	$19,266
Term loans bearing interest at fixed rates or rates renegotiable quarterly, some of which loans have a prepayment before maturity clause(1)				
Fixed Rate	Maturing	Repayable		
6.50%	June 2017	June 2012	495	495
6.01	April 2019	April 2014	655	655
5.79	June 2021	June 2016	652	652
5.39	May 2020	May 2015	1,145	1,145
4.05	November 2020	November 2015	877	877
5.15	December 2026	December 2021	619	-
Borrowing resulting from certain securitization transactions, at interest rates varying between 1.99% and 3.03%, maturing no later than September 2014			592	552
			$28,781	$23,642

(1) Term loans include subordinated securities with a related company, redeemable at the option of the holder under certain conditions and for specified purposes.

Note 10. Other Liabilities

The other liabilities presented in the statement of financial position are primarily composed of:

	2011	2010
Accrued interest	$1,297	$1,009
Trade payables	405	219
Income collected in advance	404	480
Other	349	420
	$2,455	$2,128

Note 11. Defined Benefit Plans

Group plans

This note should be read in conjunction with Note 27 to the Desjardins Group Audited Combined Financial Statements for the year ended December 31, 2011, approved on February 23, 2012, which present the defined benefit group plans.

Pension plan

The Caisse participates in the pension plan and the supplemental pension plan, which are defined benefit group plans of Desjardins Group. Consequently, the Caisse recognizes its share in the liabilities of these plans under "Other liabilities".

Note 11. Defined Benefit Plans (cont.)

The Caisse's share represents 0.06% of the defined benefit group plans of Desjardins Group (0.08% as at December 31, 2010 and 0.07% as at January 1, 2010). The share of the pension expense related to these plans attributable to the Caisse and recognized in profit or loss for the year, is $(13) ($(18) in 2010). The Caisse's share in the liabilities of these plans recognized in the statement of financial position amounts to $853 ($1,059 as at December 31, 2010 and $1,077 as at January 1, 2010).

Other group plan

In addition, the Caisse offers medical, dental and life insurance coverage to retiring employees and their dependents through the defined benefit group plan of Desjardins Group. The Caisse's share represents 0.07% of the defined benefit group plan of Desjardins Group (0.08% as at December 31, 2010 and 0.09% as at January 1, 2010). An amount of $421 ($485 as at December 31, 2010 and $512 as at January 1, 2010) was recognized as a liability, representing the Caisse's share in the plan. The expense for the year related to this plan totals $(56) ($(27) in 2010).

Note 12. Income Taxes on Surplus Earnings

Income taxes on surplus earnings

Income taxes on surplus earnings accounted for in the statement of income can be broken down as follows:

	2011	2010
Current income taxes	$98	$-
Deferred income taxes related to origination and reversal of temporary differences	154	(74)
Other	7	60
	259	(14)
Income taxes on surplus earnings	259	(1)
Recovery of income taxes related to member dividends	-	(13)
	$259	$(14)

The income tax expense in the statement of income differs from the income tax expense determined using the statutory rate for the following reasons:

	2011	2010
Income taxes at the statutory rate of 28.4% (29.9% in 2010)	$478	$124
Eligible small business deduction	(56)	12
Non-taxable investment income	(156)	(152)
Other differences	(7)	2
	$259	$(14)

Note 12. Income Taxes on Surplus Earnings (cont.)

Deferred taxes

The sources of deferred taxes are as follows:

	Statement of financial position			Statement of income	
	December 31, 2011	December 31, 2010	January 1, 2010	December 31, 2011	December 31, 2010
Deferred tax asset (liability)					
Provision for impaired loans	$14	$21	$24	$7	$3
Defined benefit liability	298	354	302	56	(52)
Unrealized gains (losses) on derivative products	(181)	(72)	(81)	109	(9)
Indemnities and other loan revenue	(52)	(67)	(74)	(15)	(7)
Loan fees and other expenses	(97)	(93)	(68)	4	25
Property, plant and equipment	13	(17)	(16)	(30)	1
Tax deferral of business losses	-	11	-	11	(11)
Provisions and reserves not eligible from a tax standpoint	2	5	-	3	(5)
Other	(112)	(110)	(62)	3	49
	$(115)	$32	$25	$148	$(6)
Current portion	$(13)	$(11)	$-	$2	$11

Note 13. Capital Stock

The figures in the following three paragraphs are in Canadian dollars.

The capital stock is composed of qualifying shares, permanent shares and surplus shares.

The Caisse is authorized to issue an unlimited number of qualifying shares with a par value of $5, which are redeemable at the Caisse's option under certain circumstances provided for in the Act. Members have only one vote each, no matter how many qualifying shares they own.

The Act authorizes the issue of an unlimited number of permanent shares and surplus shares with par values of $10 and $1 respectively. These shares do not carry any voting rights and cannot be redeemed except under certain circumstances provided for in the Act. Their interest rate is determined at the general meeting of the Caisse. Under the interest reinvestment plan, interest on surplus shares is paid in shares, while interest on permanent shares can be paid in cash or in shares.

Note 13. Capital Stock (cont.)

Issued and fully paid capital stock is as follows:

	2011	2010
Qualifying shares	$35	$35
Permanent shares	3,788	3,693
Surplus shares	143	135
	$3,966	$3,863

Note 14. Other Income

	2011	2010
Accrued mainly from deposit administration	$395	$574
Accrued from distribution of Desjardins products and services	502	462
Accrued from administration of other services	454	321
	$1,351	$1,357

Note 15. General Expenses

	2011	2010
Premises	$412	$261
Office supplies and communications expenses	156	148
Intercaisse transactions	248	270
Other	627	698
	$1,443	$1,377

Note 16. Related Party Transactions

In the ordinary course of business, the Caisse carries out transactions with other Desjardins components. It also carries out financial transactions with its officer members as well as with Desjardins officers, made on terms equivalent to those that prevail in arm's length transactions. Transactions involving a financial instrument were initially recognized at fair value. In the ordinary course of business, the Caisse may have granted loan to related parties. No individual allowance was deemed necessary on these loans.

The table below shows the main transactions and the main balances presented in the statement of financial position concluded with certain related parties, other than those specifically identified elsewhere in the financial statements.

Note 16. Related Party Transactions (cont.)

	2011		2010	
	Federation(1)	Other related parties(2)	Federation	Other related parties
Statement of financial position				
Investment in the liquidity fund under management	$4,808	$-	$4,758	$-
Other assets	2,365	4	1,913	-
Borrowings	28,781	-	23,642	-
Other liabilities	311	1,274	189	1,544
Statement of income				
Interest income	565	-	533	-
Other income	516	407	486	252
Income expense	666	-	431	-
Personnel expenses	-	(69)	-	(45)
Computer expenses	404	5	410	5
General expenses	116	299	121	326

(1) The Federation includes the Fédération des caisses Desjardins du Québec and its subsidiary companies.

(2) Other related parties are chiefly composed of the employee benefits plan for Caisse employees, the caisses of Québec, the caisses of Ontario and Fonds de sécurité Desjardins.

The sums maintained by the Caisse in the liquidity fund under management are administered by the Federation for the benefit of the Caisse.

Other income comes mainly from intercaisse transactions carried out by members and from fees related to the distribution of Desjardins products and services Desjardins, while general expenses are related mainly to intercaisse transactions.

During the year, the Caisse bought and sold loans at market value for an amount of $3,087.

During the year, the Caisse bought and sold loans at market value. Purchases exceeded sales by an amount of $3,911.

Remuneration of key officers of the Caisse

The key officers of the Caisse are the members of the Board of Directors, the general manager and the assistant general manager. These persons have responsibility and authority for planning, directing and controlling the operations of the Caisse.

The remuneration of key officers of the Caisse can be broken down as follows:

	2011	2010
Short-term benefits	$279	$284
Post-employment benefits	28	28

Note 17. Carrying Amount and Fair Value of Financial Instruments

The following table presents the carrying amount and fair value of all financial assets and liabilities according to their classification in the categories defined in Note 2 on financial instruments. Interest rate sensitivity is the main reason for fluctuations in the fair value of the Caisse's financial instruments.

2011					
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
Financial assets					
Cash (1)	$-	$-	$1,550	$1,550	$1,550
Investments	-	4,808	-	4,808	4,808
Loans	-	-	138,829	138,829	140,048
Other financial assets	-	-	1,519	1,519	1,519
Derivative instruments, debit position	774	-	-	774	774
Total financial assets	$774	$4,808	$141,898	$147,480	$148,699
Financial liabilities					
Deposits	$-	$-	$110,482	$110,482	$111,990
Borrowings	-	-	28,781	28,781	27,752
Other financial liabilities	-	-	1,297	1,297	1,297
Derivative instruments, credit position	6	-	-	6	6
Total financial liabilities	$6	$-	$140,560	$140,566	$141,045

Note 17. Carrying Amount and Fair Value of Financial Instruments (cont.)

2010

	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
Financial assets					
Cash[(1)]	$-	$-	$2,020	$2,020	$2,020
Investments	-	4,758	-	4,758	4,758
Loans	-	-	131,720	131,720	133,804
Other financial assets	-	-	1,396	1,396	1,396
Derivative instruments, debit position	432	-	-	432	432
Total financial assets	$432	$4,758	$135,136	$140,326	$142,410
Financial liabilities					
Deposits	$-	$-	$108,029	$108,029	$109,563
Borrowings	-	-	23,642	23,642	23,802
Other financial liabilities	-	-	1,009	1,009	1,009
Derivative instruments, credit position	115	-	-	115	115
Total financial liabilities	$115	$-	$132,680	$132,795	$134,489

(1) The financial assets presented in this item were reclassified from "Held for trading" to "Loans and receivables". This reclassification had no financial impact since the fair value and the carrying amount of these financial assets are equivalent.

For financial instruments recognized at fair value on the statement of financial position, their measurements were established according to the following hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs rather than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Note 17. Carrying Amount and Fair Value of Financial Instruments (cont.)

The table below classifies fair value measurements according to the three levels.

2011

	Level 1	Level 2	Level 3	Total
Assets				
Investment in the liquidity fund under management	$-	$4,808	$-	$4,808
Derivative instruments, debit position	-	774	-	774
Liabilities				
Derivative instruments, credit position	-	6	-	6

2010

	Level 1	Level 2	Level 3	Total
Assets				
Investment in the liquidity fund under management	$-	$4,758	$-	$4,758
Derivative instruments, debit position	-	432	-	432
Liabilities				
Derivative instruments, credit position	-	115	-	115

During the year, no significant transfer was made between the levels of the fair value hierarchy.

Note 18. Guarantees and Other Commitments

Significant guarantees that the Caisse has given to third parties are described below.

Letters of guarantee

Letters of guarantee are an irrevocable commitment by the Caisse to make payments in the event that a member cannot meet its obligations to third parties. These letters are generally collateralized in accordance with the same policy the Caisse has with respect to loans. The term of these letters does not extend past December 2012. At year-end, the maximum potential amount of future payments relative to these letters represented an amount of $7.

Credit commitments

The Caisse's credit commitments represent unused portions of authorizations to extend credit in the form of loans or letters of credit and guarantee. The Maximum Credit Risk Exposure table in Note 20 presents these credit commitments as at year-end.

Note 19. Leases

Lessee

Operating lease

At year-end, non-cancellable future minimum commitments for premises and equipment were as follows:

	2011	2010
No more than 1 year	$112	$123
More than 1 year but no more than 5 years	240	301
More than 5 years	89	132
	$441	$556

Rent accounted for as an expense was as follows:

	2011	2010
Minimum payments	$108	$118

Leases, whose maximum term is 7 years, can have renewal options over a period of 10 years.

Note 20. Financial Instrument Risk Management

The Caisse is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk, market risk and operational risk. Strict and effective management of these risks is a priority for the Caisse, its purpose being to support its orientations, particularly regarding financial stability and sustained and profitable growth.

It is within this context that the members of the Caisse's Board of Directors, working together with senior management and the Federation, must define, adopt, implement, monitor and control a risk management framework that will identify and measure all significant risks to which the Caisse is exposed, and take corrective action in a timely manner.

To provide benchmarks for sound and prudent management, the Caisse's Board of Directors relies, among other things, on laws and regulations, the Desjardins Group Code of Ethics and Professional Conduct – Cooperative Network, standards, Federation policies and its own policies. This risk management approach is based on principles that encourage the Caisse to take responsibility for the quality of risk management.

Credit risk

Credit risk represents the risk of losses if a borrower or a counterparty fails to honour its contractual obligations, whether or not these obligations appear on the statement of financial position.

Credit risk management

The Caisse is responsible for the credit risk inherent in its lending activities. For this purpose, the Caisse and its Business Centre have an approval limit assigned by the Federation as well as a management framework and tools.

Note 20. Financial Instrument Risk Management (cont.)

Framework

Standards for credit management define the framework within which lending operations and other transactions that feature a credit risk are to be carried out, as well as the controls required in their regard.

For this purpose, they define, among other things:

- The minimum framework for credit risk management and control. This framework is rounded out by the credit practices of the Federation and the credit policy of the Caisse and its Business Centre.

- The roles and responsibilities of the main parties involved in credit.

The credit practices of the Federation designate the credit practices applicable to the caisses and their Business Centre and adopted by the Federation. They set out the guidelines for credit risk management and control at the Caisse and the Business Centre, and the financing terms and conditions applicable to borrowers.

The Caisse adopts a credit policy and reviews it annually, and reviews the credit policy applicable to its Business Centre, to confirm that the Caisse and its Business Centre are applying the credit practices of the Federation.

All these structures and policies define the responsibilities of the parties involved, specify the level of risk that the Caisse is willing to assume, establish concentration limits, and set out risk management and control guidelines.

Credit granting

To assess the risk of credit activities with individuals and smaller businesses, credit rating systems developed by the Federation, based on proven statistics, are used. These systems were developed using a history of borrower behaviour with a profile or characteristics similar to those of the applicant to determine the risk. The performance of these systems is analyzed on an ongoing basis and adjustments are made regularly with a view to assessing borrower risk as accurately as possible.

With respect to business loans, credit granting is based on an analysis of the different parameters for each file, in which each borrower is assigned a rating that represents his level of risk, among other things.

The depth of the analysis and the approval level required depend on the complexity and extent of the transaction risk; larger loans are approved by the Federation.

Credit risk mitigation

In its lending operations, the Caisse, directly or through its Business Centre, obtains collateral in line with credit practices. Collateral normally takes the form of an asset such as cash, trade receivables, inventory, movables or property, plant and equipment. For some portfolios, programs offered by organizations like the Canada Mortgage and Housing Corporation (CMHC) and La Financière agricole du Québec are used in addition to customary collateral.

The large number of borrowers, for the most part consumers, but also small and medium-sized enterprises from many sectors of the economy, helps promote sound diversification of the financing portfolio. Note 5 to the financial statements presents the breakdown of loans by borrower category. When required, the Caisse uses mechanisms to share risk, notably selling loans to other components, mainly caisses or certain Desjardins subsidiary companies.

Note 20. Financial Instrument Risk Management (cont.)

File monitoring and management of higher risks

The loan portfolio is monitored using credit practices that set out the degree of thoroughness and frequency of review based on the quality and extent of the risk to which the Caisse is exposed. Certain loans that present irregularities or increased risk, compared to what was accepted at the time of approval, are reported to the Federation. Changes in the portfolio of large, higher-risk loans are monitored, and a report is presented quarterly to the Board of Directors. Management of higher-risk loans involves more frequent monitoring and the Caisse may be supported by teams from the Federation's Special Accounts and Irregular Loans Follow-up Department to help manage more difficult situations.

Maximum credit risk exposure

At year-end, the maximum credit risk exposure for loan commitments and for letters of credit and guarantee was $30,192 ($27,211 in 2010) and $7 ($3 in 2010), respectively.

Liquidity risk

Liquidity risk refers to the Caisse's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the statement of financial position.

Risk management and liquidity reserves

The purpose of liquidity risk management is to ensure access, on a timely basis and in a profitable manner, to the funds needed to meet the Caisse's financial obligations as they become due, both under normal circumstances and in a crisis situation. Managing this risk involves maintaining a minimum level of liquid securities, ensuring stable and diversified sources of funding, monitoring indicators and adopting a contingency plan in the event of a liquidity crisis.

Liquidity risk management is a key component in Desjardins Group's overall risk management strategy. Desjardins Group has established policies, standards and regulations describing the principles, limits, risk appetite and tolerance thresholds and procedures that apply to liquidity risk management for both the caisse network and all its components.

Desjardins Group policies, standards and regulations are reviewed on a regular basis to ensure that they are appropriate for the operating environment and prevailing market conditions. They are also updated to comply with regulatory requirements and sound liquidity risk management practices.

The minimum liquidity reserves that a caisse must maintain are prescribed in a standard and a regulation. These liquidity reserves are composed of securities that must meet high security and negotiability standards. Securities held in these funds are largely issued by the federal and provincial governments. Daily management of securities and the reserve level to be maintained is centralized at Desjardins Group Treasury. Monitoring is also done by Risk Management to ensure compliance with the standard and regulation.

A policy is in place for managing risks related to the issuance of covered bonds and the securitization program for CMHC-insured loans for all Desjardins components.

Desjardins Group is furthermore eligible for the Bank of Canada's various intervention programs and the loan facilities for Emergency Lending Assistance advances.

Note 20. Financial Instrument Risk Management (cont.)

Sources of funding and contingency plan

Desjardins Group Risk Management and Treasury monitor the various liquidity indicators and ensure stable and diversified sources of institutional funding by type, source and maturity. Desjardins Group Treasury uses a wide range of financial products and borrowing programs on various markets for its financing needs. In this regard, Desjardins Group Treasury presents its funding plan to the Board of Directors of the Federation on an annual basis.

Desjardins Group has developed a contingency plan that is part of the liquidity risk management policy. In particular, the plan sets up an internal crisis committee vested with special decision-making powers to deal with crisis situations. It lists the sources of liquidity available in exceptional situations. It also prescribes a decision-making and information process based on the severity level of a possible crisis.

The plan makes it possible to quickly and effectively minimize disruptions caused by sudden changes in member and client behaviours and potential disruptions in capital markets or economic conditions. In the event that a caisse experiences financial difficulties, Desjardins Group has set up certain financial intervention procedures to support it. In addition, the Act grants the Federation all the powers necessary to make up for the operating deficit of a caisse that does not have an adequate general reserve.

Contractual obligations

Contractual obligations lead to commitments through contracts under which future minimum payments impact the Caisse's liquidity needs. Such contractual obligations are accounted for in the statement of financial position or off-balance sheet.

The following table presents financial liabilities and other obligations by remaining contractual maturity. Amounts presented include principal and interest, if any.

	2011			
	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$54,586	$60,309	$-	$114,895
Borrowings[(1)]	12,093	17,992	-	30,085
Other financial liabilities	944	-	-	944
Loan commitments	30,192	-	-	30,192
Letters of credit and guarantee	7	-	-	7
Derivative instruments with net settlement	(2)	9	-	7

Note 20. Financial Instrument Risk Management (cont.)

	2010			
	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	$55,019	$57,859	$-	$112,878
Borrowings(1)	15,897	8,437	-	24,334
Other financial liabilities	920	-	-	920
Loan commitments	27,211	-	-	27,211
Letters of credit and guarantee	3	-	-	3
Derivative instruments with net settlement	(34)	153	4	123

(1) Borrowings include subordinated securities with a related company, redeemable at the option of the holder under certain conditions and for specified purposes. This clause implies that all borrowings are included in the "Under 1 year" category. Their maturity dates range from June 1, 2017 to December 15, 2026.

Market risk

Market risk refers to the risk of changes in the fair value of financial instruments as a result of changes in parameters affecting this value such as interest rates, exchange rates, credit spreads and their volatility.

The Caisse is exposed to market risk primarily through positions taken as part of its traditional financing and savings recruitment activities. The Caisse along with the Federation and Desjardins Group have adopted policies and a standard that set out the principles, limits and procedures to use in managing market risk.

Interest rate risk management

The Caisse is exposed to interest rate risk, which represents the potential impact of interest rate fluctuations on net interest income and on the economic value of equity.

Sound and prudent management is applied to optimize net interest income while minimizing the negative impact of interest rate movements. Interest rate risk is managed globally for the caisse network as well as individually for the Caisse.

Caisse network risk management

The policies and standard developed by the Federation describe the principles, limits and procedures used to manage this risk. Simulations are run at the caisse network level to measure the impact of different variables on net interest income and the economic value of equity for all the caisses. The assumptions used in the simulations are based on an analysis of historical data and the impact of different interest rate conditions on the data, and concern changes in the structure of assets and liabilities, including modelling of non-maturity deposits, member behaviour and pricing. Desjardins Group's Asset/Liability Committee is responsible for analyzing and adopting monthly the global matching strategy while respecting the parameters defined in interest rate risk management policies.

Note 20. Financial Instrument Risk Management (cont.)

Risk management at the Caisse

The Caisse's interest rate risk is managed in compliance with a strategy that involves setting targets and action to be taken when the Caisse goes beyond the guidelines fixed in the standard for individual caisses.

The following table presents the potential impact, before income taxes, of a sudden and sustained 100-basis-point increase or decrease in interest rates on the economic value of the Caisse's equity.

	2011	2010
Impact of an increase	$26	$(29)
Impact of a decrease	(28)	31

The table below succinctly shows the Caisse's asset/liability matching at year-end.

2011

	Net gap position on statement of financial position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	$(29,912)	$-	$(29,912)
Interest sensitive assets and liabilities			
Floating rate	34,483	-	34,483
Fixed rate – 0 to 12 months	(5,125)	(21,786)	(26,911)
Fixed rate – 1 to 5 years	3,234	20,022	23,256
Fixed rate – Over 5 years	(2,081)	1,764	(317)

2010

	Net gap position on statement of financial position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	$(28,848)	$-	$(28,848)
Interest sensitive assets and liabilities			
Floating rate	25,855	-	25,855
Fixed rate – 0 to 12 months	(1,350)	(16,904)	(18,254)
Fixed rate – 1 to 5 years	6,862	15,204	22,066
Fixed rate – Over 5 years	(1,448)	1,700	252

The net gap position on the statement of financial position is based on the earlier of the repricing or maturity dates of floating-rate assets and liabilities. The net gap position on the statement of financial position represents the difference between total assets and liabilities and equity for a given period.

The above table shows year-end balances, except in the case of non-interest sensitive assets and liabilities for which the average monthly balance is provided because it is used for management purposes.

Note 20. Financial Instrument Risk Management (cont.)

Some statement of financial position items are considered non rate-sensitive instruments, as for instance: equity investments, non-performing loans, non-interest-bearing deposits, non-maturity deposits with an interest rate not referenced to a specific rate such as the prime rate, and equity. Conservative assumptions are used regarding the maturity profile in our models in order to determine their interest rate sensitivity.

The situation presented reflects the position on that date only and can change significantly in subsequent years depending on the preferences of members and clients, and the application of policies on interest rate risk management.

Note 21. Capital Management

The goal of the Caisse's capital management is to ensure maintenance of adequate base capital for sound and prudent management.

The capital adequacy of the Québec caisses is defined by a standard established by the Federation concerning the adequacy of capital, its components and their relative proportions. To a certain extent, this standard was based on a guideline for standards governing capital adequacy issued by the AMF. The guideline requires that a minimum amount of capital be maintained on a cumulative basis for a number of Desjardins Group components, including the caisses. Capital management is the responsibility of the Caisse's Board of Directors.

The Caisse's regulatory capital, which constitutes equity, differs from the equity disclosed on the statement of financial postion.

Tier 1 capital is comprised of eligible permanent shares, surplus shares, the general reserve, the eligible appreciation reserve, the stabilization reserve, the reserve for future member dividends and eligible surplus earnings.

Tier 2 capital is comprised of qualifying shares, eligible shares in investments, certain eligible borrowings and the eligible portion of the collective allowance.

As prescribed by the current provisions of the Federation standard, the Caisse's total capital is reduced, among other things, by certain investments in Desjardins subsidiary companies.

The Caisse's expansion assets comprise its assets on the statement of financial position and its off-balance sheet commitments, reduced by its investments in Desjardins subsidiary companies at their equity value.

The Caisse's risk assets are determined by the weighting of assets on the statement of financial position and off-balance sheet items according to the risk associated with each of these items, in accordance with the various approaches to credit risk and operational risk set out in the guideline on adequacy of capital base standards issued by the AMF.

The Caisse must at all times maintain capital in compliance with the following requirements:

- Capital greater than or equal to 12.5% of its risk assets;
- Expansion assets less than or equal to 17 times its capital.

Note 21. Capital Management (cont.)

In accordance with the transitional provision in the notice issued by the AMF, the standard on the capital adequacy of the caisses, established by the Federation, allows the Caisse to lessen the impact of the new IFRS through a quarterly adjustment of distributable surplus earnings and the appreciation reserve of the Caisse over a two-year period ending December 31, 2012. As a result, for the purposes of calculating the Tier 1 capital ratio, the Caisse has since January 1, 2011, amortized the eligible portion of the impact of IFRS, amounting to $982
on a straight-line basis, and will do so until December 31, 2012.

The following table presents the composition of the Caisse's regulatory capital, as it appeared in the internal report to the officers of the Caisse before the accounts were closed.

	2011	2010
Tier 1 capital		
Eligible permanent shares and surplus shares	$3,926	$3,818
General reserve, eligible appreciation reserve, stabilization reserve and reserve for future member dividends	7,435	8,611
Eligible surplus earnings	652	466
Other Tier 1 capital	595	-
Deductions	(5,351)	(4,994)
Total Tier 1 capital	$7,257	$7,901
Tier 2 capital		
Qualifying shares and eligible shares in investments	$35	$37
Eligible collective allowance	55	66
Eligible borrowings	4,223	3,604
Deductions	(768)	(643)
Total Tier 2 capital	3,545	3,064
Total capital	$10,802	$10,965

At year-end, the Caisse's capital ratios were in compliance with those required under the standard, as the standard stipulates that the ratios to be used are based on the internal data provided to the officers of the Caisse.

Clarification of terminology used upon changeover to IFRS

The table below presents and defines some important terms used in financial reporting in order to make them easier to understand.

Term	Use
Employee benefits	Employee benefits are all forms of compensation provided to employees. The most common forms are a salary, performance bonuses, a pension plan and an insurance plan.
Post-employment benefits	Post-employment benefits include pension benefits as well as other post-employment benefits such as life and health insurance.
Reversal	Accounting transaction which consists of the adjustment of an initially recognized balance by an offsetting transaction.
Derecognition	Accounting transaction which consists of the removal of a previously recognized financial asset or financial liability from a statement of financial position.
Statement of financial position	Historically known as a "balance sheet", a summary document presenting the Caisse's financial position at a given date.
Recoverable cash flow	Net cash inflow that the Caisse expects to receive from the continuing use of a non-current asset and its disposal.
IFRS	International Financial Reporting Standards. IFRS are the accounting standards adopted by the Caisse.
Derivative instruments – Interest rate swap	The main type of derivative financial instrument used by the Caisse is the interest rate swap. Interest rate swaps are operations in which two parties exchange interest flows on a nominal principal amount specified for a predetermined period of time, according to variable and fixed interest rates agreed upon by both parties. The nominal amount is not subject to exchange.
Operating lease	Historically also known as an "operating lease" in English (but previously known in French as "contrat de location-exploitation" as opposed to the current version of "contrat de location simple"), it is an agreement that confers the right to use an asset and under which lease payments are recognized as an expense for the lessee and as income for the lessor.
Liability method	Method of estimating the Caisse's deferred taxes, which takes into account the difference existing at the year-end reporting date between the carrying amount of assets and liabilities and their tax basis presented in the statement of financial position (balance sheet).
Equity method	Historically also known as the "equity method" in English (but previously known in French as "méthode de la valeur de consolidation" as opposed to the current version of "méthode de la mise en équivalence"), it is a method of accounting for the investments held by the Caisse over which it has influence. It consists of adjusting the carrying amount of the investment by the share of the income generated by the investment concerned, less any dividends paid by the said investment.

Clarification of terminology used upon changeover to IFRS (cont.)

Term	Use
Legal or constructive obligation	A legal obligation is a liability for the Caisse that derives from compliance with legislation, regulations or a contract. A constructive obligation is a liability for the Caisse that derives from the Caisse’s past or current practices or its statements and that creates an expectation on the part of its members and business partners.
GAAP	Generally accepted accounting principles. Before IFRS, GAAP referred to the accounting principles adopted by the Caisse that were specific to Canada. Since the adoption of IFRS, Canadian GAAP may designate the IFRS applied by the Caisse.
Impaired loans	Historically also known as “impaired loans” in English (but previously known in French as “prêts douteux” as opposed to the current version of “prêts dépréciés”), a loan whose collection becomes doubtful as a result of deterioration in credit quality to the extent that the lender no longer has reasonable assurance of timely collection of the full amount of principal and interest.
Objective evidence of impairment	Series of indicators that an asset may not be recovered for its carrying amount, therefore requiring management to assess whether such asset should be written down.
Collective allowance	A collective allowance was known as a “general allowance” before IFRS.
Individual allowance	An individual allowance was historically known as a “specific allowance”.
Comprehensive income for the year	Previously also called “comprehensive income” in English (but formerly known in French as “résultat étendu” as opposed to the current version of “résultat global de l’exercice”), it is the aggregate of surplus earnings for the year and the impact of transactions not yet recognized in the statement of income because of the accounting requirements for such transactions.
Effective interest rate	The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to obtain the net carrying amount of the financial asset or financial liability.
Residual value	Amount that the Caisse expects to obtain upon possible disposal of an asset.