

Financial Statements

Caisse d'économie Desjardins des
employés en Télécommunication

Transit no.: 92239

As at December 31, 2012

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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 Caisse d'économie Desjardins des employés en Télécommunication (the "Caisse"), which comprise the balance sheets as at December 31, 2012 and December 31, 2011, and the statements of income, of comprehensive income, of changes in equity and of cash flows for the years then ended, 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended, 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.

*Audit Department*¹

¹CPA auditor, CA, public accountancy permit No A109769

Montréal (Québec), April 3, 2013

Caisse d'économie Desjardins des employés en Télécommunication

Balance Sheet

As at December 31

(in thousands of Canadian dollars)	Note	2012	2011
Assets			
Cash		\$1,638	\$1,550
Liquidity fund investments under management and other		4,940	4,808
		6,578	6,358
Loans	4		
Personal		130,580	131,742
Business		8,364	7,198
		138,944	138,940
Allowance for credit losses		200	111
		138,744	138,829
Other investments in the Federation	5	7,813	6,755
Prepaid expenses		2,088	1,701
Other assets	6	2,034	2,508
		11,935	10,964
Total assets		\$157,257	\$156,151
Liabilities and Equity			
Liabilities			
Deposits			
Term savings		\$82,310	\$82,717
Other		29,885	27,765
		112,195	110,482
Borrowings	7	28,055	28,781
Other liabilities	8	3,275	3,729
		31,330	32,510
Total liabilities		143,525	142,992
Equity			
Capital stock	11	4,075	3,965
Distributable surplus earnings		52	310
Accumulated other comprehensive income		291	300
Reserves		9,314	8,584
Total equity		13,732	13,159
Total liabilities and equity		\$157,257	\$156,151

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

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Income

For the years ended December 31

(in thousands of Canadian dollars)	Note	2012	2011
Interest income		\$5,749	\$5,952
Interest expense		2,721	2,755
Net interest income		3,028	3,197
Provision for credit losses (recovery)	4	216	(10)
Net interest income after provision for credit losses (recovery)		2,812	3,207
Other income	12	1,360	1,351
Other expenses			
Personnel	9	1,792	1,506
Assessments paid to Desjardins components		512	498
Computer services		467	469
General expenses	13	1,292	1,443
		4,063	3,916
Operating surplus earnings		109	642
Income (losses) related to fair value of derivative instruments		(363)	458
Income related to other investments in the Federation	5	805	583
Surplus earnings before taxes		551	1,683
Income taxes on surplus earnings	10	(48)	259
Net surplus earnings for the year		\$599	\$1,424

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

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Comprehensive Income

For the years ended December 31

(in thousands of Canadian dollars)	2012	2011
Net surplus earnings for the year	\$599	\$1,424
Other comprehensive income, net of income taxes		
Share of other comprehensive income from investments in the Federation's investment funds	39	107
Reclassification to the statement of income related to share of other comprehensive income from investments in the Federation's investment funds	(47)	(76)
Other	(1)	(3)
Total other comprehensive income	(9)	28
Comprehensive income for the year	\$590	\$1,452

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

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Changes in Equity

For the years ended December 31

	Capital stock	Distributable surplus earnings	Reserves					Total reserves	Accumulated other comprehensive income (1)	Total equity
			Appreciation reserve (investments in the Federation's investment funds)	Appreciation reserve (derivative instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve			
(In thousands of Canadian dollars)										
Balance as at December 31, 2011	\$3,965	\$310	\$1,488	\$592	\$(976)	\$7,365	\$115	\$8,584	\$300	\$13,159
Distribution by members at the 2012 general meeting										
Interest on permanent shares and on surplus shares, net of income taxes	-	(128)	-	-	-	-	-	-	-	(128)
Transfer from (allocation to) reserves	-	(182)	-	-	-	3	179	182	-	-
Balance after distribution	3,965	-	1,488	592	(976)	7,368	294	8,766	300	13,031
Net surplus earnings for 2012 after member dividends	-	599	-	-	-	-	-	-	-	599
Other comprehensive income for the year	-	-	-	-	-	-	-	-	(9)	(9)
Statutory transfer	-	(547)	761	(276)	62	-	-	547	-	-
Equity transactions related to other investments in the Federation	-	-	1	-	-	-	-	1	-	1
Net change in capital stock	110	-	-	-	-	-	-	-	-	110
Balance as at December 31, 2012	\$4,075	\$52	\$2,250	\$316	\$(914)	\$7,368	\$294	\$9,314	\$291	\$13,732

(1) "Accumulated other comprehensive income" mainly consists of the share of other comprehensive income from other investments in the Federation.

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

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)	Capital stock	Distributable surplus earnings	Reserves					Total reserves	Accumulated other comprehensive income (1)	Total equity
			Appreciation reserve (investments in the Federation's investment funds)	Appreciation reserve (derivative instruments)	Appreciation reserve (employee benefit plans)	General reserve	Stabilization reserve			
Balance as at December 31, 2010	\$3,863	\$24	\$877	\$242	\$(1,190)	\$7,365	\$218	\$7,512	\$272	\$11,671
Distribution by members at the 2011 general meeting										
Interest on permanent shares and on surplus shares, net of income taxes	-	(127)	-	-	-	-	-	-	-	(127)
Transfer from (allocation to) reserves	-	103	-	-	-	-	(103)	(103)	-	-
Balance after distribution	3,863	-	877	242	(1,190)	7,365	115	7,409	272	11,544
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 transactions related to other investments in the Federation	-	-	61	-	-	-	-	61	-	61
Net change in capital stock	102	-	-	-	-	-	-	-	-	102
Balance as at December 31, 2012	\$3,965	\$310	\$1,488	\$592	\$(976)	\$7,365	\$115	\$8,584	\$300	\$13,159

(1) "Accumulated other comprehensive income" mainly consists of the share of other comprehensive income from other investments in the Federation.

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

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)	2012	2011
Cash flow provided by (used in) operating activities		
Surplus earnings before income	\$551	\$1,683
Non-cash adjustments for:		
Provision for credit losses	181	(19)
Defined benefit liability	(193)	(270)
Losses (income) related to recognition of derivative instruments at fair value	363	(458)
Income related to investments in the Federation's investment funds	(761)	(550)
Changes in operating assets and liabilities:		
Net change in loans	(96)	(7,090)
Net change in member deposits	1,198	2,262
Other changes	16	755
Income taxes on surplus earnings received (paid) during the year	10	(175)
Member dividends paid	-	(62)
	1,269	(3,924)
Cash flow provided by (used in) financing activities		
Transactions related to borrowings:		
Net change in line of credit	154	(4,520)
Net change in term loans	(880)	9,658
Issue of permanent shares	106	95
Other net change in capital stock	4	7
Remuneration of permanent shares and of surplus shares, net of income taxes recovered	(128)	(127)
	(744)	5,113
Cash flow provided by (used in) investing activities		
Acquisition of other investments in the Federation	(305)	(1,609)
Net change in investments	(132)	(50)
	(437)	(1,659)
Net increase (decrease) in cash	88	(470)
Cash at beginning of year	1,550	2,020
Cash at end of year	\$1,638	\$1,550
Other information on cash flow provided by (used in) operating activities		
Interest paid	\$2,642	\$2,473
Interest received	5,792	5,889

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

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

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 approved its financial statements for the year ended December 31, 2012 on April 3, 2013.

Note 2. Significant Accounting Policies

General information

Statement of compliance

Under the Act, these financial statements were prepared by the Caisse in accordance with Canadian generally accepted accounting principles (GAAP) and the AMF's accounting requirements, which do not differ from GAAP.

International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), constitute GAAP that the Caisse is required to apply.

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.

Improvements to IFRS

Throughout fiscal 2012, the Caisse applied the new disclosure rules of IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets.

In October 2010, the IASB issued amendments to IFRS 7, Financial Instruments: Disclosures. The amendments expand the disclosure requirements for transfers of financial assets that result in derecognition. They provide greater transparency regarding risk exposure relating to transfers of financial assets that are not derecognized in their entirety or were derecognized in their entirety, but with which the Caisse has continuing involvement, as well as the effect of those risks on the Caisse's financial position.

IFRS 7 is a reporting standard aimed at informing users to help them, among other things, to better understand and evaluate the significance of financial instruments in relation to the Caisse's financial position and performance. Amendments to this standard, specifically concerning disclosure requirements, have no impact on the Caisse's profit or loss, or its financial position.

The Caisse has been applying these amendments prospectively since January 1, 2012.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

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, derecognition of financial assets, 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.

Functional currency and presentation currency

These financial statements are presented in Canadian dollars, the Caisse's functional currency. The figures reported in the tables of the notes to the financial statements are in thousands of dollars, unless otherwise indicated.

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 balance sheet.

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

Categories	Recognition	
	Initial	Subsequent
Financial assets held for trading ⁽ⁱ⁾	Fair value	Fair value
Loans and receivables ⁽ⁱⁱ⁾	Fair value	Amortized cost
Available-for-sale financial assets ⁽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;
- term deposits;
- loans.

(iii) The "Available-for-sale financial assets" category is composed of the liquidity fund investment under management and investments in the Federation's General Fund. These investments are recognized at fair value, which corresponds to cost, taking into account the specific conditions of the instruments.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

The classification of financial liabilities can be summarized as follows:

Categories	Recognition	
	Initial	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 need to use estimates and make judgments, where appropriate, in applying many of the valuation techniques, fair value estimates for identical or similar assets may differ from one entity to the next. 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

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, except if they are classified in 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 and term deposits. 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 under "Available-for-sale financial asset". Term deposits are classified as "Loans and receivables".

Loans

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

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 on the balance sheet to the extent of its continuing involvement in this asset.

When a financial asset is derecognized in its entirety, 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

Other investments in the Federation

Investments in the Federation's investment funds

The Caisse holds various participating securities of the Federation. It holds securities in a number of investment funds issued by the Federation which entitle the Caisse to the return from Desjardins subsidiary companies. Since the Caisse is able to exercise significant influence over the Federation, the investments are accounted for using the equity method. The income from these investments is presented in the statement of income under "Income related to other investments in the Federation".

Investments in the Federation's General Fund

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, which are investments in the Federation's General Fund. Given the specific characteristics of these investments, holdings of these securities are classified as available-for-sale financial assets, and are therefore recognized at fair value, which corresponds to cost. 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 related to other investments in the Federation".

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 impairment 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 estimating the recoverable value of these financial assets. The allowance is equal to the difference between this value and the carrying amount. This allowance is presented in deduction of loans under "Allowance for credit losses". 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 if a loan is considered impaired. It is considered impaired 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 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.

A loan is considered to be past due when a borrower has failed to make a payment when contractually due.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

When a loan becomes 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.

Assets foreclosed to settle impaired loans are recognized on the date of foreclosure at their fair value less costs to sell. If the fair value of the acquired assets is less than the carrying amount of the loan, the loss is recognized under "Provision for credit losses (recovery)". In the opposite case, the difference is accounted for under "Provision for credit losses (recovery)" up to the provision already recognized, and any surplus is recognized under "General expenses".

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 recognized under "Provision for credit losses (recovery)" 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 "Provision for credit losses (recovery)" 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" on the balance sheet and "General expenses" in the statement of income.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

Transferred loans

Securitization

As part of its liquidity and capital management strategy in order to maximize its liquidity and capital, Desjardins Group participates in the National Housing Act Mortgage-Backed Securities Program of the Canada Mortgage and Housing Corporation (CMHC). Under this program, the Caisse transfers CMHC-guaranteed mortgage loans to a Desjardins subsidiary company. In addition, under this same program, the Caisse transfers a mortgage loan securitization interest to the same counterparty. Once the loans covered by the securitization interests are converted into pools of loans by the subsidiary company, the loans in the pool are then transferred from the caisses to CMHC. As a result, the Caisse cannot transfer, sell or assign these assets as security, since they have already been sold; nor can it prepay them. The legal guarantee on these transactions is limited to the transferred assets. 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 balance sheet. 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. This liability is presented on the balance sheet under "Borrowings", if applicable.

No loss is expected on the mortgage loans because they are guaranteed by the CMHC. Income related to securitization transactions is recognized under "Interest income".

Loans transferred before January 1, 2010

Loans transferred before January 1, 2010 remain derecognized, considering the Caisse's choice to apply derecognition provisions prospectively, as provided by IFRS 1, First-time Adoption of International Financial Reporting Standards. At the time of transfer, these transactions were therefore recognized as sales.

Under the program terms and conditions, basis swap contracts are made for variable-rate mortgage loans transferred to a Desjardins Group subsidiary company. These swaps are set up so that the Caisse receives monthly or annual cash flows corresponding to variable-rate loans based on bankers' acceptance curves, and pays monthly an amount equal to a variable rate agreed upon at each anniversary date of the product, whether monthly or annually, as the case may be. The fair value of these swaps is recognized when the loans are transferred to the balance sheet under "Other assets".

These transactions will expire no later than December 31, 2014.

Covered bonds

The Caisse transferred to a 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 a result, the Caisse cannot transfer, sell or assign these assets as security since they have already been sold; nor can it prepay them. As part of these transactions, the Caisse retains substantially all the risks and rewards related to the loans concerned, in particular interest rate risk, prepayment risk and counterparty risk. Consequently, the loans continue to be recognized on the Caisse's balance sheet. 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

No loss is expected on the mortgage loans because they are guaranteed by the CMHC. Income related to the covered bond program is recognized under "Interest income".

Transfer of mortgage loans to other Desjardins caisses or components

The Caisse transferred residential mortgage loans to other Desjardins caisses or components. These transactions are accounted for as sales since substantially all the risks and rewards related to the ownership of the assets have been transferred. As part of these transactions, basis swap contracts are made for the transferred variable-rate mortgage loans. These swaps, corresponding to retained interests, are set up so that the Caisse receives monthly or annual cash flows from variable-rate loans based on bankers' acceptance curves and pays monthly a variable rate agreed upon at each anniversary date of the product, whether monthly or annually, as the case may be. The amount of these swaps is recognized at the time the loans are transferred to the balance sheet under "Other assets". The Caisse manages the inherent risk of its continuing involvement in the derecognized loans through its global matching strategy.

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.

Depreciation

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 from the outset 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. These estimates are reviewed annually by the Caisse.

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

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

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

Assets held for sale

An asset is classified as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use, and such a sale transaction is highly probable. An asset held for sale is measured at the lower of its carrying amount and its fair value less costs to sell.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

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.

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 at the end of its annual reporting period 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 recognizes derivative instruments at fair value, whether they are stand-alone or embedded. Stand-alone derivative instruments are recorded on the balance sheet among other assets and liabilities, while embedded derivative instruments are presented with their host contract depending on the type of instrument, under "Term savings". A change in fair value of stand-alone derivative instruments is recorded in the statement of income under "Income (losses) related to fair value of derivative instruments", except for a change in term savings related to the market, which is recognized under "Interest expense". Moreover, a change in fair value of embedded derivative instruments is recorded as an interest expense adjustment.

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

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

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.

The Caisse has opted not to apply hedge accounting for these derivative financial instruments, given the complexity of documentation requirements.

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.

Reserves

The appreciation reserve consists of the following three components:

- The "Appreciation reserve – Investments in the Federation's investment funds" is comprised 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 change in 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

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.

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

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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

The asset is presented on the balance sheet 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 on the balance sheet under "Other liabilities". Interest expense is recognized in profit or loss under "General expenses" based on the lease's effective interest rate.

Income taxes on surplus earnings

The income tax expense on surplus earnings includes current income taxes and deferred income taxes. Income taxes on surplus earnings are recognized in the statement of income, except for items recognized directly in the statement of comprehensive income or the statement of changes in equity, in which case the income taxes will follow these items.

The calculation of income taxes on surplus earnings is based on the expected tax treatment of the transactions. 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 on the balance sheet.

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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

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 recognized for these short-term benefits in the period during which the services giving entitlement to them were performed.

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 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 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 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 2. Significant Accounting Policies (cont.)

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 "Other liabilities" on the balance sheet.

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, which represents a related party. 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. 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 "Other liabilities" on the balance sheet.

Note 3. Future Accounting Changes

The list of accounting standards issued but not yet effective is presented below. Regulatory authorities have also stated that early adoption of these standards is not permitted.

Application date: January 1, 2013

IFRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The IASB issued amendments to IFRS 7, Financial Instruments: Disclosures in December 2011. The amendments improve disclosure requirements with respect to offsetting financial assets and financial liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting arrangements on the Caisse's financial position and understand how an entity manages the credit risk associated with such arrangements.

IFRS 7 is a reporting standard aimed at informing users to help them, among other things, to better understand and evaluate the significance of financial instruments in relation to the Caisse's financial position and performance. Amendments to this standard, specifically concerning disclosure requirements, have no impact on the Caisse's profit or loss, or its financial position. They are applicable retrospectively.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 3. Future Accounting Changes (cont.)

IFRS 10, Consolidated Financial Statements

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

The Caisse is currently assessing the impact of adopting this new standard, which is to be applied retrospectively.

IFRS 11, Joint Arrangements

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

The adoption of this new standard will have no impact on the Caisse since it does not form part of a joint arrangement. The new standard is applicable retrospectively.

IFRS 12, Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities, which provides enhanced disclosures about an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. Some of the disclosures required by this standard were already required under current standards, while others are new, such as the significant judgments and assumptions made by an entity when deciding how to classify its involvement with another entity, as well as the nature and scope of, and risks associated with, its interests in other entities.

IFRS 12 is a new reporting standard that has no impact on the Caisse's profit or loss, or its financial position. It is applicable retrospectively.

IFRS 13, Fair Value Measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement, which defines fair value, sets out a single framework for measuring fair value applying to all transactions and balances for which IFRS require or permit fair value measurement, and requires disclosures about 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 adopting the new standard, which is to be applied prospectively.

IAS 1, Presentation of Financial Statements

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which enhance 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 3. Future Accounting Changes (cont.)

IAS 1 is a reporting standard aimed at informing users to help them, among other things, to better understand financial instruments. Amendments to this standard have no impact on the Caisse's profit or loss, or its financial position. They are applicable retrospectively.

IAS 19, Employee Benefits

In June 2011, the IASB issued an amended version of IAS 19, Employee Benefits [IAS 19(R)], which requires that the funding status of a defined benefit plan be entirely reflected on the balance sheet. This change therefore eliminates the option to defer the recognition of actuarial gains and losses, known as the "corridor approach". All actuarial gains and losses will now be recognized immediately in other comprehensive income. Computation of interest cost in the statement of income has also been amended. From now on, interest cost will be determined by multiplying the net defined benefit asset or liability by the discount rate used to discount the obligation; and the difference between the actual return on the assets and the amount recognized in interest cost will be recognized in other comprehensive income. In addition, all past service cost will now be recognized directly in profit or loss as it arises. Furthermore, the characteristics of risk sharing between employers and employees of defined benefit plans will now be taken into account in determining the liability to be recorded on the balance sheet and the expense to be recognized in the statement of income. The presentation and recognition of changes in the defined benefit obligation and plan assets will also be modified, and disclosures will be enhanced about the characteristics of defined benefit plans and the risks to which an entity is exposed through its participation in such plans. The Caisse will have to apply this new standard retrospectively.

Consequently, the main impact of adopting IAS 19(R) on the Caisse, as at January 1, 2012 and as at December 31, 2012, will be the recognition of unamortized actuarial losses and unrecognized past service costs under "Defined benefit liability" on the balance sheet, resulting in a decrease under "Reserves".

Moreover, taking into account the characteristics of risk sharing between the main group pension plan's employers and employees will lead to a decrease under "Defined benefit liability" and an offsetting increase under "Reserves".

Desjardins Group is currently assessing the impact of the amendments made to this standard.

Annual Improvements to IFRS

In May 2012, the IASB issued amendments to several standards as part of its Annual Improvements Cycle. Except for IAS 32, Financial Instruments: Presentation, these amendments are minor and will not have any impact on the Caisse's profit or loss, or its financial position.

The amendment to IAS 32 clarifies that the income tax consequences of dividends and remuneration of capital stock must now be recognized in accordance with the recommendations of IAS 12, Income Taxes. As a result, if certain conditions are met, the income tax consequences of dividends and remuneration of capital stock must be reported in profit or loss rather than in equity. The Caisse is currently assessing the impact of the adoption of this new amendment that it will have to apply retrospectively.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 3. Future Accounting Changes (cont.)

Application date: January 1, 2014

IAS 32, Financial Instruments: Presentation

In December 2011, the IASB issued amendments to IAS 32, Financial Instruments: Presentation, to clarify the criteria for offsetting financial assets and financial liabilities.

The Caisse is currently assessing the impact of the amendments to this standard, which will be applicable retrospectively.

Application date: January 1, 2015

IFRS 9, Financial Instruments

The IASB issued in November 2009 and amended in October 2010 the first phase of a project to replace IAS 39, Financial Instruments: Recognition and Measurement. This standard defines a new way to classify and measure financial assets and financial liabilities. Financial assets will be classified into two categories (amortized cost or fair value through profit or loss) based on the entity's business model to manage its financial assets and its contractual cash flow characteristics. However, a third financial instrument category for debt instruments, i.e. fair value through comprehensive income, was proposed in a new exposure draft issued in November 2012.

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 in particular.

Impairment of financial asset methodology and hedging transactions will be covered in future phases that will complete IFRS 9.

The Caisse is currently assessing the impact of adopting IFRS 9. The application of all phases of the standard is scheduled on a prospective basis.

Note 4. Loans and Allowance for Credit Losses

Loans by borrower category

	2012	2011
Personal		
Mortgages	\$100,407	\$101,090
Consumer and other	30,173	30,652
Business		
Commercial and industrial	8,364	7,198
Agriculture, forestry and fishing	-	-
Government and public institutions	-	-
	\$138,944	\$138,940

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Notes to the Financial Statements

Note 4. Loans and Allowance for Credit Losses (cont.)

Loans, impaired loans and provision

The credit quality of loans is presented in the tables below.

2012				
	Personal	Business	Collective allowance	Total
Gross loans neither past due nor impaired	\$127,852	\$8,359	\$-	\$136,211
Gross loans, past due but not impaired	2,134	5	-	2,139
Gross impaired loans	594	-	-	594
Total gross loans	130,580	8,364	-	138,944
Individual allowance	(146)	-	-	(146)
Collective allowance	-	-	(54)	(54)
Total net loans	\$130,434	\$8,364	\$(54)	\$138,744
2011				
	Personal	Business	Collective allowance	Total
Gross loans neither past due nor impaired	\$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

Gross loans, past due but not impaired

The tables below present the chronological classification of gross loans past due but not impaired.

2012					
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	\$1,933	\$177	\$-	\$24	\$2,134
Business	-	5	-	-	5
	\$1,933	\$182	\$-	\$24	\$2,139

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Notes to the Financial Statements

Note 4. Loans and Allowance for Credit Losses (cont.)

2011					
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	Total
Personal	\$1,968	\$14	\$-	\$-	\$1,982
Change in the loan allowance					
2012					
	Individual allowance		Collective allowance		Total
	Personal	Business			
Balance at beginning of year	\$53	\$-	\$58		\$111
Provision for credit losses appearing in the statement of income	221	(1)	(4)		216
Write-offs and other	(128)	1	-		(127)
Balance at end of year	\$146	\$-	\$54		\$200
2011					
	Individual allowance		Collective allowance		Total
	Personal	Business			
Balance at beginning of year	\$54	\$4	\$92		\$150
Recovery of provision for credit losses appearing in the statement of income	22	2	(34)		(10)
Write-offs and other	(23)	(6)	-		(29)
Balance at end of year	\$53	\$-	\$58		\$111

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 4. Loans and Allowance for Credit Losses (cont.)

Transferred loans

Loans transferred that are not derecognized in their entirety

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" but which are still recognized on the balance sheet with their related liability.

	2012		2011	
	Asset	Liability	Asset	Liability
Mortgage loans transferred for securitization purposes ⁽¹⁾	\$7,110	\$207	\$613	\$592
Mortgage loans transferred for the covered bond program	1,808	-	-	-

(1) The fair value of financial assets transferred for securitization purposes and of their associated financial liabilities, as applicable, was \$210 and \$205, respectively, for a net position of \$5.

Transferred loans that are derecognized in their entirety and for which interests are retained

In prior years, certain transferred loans were derecognized. The carrying amount of these loans was \$175 at year-end (\$182 in 2011). The carrying amount of assets corresponding to the retained interests that the Caisse continues to recognize, relative to these transfers, was \$1 (\$2 in 2011), or fair value. Net expenses recognized because of the continuing involvement in the derecognized loans were \$1 for the year.

Note 5. Other Investments in the Federation

Other investments in the Federation presented on the balance sheet were comprised of:

	2012	2011
Investments in the Federation's investment funds accounted for using the equity method	\$6,444	\$5,122
Investments in the Federation's General Fund recognized at fair value	1,369	1,633
	\$7,813	\$6,755

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Notes to the Financial Statements

Note 5. Other Investments in the Federation (cont.)

Income related to other investments in the Federation was comprised of:

	2012	2011
Net surplus earnings from investment funds accounted for using the equity method	\$767	\$556
Interest income from investments in the Federation's General Fund	38	27
	<u>\$805</u>	<u>\$583</u>

Investments in the Federation's investment funds

Additional financial information as a result of the Caisse's participation in the Federation's investment funds is summarized in the table below:

	2012	2011
The Caisse's share of:		
Total assets	\$6,721	\$5,501
Total liabilities	277	379
Net assets of the investment funds	<u>\$6,444</u>	<u>\$5,122</u>
The Caisse's share of:		
Total income of the investment funds	<u>\$763</u>	<u>\$592</u>

The Caisse considers that it is able to exercise significant influence over the Desjardins subsidiary companies through the Federation's investment funds, even though it holds less than 20% of the voting rights, given that it is able to exercise influence by participating in the various bodies, commissions and advisory groups mandated to establish operating policies, the extent of intercompany transactions disclosed in Note 14 and the numerous exchanges of a technical and other nature with these subsidiary companies and their parent corporation, the Federation.

Note 6. Other Assets

Other assets presented on the balance sheet were primarily composed of:

	2012	2011
Interest receivable	\$312	\$358
Derivative financial instruments	426	774
Trade receivables	1,073	1,083
Other	223	293
	<u>\$2,034</u>	<u>\$2,508</u>

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Notes to the Financial Statements

Note 7. Borrowings

	2012	2011
Line of credit with an interest rate varying between 1.25% and 1.92%	\$7,200	\$7,046
Term loan with interest rate of 2.97%, repayable at maturity in April 2014	1,500	1,500
Term loans with interest rates of 2.00% to 2.53%, renegotiable quarterly, repayable at their respective maturity dates ranging until June 2016	15,200	15,200
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
6.01	April 2019	April 2014
5.79	June 2021	June 2016
5.39	May 2020	May 2015
4.05	November 2020	November 2015
5.15	December 2026	December 2021
	-	495
	655	655
	652	652
	1,145	1,145
	877	877
	619	619
Borrowings resulting from certain securitization transactions, at interest rates varying between 1.99% and 3.03%, maturing no later than July 2014	207	592
	\$28,055	\$27,781

(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 8. Other Liabilities

The other liabilities presented on the balance sheet are primarily composed of:

	Note	2012	2011
Accrued interest		\$1,375	\$1,297
Trade payables		246	405
Income collected in advance		322	404
Defined benefit plan liability	9	1,081	1,274
Other		251	349
		\$3,275	\$3,729

Note 9. Defined Benefit Plans

Group plans

This note should be read in conjunction with Note 26 to the Desjardins Group Audited Combined Financial Statements for the year ended December 31, 2012, approved on February 21, 2013, which present the defined benefit group plans.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 9. Defined Benefit Plans (cont.)

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 of the plan liabilities on the balance sheet under "Other liabilities".

The Caisse's share represents 0.07% of the defined benefit group plans of Desjardins Group (0.06% in 2011). The share of the pension expense related to these plans attributable to the Caisse and recognized in profit or loss for the year, is \$171 (\$13 in 2011). The Caisse's share of the plan liabilities recognized on the balance sheet amounts to \$629 (\$853 in 2011).

Other group plan

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 (0.07% in 2011). An amount of \$452 (\$421 in 2011) was recognized as a liability, representing the Caisse's share in the plan. The expense for the year related to this plan totals \$40 (\$56 in 2011).

Note 10. Income Taxes on Surplus Earnings

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

	2012	2011
Current income taxes	\$32	\$98
Deferred income taxes related to origination and reversal of temporary differences	(77)	154
Other	(3)	7
	<u>\$(48)</u>	<u>\$259</u>

The income tax benefit for surplus earnings in the statement of income differs from that determined using the statutory rate for the following reasons:

	2012	2011
Income taxes at the statutory rate of 26.9% (28.4% in 2011)	\$149	\$478
Eligible small business deduction	6	(57)
Non-taxable investment income and other items	(204)	(156)
Other differences	1	(6)
	<u>\$(48)</u>	<u>\$259</u>

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 11. Capital Stock

The figures in the following three paragraphs are not presented in thousands of 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.

Issued and fully paid capital stock is as follows:

	2012	2011
Qualifying shares	\$33	\$34
Permanent shares	3,894	3,788
Surplus shares	148	143
	<u>\$4,075</u>	<u>\$3,965</u>

Note 12. Other Income

	2012	2011
Related mainly from deposit administration	\$369	\$395
Related to distribution of Desjardins products and services	561	502
Related to administration of other services	430	454
	<u>\$1,360</u>	<u>\$1,351</u>

Note 13. General Expenses

	2012	2011
Premises	\$298	\$412
Office supplies and communications expenses	130	156
Intercaisse transactions	226	248
Other	638	627
	<u>\$1,292</u>	<u>\$1,443</u>

Note 14. 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 loans to related parties. No individual allowance was deemed necessary on these loans.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 14. Related Party Transactions (cont.)

The table below shows the main financial transactions conducted with certain related parties and the main balances on the balance sheet, other than those separately identified elsewhere in the financial statements.

	2012		2011	
	Federation ⁽¹⁾	Other related parties ⁽²⁾	Federation	Other related parties
Balance sheet				
Investment in the liquidity fund under management	\$4,940	\$-	\$4,808	\$-
Other assets	2,480	4	2,365	4
Borrowings	28,055	-	28,781	-
Other liabilities	209	1,081	311	1,274
Statement of income				
Interest income	500	-	565	-
Other income	579	380	516	407
Interest expense	718	-	666	-
Personnel	-	211	-	(69)
Computer services	414	4	404	5
General expenses	113	272	116	299

(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, while general expenses are related mainly to intercaisse transactions.

During the year, the Caisse bought loans at market value for an amount of \$3,164.

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

Remuneration of key officers of the Caisse

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

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 14. Related Party Transactions (cont.)

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

	2012	2011
Short-term benefits	\$415	\$279
Post-employment benefits	49	28

Note 15. 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.

	2012				
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
Financial assets					
Cash	\$-	\$-	\$1,638	\$1,638	\$1,638
Investments	-	4,940	-	4,940	4,940
Loans	-	-	138,744	138,744	140,188
Investments in the Federation's General Fund	-	1,369	-	1,369	1,369
Other financial assets	-	-	1,910	1,910	1,910
Derivative instruments, debit position	426	-	-	426	426
Total financial assets	\$426	\$6,309	\$142,292	\$149,027	\$150,471

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 15. Carrying Amount and Fair Value of Financial Instruments (cont.)

2012					
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
Financial liabilities					
Deposits	\$-	\$-	\$112,195	\$112,195	\$113,394
Borrowings	-	-	28,055	28,055	28,506
Other financial liabilities	-	-	1,375	1,375	1,375
Derivative instruments, credit position	36	-	-	36	36
Total financial liabilities	\$36	\$-	\$141,625	\$141,661	\$143,311
2011					
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
Financial assets					
Cash	\$-	\$-	\$1,550	\$1,550	\$1,550
Investments	-	4,808	-	4,808	4,808
Loans	-	-	138,829	138,829	140,048
Investments in the Federation's General Fund	-	1,633	-	1,633	1,633
Other financial assets	-	-	1,519	1,519	1,519
Derivative instruments, debit position	774	-	-	774	774
Total financial assets	\$774	\$6,441	\$141,898	\$149,113	\$150,332

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 15. Carrying Amount and Fair Value of Financial Instruments (cont.)

2011					
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total	Fair value
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

For financial instruments recognized at fair value on the balance sheet, 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.

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

2012				
	Level 1	Level 2	Level 3	Total
Assets				
Investment in the liquidity fund under management	\$-	\$4,940	\$-	\$4,940
Investments in the Federation's General Fund	-	1,369	-	1,369
Derivative instruments, debit position	-	426	-	426
Liabilities				
Derivative instruments, credit position	-	36	-	36

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 15. Carrying Amount and Fair Value of Financial Instruments (cont.)

	2011			Total
	Level 1	Level 2	Level 3	
Assets				
Investment in the liquidity fund under management	\$-	\$4,808	\$-	\$4,808
Investments in the Federation's General Fund	-	1,633	-	1,633
Derivative instruments, debit position	-	774	-	774
Liabilities				
Derivative instruments, credit position	-	6	-	6

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

Note 16. 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 May 2014. At year-end, the maximum potential amount of future payments relative to these letters represented an amount of \$2 (\$7 in 2011).

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 18 presents these credit commitments as at year-end.

Note 17. Leases

Lessee

This lease, whose maximum term is 6 years, can has renewal options over a period of 10 years.

At year-end, non-cancellable future minimum commitments for the lease of premises and equipment were as follows.

	2012	2011
No more than 1 year	\$126	\$112
More than 1 year but no more than 5 years	179	240
More than 5 years	46	89
	\$351	\$441

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 17. Leases (cont.)

Rent accounted for as an expense was as follows:

	2012	2011
Minimum payments	\$119	\$108

Note 18. Financial Instrument Risk Management

The Caisse is exposed to different types of risk in the normal course of operations, including credit risk, liquidity risk and market 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 balance sheet.

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.

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 policies 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 18. Financial Instrument Risk Management (cont.)

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 4 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.

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 \$31,398 (\$30,192 in 2011) and \$2 (\$7 in 2011), 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 balance sheet.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 18. Financial Instrument Risk Management (cont.)

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 at the Desjardins Group level, monitoring ratios and 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 Desjardins Group 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.

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

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.

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 on- or off-balance sheet.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 18. Financial Instrument Risk Management (cont.)

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

2012				
	Under 1 year	1 to 5 years	Over 5 years	Total
Deposits	\$65,478	\$50,596	\$-	\$116,074
Borrowings ⁽¹⁾	13,280	15,699	-	28,979
Other financial liabilities	415	-	-	415
Loan commitments	31,398	-	-	31,398
Letters of credit and guarantee	2	-	-	2
Derivative instruments with net settlement	(13)	49	-	36
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	540	-	-	540
Loan commitments	30,192	-	-	30,192
Letters of credit and guarantee	7	-	-	7
Derivative instruments with net settlement	(2)	9	-	7

(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 d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 18. Financial Instrument Risk Management (cont.)

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 on the spinoffs from different interest rate conditions on the data, and concern changes in the structure of assets and liabilities, including modelling of non-maturity deposits and equity, 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.

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 finds itself outside 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.

	2012	2011
Impact of an increase	\$(63)	\$26
Impact of a decrease	62	(28)

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

	2012		
	Net on-balance sheet gap	Impact of derivative instruments	Total gap
Non-interest sensitive assets and liabilities	\$(30,241)	\$-	\$(30,241)
Interest sensitive assets and liabilities			
Floating rate	32,475	-	32,475
Fixed rate – 0 to 12 months	(7,146)	(24,036)	(31,182)
Fixed rate – 1 to 5 years	9,318	22,272	31,590
Fixed rate – Over 5 years	(3,081)	1,764	(1,317)
	2011		
	Net on-balance sheet gap	Impact of derivative instruments	Total gap
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)

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 18. Financial Instrument Risk Management (cont.)

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

The above tables show 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.

Some balance sheet items are considered non interest-sensitive instruments, as for instance: 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 19. 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 balance sheet.

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 the investment funds of the Federation.

The Caisse's expansion assets comprise its assets on the balance sheet and its off-balance sheet commitments, reduced by its investments in the investment funds of the Federation accounted for using the equity method.

The Caisse's risk assets are determined by the weighting of assets on the balance sheet 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.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

Note 19. 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 \$1,012 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.

	2012	2011
Tier 1 capital		
Eligible permanent shares and surplus shares	\$4,041	\$3,926
General reserve, eligible appreciation reserve, stabilization reserve and reserve for future member dividends	8,141	7,435
Eligible surplus earnings	661	652
Other Tier 1 capital	-	595
Deductions	(5,526)	(5,351)
Total Tier 1 capital	\$7,317	\$7,257
Tier 2 capital		
Qualifying shares and eligible shares in investments	\$34	\$35
Eligible collective allowance	38	55
Eligible borrowings	3,948	4,223
Deductions	(1,205)	(768)
Total Tier 2 capital	2,815	3,545
Total capital	\$10,132	\$10,802

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.

Caisse d'économie Desjardins des employés en Télécommunication

Additional Information - Unaudited Glossary

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 balance sheet.
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 on the 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.

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Additional Information - Unaudited Glossary

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

Term	Use
Legal or constructive obligation	<p>A legal obligation is a liability for the Caisse that derives from compliance with legislation, regulations or a contract.</p> <p>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.</p>
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	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.