Financial Statements

Caisse d'économie Desjardins des employés en Télécommunication

Transit no.: 92239

As at December 31, 2013

Contents

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, 2013, December 31, 2012 and January 1, 2012, and the statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and December 31, 2012, as well as 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 presentation of the financial statements.

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, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012, in accordance with IFRS.

Report on a legal requirement

In accordance with section 159(2) of the Act, we report that, in our opinion, after giving retroactive effect to the changes in IFRS accounting policies, as explained in Note 4 to the financial statements, IFRS have been applied on a basis consistent with the previous year.

Audit Department [1]

[1]CPA auditor, CA, public accountancy permit No A109769

Montréal (Québec), April 2, 2014

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Caisse d'économie Desjardins des employés en Télécommunication
Balance Sheets

(in thousands of Canadian dollars)	Note	**As at December 31, 2013**	As at December 31, 2012 Restated (Note 4)	As at January 1, 2012 Restated (Note 4)
Assets				
Cash		**$1,220**	$1,638	$1,550
Investments in the liquidity fund under management and other		**4,940**	4,940	4,808
		6,160	6,578	6,358
Loans	7			
Personal		**129,245**	130,579	131,742
Business		**7,340**	8,364	7,198
		136,585	138,943	138,940
Allowance for credit losses		**97**	200	111
		136,488	138,743	138,829
Other investments in the Federation	8	**8,585**	7,619	6,650
Derivative financial instruments		**2,906**	2,023	1,935
Other assets	9	**2,053**	2,105	2,270
		13,544	11,747	10,855
Total assets		**$156,192**	$157,068	$156,042
Liabilities and equity				
Liabilities				
Deposits				
Term savings		**$83,587**	$82,310	$82,717
Other		**32,506**	29,885	27,765
		116,093	112,195	110,482
Borrowings	10	**22,696**	28,055	28,781
Other liabilities	11	**3,054**	3,426	3,678
		25,750	31,481	32,459
Total liabilities		**141,843**	143,676	142,941
Equity				
Capital stock	14	**4,209**	4,075	3,964
Distributable surplus earnings		**241**	270	579
Accumulated other comprehensive income		**289**	290	299
Reserves		**9,610**	8,757	8,259
Total equity		**14,349**	13,392	13,101
Total liabilities and equity		**$156,192**	$157,068	$156,042

The accompanying notes are an integral part of the Financial Statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statements of Income

For the years ended December 31

(in thousands of Canadian dollars)	Note	**2013**	2012 Restated (Note 4)
Interest income		**$5,188**	$5,749
Interest expense		**2,488**	2,721
Net interest income		**2,700**	3,028
Provision for credit losses	7	**3**	216
Net interest income after provision for credit losses		**2,697**	2,812
Other income	15	**1,385**	1,360
Other expenses			
Employees	12	**1,822**	1,925
Assessments paid to Desjardins Group components		**515**	512
Computer services		**473**	467
General expenses	16	**1,239**	1,292
		4,049	4,196
Operating surplus (deficit) earnings		**33**	(24)
Income on other investments in the Federation	8	**946**	790
Loss related to fair value of derivative instruments		**(263)**	(363)
Surplus earnings before taxes		**716**	403
Income taxes on surplus earnings	13	**(50)**	(117)
Net surplus earnings for the year		**$766**	$520

The accompanying notes are an integral part of the Financial Statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statements of Comprehensive Income

For the years ended December 31

(in thousands of Canadian dollars)	**2013**	2012 Restated (Note 4)
Net surplus earnings for the year	**$766**	$520
Other comprehensive income, net of income taxes		
Items that will not be subsequently reclassified to the Statements of Income		
Remeasurement of net defined benefit plan liabilities	**262**	(93)
Share of other comprehensive income attributable to the remeasurement of net defined benefit plan liabilities from investments in the Federation's investment funds	**65**	(62)
	327	(155)
Items that will be subsequently reclassified to the Statements of Income		
Share of other comprehensive income from investments in the Federation's investment funds	**63**	39
Reclassification to the Statements of Income related to share of other comprehensive income from investments in the Federation's investment funds	**(64)**	(47)
Other	**-**	(1)
	(1)	(9)
Total other comprehensive income	**326**	(164)
Comprehensive income for the year	**$1,092**	$356

The accompanying notes are an integral part of the Financial Statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)	**Capital stock**	**Distributable surplus earnings**	Reserves: Appreciation reserve (investments in the Federation's investment funds)	Reserves: Appreciation reserve (derivative instruments)	Reserves: Appreciation reserve (employee benefit plans)	Reserves: General reserve	Reserves: Stabilization reserve	Reserves: **Total reserves**	**Accumulated other comprehensive income (1)**	**Total equity**
Balance as at December 31, 2012 (restated)	$4,075	$270	$2,056	$315	$(1,276)	$7,368	$294	$8,757	$290	$13,392
Distribution by members at the 2013 general meeting										
Interest on permanent shares	-	(161)	-	-	-	-	-	-	-	(161)
Transfer from (allocation to) reserves	-	72	-	-	-	3	(75)	(72)	-	-
Impact of changes in accounting policies	-	37	-	-	-	-	-	-	-	37
Balance after distribution	4,075	218	2,056	315	(1,276)	7,371	219	8,685	290	13,268
Net surplus earnings for 2013	-	766	-	-	-	-	-	-	-	766
Other comprehensive income for the year	-	327	-	-	-	-	-	-	(1)	326
Statutory transfer	-	(1,033)	817	(204)	420	-	-	1,033	-	-
Equity transactions related to other investments in the Federation	-	-	(108)	-	-	-	-	(108)	-	(108)
Net change in capital stock	134	-	-	-	-	-	-	-	-	134
Impact of changes in accounting policies	-	(37)	-	-	-	-	-	-	-	(37)
Balance as at December 31, 2013	$4,209	$241	$2,765	$111	$(856)	$7,371	$219	$9,610	$289	$14,349

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

The accompanying notes are an integral part of the Financial Statements.

Caisse d'économie Desjardins des employés en Télécommunication
Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)	**Capital stock**	**Distributable surplus earnings**	Reserves: Appreciation reserve (investments in the Federation's investment funds)	Reserves: Appreciation reserve (derivative instruments)	Reserves: Appreciation reserve (employee benefit plans)	Reserves: General reserve	Reserves: Stabilization reserve	Reserves: **Total reserves**	**Accumulated other comprehensive income (1)**	**Total equity**
Balance as at January 1, 2012, as reported	$3,964	$309	$1,488	$591	$(976)	$7,365	$115	$8,583	$299	$13,155
Impact of changes in accounting policies (Note 4)	-	270	(105)	-	(219)	-	-	(324)	-	(54)
Balance as at January 1, 2012 (restated)	3,964	579	1,383	591	(1,195)	7,365	115	8,259	299	13,101
Distribution by members at the 2012 general meeting										
Interest on permanent shares and on surplus shares	-	(165)	-	-	-	-	-	-	-	(165)
Transfer from (allocation to) reserves	-	(182)	-	-	-	3	179	182	-	-
Impact of changes in accounting policies (Note 4)	-	38	-	-	-	-	-	-	-	38
Balance after distribution	3,964	270	1,383	591	(1,195)	7,368	294	8,441	299	12,974
Net surplus earnings for 2012	-	520	-	-	-	-	-	-	-	520
Other comprehensive income for the year	-	(155)	-	-	-	-	-	-	(9)	(164)
Statutory transfer	-	(327)	684	(276)	(81)	-	-	327	-	-
Equity transactions related to other investments in the Federation	-	-	(11)	-	-	-	-	(11)	-	(11)
Net change in capital stock	111	-	-	-	-	-	-	-	-	111
Impact of changes in accounting policies (Note 4)	-	(38)	-	-	-	-	-	-	-	(38)
Balance as at December 31, 2012 (restated)	$4,075	$270	$2,056	$315	$(1,276)	$7,368	$294	$8,757	$290	$13,392

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

The accompanying notes are an integral part of the Financial Statements.

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

For the years ended December 31

(in thousands of Canadian dollars)	**2013**	2012 Restated (Note 4)
Cash flows from (used in) operating activities		
Surplus earnings before taxes	**$716**	$403
Non-cash adjustments:		
Net provision for credit losses	**(18)**	181
Net defined benefit plan liabilities	**203**	273
Loss related to recognition of derivative instruments at fair value	**263**	363
Income on investments in the Federation's investment funds	**(909)**	(752)
Changes in operating assets and liabilities:		
Net change in loans	**2,273**	(95)
Net change in member deposits	**2,867**	1,198
Other changes	**(353)**	(319)
Income taxes on surplus earnings received during the year	**27**	48
	5,069	1,300
Cash flows from (used in) financing activities		
Transactions related to borrowings:		
Net change in line of credit	**(3,772)**	154
Net change in term borrowings	**(1,587)**	(881)
Issuance of permanent shares	**139**	106
Other net change in capital stock	**(5)**	5
Remuneration on permanent shares and surplus shares	**(161)**	(165)
	5,386	(781)
Cash flows from (used in) investing activities		
Acquisition of other investments in the Federation	**(258)**	(306)
Amount received from the Federation's investment funds	**157**	7
Net change in investments	**-**	(132)
	(101)	(431)
Net increase (decrease) in cash	**(418)**	88
Cash at beginning of year	**1,638**	1,550
Cash at end of year	**$1,220**	$1,638
Supplemental information on cash flows from (used in) operating activities		
Interest paid	**$2,475**	$2,642
Interest received	**5,232**	5,792

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 types of operations

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

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

The address of the head office of the Caisse is 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, 2013 on April 2, 2014.

Note 2. Significant accounting policies

General information

Statement of compliance

Pursuant to the Act, these Financial Statements have been prepared by the Caisse in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and the accounting requirements of the AMF, which do not differ from IFRS. Some figures from the prior year were reclassified to be consistent with the presentation of the financial statements of the current year. This reclassification did not affect the Caisse's profit or loss or total assets and liabilities.

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.

Significant judgments, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of certain assets, liabilities, income and expenses, as well as related information. The significant accounting policies that have required that management make difficult, subjective or complex judgments, often with regard to matters of an uncertain nature, concern fair value measurement of financial instruments, derecognition of financial assets, the allowance for credit losses, objective evidence of impairment of available-for-sale securities, member dividends, provisions, impairment of non-financial assets, income taxes on surplus earnings and employee benefits. Consequently, actual results could differ from these estimates.

Functional and presentation currency

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

Note 2. Significant accounting policies (continued)

Financial assets and liabilities

Financial assets mainly consist of cash, 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 accounting records for the first time. Subsequent recognition is the accounting treatment applied in subsequent periods during which these assets and liabilities are recorded on the Balance Sheets.

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

	Recognition	
Categories	**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) Assets 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 Statements 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 investment in the liquidity fund 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 terms and conditions of the instruments.

Note 2. Significant accounting policies (continued)

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 classified in the "At amortized cost" category are measured at amortized cost using the effective interest method. Interest expense on these liabilities is recognized under "Interest expense" in the Statements of Income. Financial liabilities classified in this category include:

- deposits;
- borrowings.

Determination of the fair value of financial instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

If there are no quoted prices on active markets, fair value is determined using models that maximize the use of observable inputs and minimize the use of unobservable inputs. In such cases, fair value estimates are established using valuation techniques such as cash flow discounting, comparisons with similar financial instruments, option pricing models and other valuation techniques commonly used by market participants, if these techniques have been demonstrated to provide reliable estimates. Valuation techniques are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates that are mainly based on observable data, such as interest rate yield curves, exchange rates, credit curves and volatility factors. When one or several material inputs are not observable on the market, fair value is determined mainly based on internal inputs and estimates that take into account the characteristics specific to the financial instrument and any factor relevant to the measurement. For complex financial instruments, significant judgment is exercised in determining the valuation technique to be used and in selecting inputs and adjustments associated with this technique. Due to the need to use estimates and make judgments, where appropriate, when applying many valuation techniques, fair value estimates for identical or similar assets may differ between entities. 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

The fair value of loans is determined by discounting expected contractual cash flows using market interest rates charged for similar new loans at the reporting date and takes estimated prepayments into account. 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 results in a favourable or unfavourable difference compared to their carrying amount. 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".

Note 2. Significant accounting policies (continued)

Deposits and borrowings

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 substantially the same term and takes estimated prepayments into account. 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.

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, interest rate yield curves, credit curves and volatility factors.

Financial instruments whose fair value equals the carrying amount

The carrying amount of certain financial instruments that mature within the next 12 months is a reasonable approximation of their fair value. These financial instruments include the following items: "Cash", some "Other assets" and some "Other liabilities".

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 such instruments are classified in the "Financial assets held for trading" category, in which case these costs are expensed as incurred.

Offsetting financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable right to set off the recognized amounts and the Caisse intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

A financial asset is derecognized on the Balance Sheets when the contractual rights to the cash flows from the asset expire or when the contractual rights to the cash flows from the asset are retained but the Caisse has the obligation to pay these cash flows to a third party, under certain conditions, or when the contractual rights to the cash flows from the asset are transferred and substantially all risks and rewards of ownership of the asset have been transferred.

When the Caisse has retained substantially all the risks and rewards of ownership of the financial asset transferred, the asset continues to be recognized on the Balance Sheets and a financial liability is recognized, if required.

When a financial asset is derecognized in its entirety, a gain or a loss is recognized in the Statements of Income for an amount equal to the difference between the carrying amount of the asset and the value of the consideration received.

Note 2. Significant accounting policies (continued)

The Caisse's management must use its judgment to determine if the contractual rights to the cash flows from the asset have expired, have been transferred or have been retained with the obligation to pay these cash flows to a third party. In the event of the transfer of substantially all the risks and rewards, management will assess the Caisse's exposure before and after the transfer, as well as the change in the amount and timing of the net cash flows related to the transferred asset. Lastly, the Caisse's management must exercise judgment in measuring the rights retained.

A financial liability is derecognized when the related obligation is discharged, cancelled or expires. The difference between the carrying amount of the financial liability transferred and the consideration paid is recognized in the Statements of Income.

Cash

"Cash" includes cash on hand and other amounts 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. To manage liquidity risk, the Caisse 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 prohibit their use in current operations. The investment in the liquidity fund is therefore classified in the "Available-for-sale financial assets" category. 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. They are deferred and amortized using the effective interest method, and amortization is recognized under interest income for the term of the loan.

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 Group subsidiaries. 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 Statements of Income under "Income on 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. Since these shares do not entitle holders to any return from the Federation, holdings of these securities are classified as available-for-sale financial assets, and are therefore recognized at fair value. Given the specific characteristics of these investments, fair value corresponds to cost. Interest income from these investments is recorded when the right to such income is established by the Federation. This income is presented in the Statements of Income under "Income on other investments in the Federation".

Note 2. Significant accounting policies (continued)

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 amount of these financial assets. The allowance is equal to the difference between this estimate and the carrying amount. This allowance is presented in deduction of loans under "Allowance for credit losses". To determine the estimated recoverable amount of a loan, the Caisse uses the value of the expected future cash flows discounted at the loan's effective interest rate. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated recoverable amount is determined using the fair value of the securities underlying the loan, net of expected costs of realization.

The allowance for credit losses is Caisse management's best estimate of impaired loans at the reporting date. In measuring the allowance for credit losses, Caisse management must exercise judgment in order to determine the inputs, assumptions and estimates to be used, including the timing when a loan is considered impaired and the recoverable amount. A change in these estimates and assumptions would affect the allowance for credit losses, as well as the provision for credit losses for the year.

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 Statements of Income.

There is objective evidence of impairment when a loan is considered impaired. A loan is classified as impaired when one of the following conditions is met:

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

A loan is not classified as impaired when it is fully guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency.

A loan is considered past due as soon as the borrower has failed to make a payment by the contractual due date.

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 longer doubt as to the collection of the principal and interest.

Note 2. Significant accounting policies (continued)

Assets foreclosed to settle impaired loans are recognized on the date of foreclosure at their fair value less costs of disposal. The fair value of foreclosed assets is determined by using a comparative market analysis, based on the optimal use of the assets, as well as the characteristics, location and market of each foreclosed asset. Transaction prices for similar assets are used, but certain adjustments are made to take into account the differences between assets on the market and the foreclosed assets measured. 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". In the opposite case, the difference is accounted for under "Provision for credit losses" up to the allowance 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" in the Statements 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" in the Statements of Income.

Collective allowance

Loan portfolios for which an individual allowance has not been established are included in groups of financial assets with 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 judgment and its assessment of current credit quality trends with respect to business segments, 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 Balance Sheets and under "General expenses" in the Statements of Income.

Property, plant and equipment

Property, plant and equipment may include land, buildings, equipment, furniture and other items 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 over its own depreciation period. The component approach has therefore been chosen for property, plant and equipment.

Note 2. Significant accounting policies (continued)

The depreciable amount of an item of property, plant and equipment is determined after deducting its residual value less costs of disposal. Since the useful life of property, plant and equipment is generally equal to their expected economic 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 Statements of Income.

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

	Depreciation periods
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 primarily 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 of disposal.

The fair value of assets held for sale is determined by using a comparative market analysis, based on the optimal use of the assets, as well as the characteristics, location and market of each asset. Transaction prices for similar assets are used, but certain adjustments are made to take into account the differences between assets on the market and assets held for sale.

Impairment of non-financial assets

The Caisse assesses at the reporting date whether there is evidence 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 of disposal and its value in use. Fair value corresponds to the best estimate of the amount that can be obtained from a sale during an arm’s length transaction between knowledgeable, willing parties, after deducting the costs of disposal. The value in use is calculated according to the most appropriate method, generally by discounting recoverable future cash flows. Impairment losses on that asset may be subsequently reversed and are recognized in the Statements 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 “Financial liabilities at amortized cost” category. Interest expense calculated based using the effective interest is recognized in profit or loss for the year under “Interest expense”.

Borrowings

Borrowings are financial liabilities classified as “Financial liabilities at amortized cost”. Interest expense calculated using the effective interest rate is recognized in profit or loss for the year under “Interest expense”.

Note 2. Significant accounting policies (continued)

Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are recognized when the Caisse has an obligation (legal or constructive) as a result of past events, the settlement of which should result in a disbursement by the Caisse and when a reliable estimate can be made of this amount. The amount of the expected disbursement is discounted where the effect of the time value of money is material.

Provisions are based on management's best estimate of the amounts that will be necessary to settle the obligation at the end of the reporting period, in view of relevant risk and uncertainties. Given the prospective nature of these estimates, management must use its judgment to determine the timing and the amount of future cash flows. Actual results could be significantly different from forecasts.

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 mutual agreement between the Caisse and the counterparty and include interest rate swaps, total return swaps, foreign exchange contracts and stock index options.

The Caisse recognizes derivative instruments at fair value, whether they are stand-alone or embedded. Stand-alone derivative instruments are recognized on the Balance Sheets under other assets and liabilities, while embedded derivative instruments are presented with their host contract depending on the type of instrument, under "Term savings". Changes in the fair value of stand-alone derivative instruments are recognized under "Loss related to fair value of derivative instruments" in the Statements of Income, except for changes in the fair value of derivative instruments associated with market-linked term savings, which are recognized under "Interest expense". Moreover, changes in the fair value of embedded derivative instruments are recognized as interest expense adjustments.

The Caisse essentially uses derivative financial instruments for purposes of asset and liability management.

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

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

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

The Caisse has elected 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 permanent shares, as well as for the purpose of establishing or maintaining the required level of capitalization through transfers to the stabilization reserve and the general reserve.

Note 2. Significant accounting policies (continued)

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 subsidiaries accounted for using the equity method.
- The "Appreciation reserve – Derivative instruments" comprises gains and losses resulting from 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 previously in "Financial assets and liabilities", the specific recognition criteria that follow must also be met before revenues can be recognized.

Net interest income

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that accurately 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 finders' fees, are assimilated to supplemental interest.

Note 2. Significant accounting policies (continued)

Other income

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

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

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

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 Statements of Income under “Other income”.

Leases

Leases under which the lessor retains substantially all the risks and rewards incidental to ownership of an asset are known as operating leases. However, leases under which there is a transfer of substantially all the risks and rewards incidental to ownership of an asset are known as finance leases.

Lessee

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

Under a finance lease, an asset and a liability of an equivalent amount are recognized at the lesser of the fair value of the asset acquired or the present value of minimum lease payments. The asset is presented on the Balance Sheets under “Other assets”, while the corresponding liability is presented on the Balance Sheets under “Other liabilities”. A depreciation expense is recognized in profit or loss on a straight-line basis over the lease period, while an interest expense is recognized in profit or loss under “General expenses” based on the lease’s effective interest rate.

Lessor

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

Note 2. Significant accounting policies (continued)

Income taxes on surplus earnings

The income tax expense on surplus earnings includes the current income tax expense and the deferred income tax expense. Income taxes on surplus earnings are recognized in the Statements of Income, unless they are related to items that are not recognized in profit or loss but directly in the Statements of Comprehensive Income or the Statements of Changes in Equity, in which case income taxes are also recognized in these statements.

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, management must exercise its judgment to make assumptions concerning the dates on which deferred income tax assets and liabilities will be reversed. Significant judgment must be exercised to interpret the relevant tax legislation to determine the income tax. If the Caisse’s interpretation differs from that of the taxation authorities or if the reversal dates do not correspond to 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 Sheets.

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. Unrecognized deferred tax assets are remeasured at each reporting date and are recognized to the extent that a future taxable benefit may likely allow them to be recovered.

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 year-end. 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, Accord D 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, in which case the value is greater than the equivalent dividends paid in cash.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term benefits

Short-term benefits are salaries and commissions, social security contributions and certain bonuses payable within 12 months after the reporting date. An expense is recognized for these short-term benefits in the period during which the services giving right to these benefits were rendered.

Post-employment benefits

Pension and other plans

The Caisse offers the majority of its employees a pension plan as well as a supplemental pension plan that are defined benefit plans. The Caisse also offers medical, dental and life insurance coverage to retiring employees and their dependants.

The cost of these plans is recognized in the Statements of Income and consists of current service costs, past service costs and net interest on net defined benefit plan liabilities. Past service costs arising from an amendment to or reduction in the plans are recognized immediately in the Statements of Income.

Remeasurements of net defined benefit plan liabilities are recognized in other comprehensive income that will not be subsequently reclassified to the Statements of Income and are recorded immediately in distributable surplus earnings. Remeasurements of net defined benefit plan liabilities include actuarial gains and losses as well as the difference between the actual return on plan assets and the interest income generated by the assets recognized in the Statements of Income. Actuarial gains and losses result from the changes made to the actuarial assumptions used to determine the defined benefit plan obligation and the experience gains or losses with regard to this obligation.

The net defined benefit plan assets or liabilities correspond to the present value of the obligation of these plans, computed according to the projected unit credit method, less the fair value of the plan assets. The value of any defined benefit plan asset is limited to 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 pension plan liabilities and the liabilities related to the other post-employment benefit plans are recognized under "Net defined benefit plan liabilities" or "Other liabilities" on the Balance Sheets.

The Caisse participates in defined benefit group plans of which the risks are shared by entities under common control. The Caisse's share of the recognized costs and of Desjardins Group's defined benefit group plan liabilities is mainly determined by funding rules, as described in the Desjardins Group Pension Plan Regulation. Desjardins Group's main pension plan is funded by both employee and employer contributions, which are determined based on the financial position and the funding policy of the plan. Employer contributions are determined as a percentage of the covered payroll of their employees who participate in the plan.

The Caisse's share of the cost of Desjardins Group's other group plan is based on the number of the Caisse's active insureds as a percentage of the total number of active insureds for Desjardins Group as a whole.

Note 3. Future accounting changes

Accounting standards that have been issued by the IASB but are not yet effective as at December 31, 2013 are listed below. Regulatory authorities have stated that early adoption of these standards will not be permitted, unless they advise otherwise.

Date of application: 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 a financial asset and a financial liability.

The Caisse is currently assessing the impact of the amendments to this standard.

Date of application: undetermined

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 of classifying and measuring financial assets and liabilities. Financial assets will be classified into two categories (amortized cost and fair value through profit or loss) based on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the financial assets. However, an exposure draft issued in November 2012 proposes the introduction of a third financial instrument category for debt securities: fair value through comprehensive income.

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

In November 2013, the IASB also issued the phase of the project to replace IAS 39 dealing with hedging transactions.

The phase of the IASB project dealing with the impairment of financial asset methodology is still underway.

The IASB temporarily eliminated the mandatory effective date of IFRS 9, which had been set at January 1, 2015, and will determine a new effective date once all the phases in this project have been finalized.

The Caisse is currently assessing the impact of the adoption of IFRS 9.

Note 4. Changes in accounting policies and disclosures

Presentation of financial statements

On January 1, 2013, the Caisse adopted the amendments to IAS 1, "Presentation of Financial Statements". These amendments, which relate to the presentation of other comprehensive income, require the presentation by nature of items of other comprehensive income by distinguishing those that will be subsequently reclassified to the Statements of Income from those that will not.

The retrospective application of these amendments resulted in changes in the presentation of the Statements of Comprehensive Income but had no impact on the Caisse's profit or loss or financial position.

Note 4. Changes in accounting policies and disclosures (continued)

Income tax consequences of remuneration on capital stock

On January 1, 2013, the Caisse also applied the new requirements of IAS 32, "Financial Instruments: Presentation".

The amendments to this standard specify that the income tax consequences of dividends and remuneration on capital stock must now be recognized in accordance with IAS 12, "Income Taxes". Therefore, when certain conditions are met, these income tax consequences are presented in profit or loss rather than in equity. In addition, cash flows related to these income tax consequences, which were previously classified as financing activities, are now classified as operating activities.

These amendments have been applied retrospectively. Accordingly, certain comparative figures have been reclassified from the Statements of Changes in Equity to the Statements of Income. For the year ended December 31, 2012, the line item "Interest on permanent shares and on surplus shares", which was presented in the Statements of Changes in Equity, increased by $38, and "Income taxes on surplus earnings", in the Statements of Income, decreased by a corresponding amount. In addition, cash flows related to the income tax recovery on remuneration of permanent shares and surplus shares that totalled $38 for the year ended December 31, 2012, and were previously classified as financing activities, are now classified as operating activities.

Disclosure of interests in other entities

On January 1, 2013, the Caisse adopted IFRS 12, "Disclosure of Interests in Other Entities".

IFRS 12 enhances disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Some of the disclosures required by this new standard were already required by standards in effect prior to its application, while others are new, such as disclosures about significant assumptions and judgments the entity has made in determining the nature of its relationship with another entity as well as the nature and scope of its interests in other entities, as well as the associated risks.

As IFRS 12 specifically concerns disclosures, its adoption had no impact on the Caisse's profit or loss or financial position. The Caisse adopted IFRS 12 retrospectively and the new disclosures required are presented in Note 8, "Other investments in the Federation".

Fair value measurement

On January 1, 2013, the Caisse adopted IFRS 13, "Fair Value Measurement". This standard defines fair value and sets out a single framework for measuring the fair value of all transactions and balances for which IFRS require or permit such measurement. It improves the consistency between the different fair value concepts defined in various existing IFRS. 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.

With regard to fair value measurements, the prospective application of this new standard had no impact on the Caisse's profit or loss or financial position. The new IFRS 13 disclosure requirements are presented in Note 6, "Fair value measurement".

Note 4. Changes in accounting policies and disclosures (continued)

Offsetting financial assets and liabilities

On January 1, 2013, the Caisse adopted the amendments to IFRS 7, "Financial Instruments: Disclosures". These amendments enhance the disclosure requirements for offsetting financial assets and liabilities. The objective of these amendments is to help users of financial statements better evaluate the impact of netting agreements on the financial position of an entity and understand how it manages the credit risk associated with such agreements.

The Caisse has applied these amendments on a retrospective basis. Since these amendments specifically concern disclosures, they had no impact on the Caisse's profit or loss or financial position. The new IFRS 7 disclosure requirements are presented in Note 20, "Offsetting financial assets and liabilities".

Employee benefits

On January 1, 2013, the Caisse adopted the amendments to IAS 19, "Employee Benefits", which change the accounting rules for employee benefits and mainly those related to defined benefit plans. This standard now requires the following:

- All actuarial gains and losses that will not be subsequently reclassified to the Statements of Income must be recognized immediately in other comprehensive income. The use of the "corridor approach" to defer the recognition of actuarial gains and losses is no longer allowed;
- Interest cost must be calculated by multiplying the net defined benefit plan asset or liability by the rate used to discount the obligation;
- The difference between the actual return on pension fund assets and the interest income included in interest cost must be recognized in other comprehensive income if it will not be subsequently reclassified to the Statements of Income;
- Past service costs must be directly recognized in the Statements of Income when they occur;
- Employee contributions used to make up the deficit, which are required and set out in the terms of the defined benefit plans, must reduce the liability recognized on the Balance Sheets.

The requirements of this amended standard have been applied retrospectively. The impact of adopting these amendments is as follows:

	As at December 31, 2012[1]	As at January 1, 2012[1]
Balance Sheets		
Deferred tax assets	$8	$-
Net defined benefit plan liabilities[2]	469	286
Deferred income	(283)	(353)
Deferred tax liabilities	(35)	16
Distributable surplus earnings	218	270
Reserves	(361)	(219)

(1) Increase (decrease) in the balance presented on the Balance Sheets prior to adopting the amended version of IAS 19.

(2) Prior to adopting the amended version of IAS 19, this item was entitled "Defined benefit plan liabilities".

Note 4. Changes in accounting policies and disclosures (continued)

	2012[1]
Statements of Income	
Employees	$133
Income taxes on surplus earnings	(32)
Net surplus earnings for the year after member dividends	$(101)
Statements of Comprehensive Income	
Net surplus earnings for the year after member dividends	$(101)
Remeasurement of net defined benefit plan liabilities, net of taxes	(93)
Comprehensive income for the year	$(194)

(1) Increase (decrease) in the balance presented in the Statements of Income and the Statements of Comprehensive Income prior to adopting the amended version of IAS 19.

Impact of amendments to IAS 19 on other investments in the Federation

The Caisse accounts for its investments in the Federation's investment funds using the equity method. The amendments to IAS 19 were also applied retrospectively to the Federation's investment funds. As a result, the Caisse must recognize its share of adjustments made by the Federation's investment funds.

Therefore, a decrease of $105 was recognized under "Other investments in the Federation" as at January 1, 2012, and of $194 as at December 31, 2012. In addition, an adjustment of $15 was recognized in the Statements of Income and an amount of $62 in the Statements of Comprehensive Income as at December 31, 2012. The total adjustment of $105 as at January 1, 2012, and of $194 as at December 31, 2012, was recognized under "Appreciation reserve – Investments in the Federation's investment funds".

Note 5. Carrying amount of financial instruments

The following tables present the carrying amount of all financial assets and liabilities according to their classification in the categories defined in Note 2 concerning financial instruments.

2013

	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets				
Cash	$-	$-	$1,220	$1,220
Investments	-	4,940	-	4,940
Loans	-	-	136,488	136,488
Investments in the Federation's General Fund	-	1,369	-	1,369
Other financial assets	-	-	257	257
Derivative financial instruments	2,906	-	-	2,906
Total financial assets	$2,906	$6,309	$137,965	$147,180
Financial liabilities				
Deposits	$-	$-	$116,093	$116,093
Borrowings	-	-	22,696	22,696
Other financial liabilities	-	-	1,376	1,376
Derivative financial instruments	175	-	-	175
Total financial liabilities	$175	$-	$140,165	$140,340

Note 5. Carrying amount of financial instruments (continued)

2012				
	Held for trading	Available for sale	Loans and receivables, and financial liabilities at amortized cost	Total
Financial assets				
Cash	$-	$-	$1,638	$1,638
Investments	-	4,940	-	4,940
Loans	-	-	138,743	138,743
Investments in the Federation's General Fund	-	1,369	-	1,369
Other financial assets	-	-	310	310
Derivative financial instruments	2,023	-	-	2,023
Total financial assets	$2,023	$6,309	$140,691	$149,023
Financial liabilities				
Deposits	$-	$-	$112,195	$112,195
Borrowings	-	-	28,055	28,055
Other financial liabilities	-	-	1,375	1,375
Derivative financial instruments	36	-	-	36
Total financial liabilities	$36	$-	$141,625	$141,661

Note 6. Fair value measurement

The fair value of assets and liabilities is measured by using the following three levels of the fair value hierarchy:

- Level 1 – Measurement based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques based primarily on observable market data.
- Level 3 – Valuation techniques not based primarily on observable market data.

Note 6. Fair value measurement (continued)

The tables below present the fair value measurement hierarchy for assets and liabilities recognized at fair value on the Balance Sheets.

2013

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Investment in liquidity fund under management	**$-**	**$4,940**	**$-**	**$4,940**
Investments in the Federation's General Fund	**-**	**1,369**	**-**	**1,369**
Derivative financial instruments	**-**	**2,906**	**-**	**2,906**
Liabilities				
Derivative financial instruments	**-**	**175**	**-**	**175**

2012

	Level 1	Level 2	Level 3	Total
Assets				
Investment in liquidity fund under management	$-	$4,940	$-	$4,940
Investments in the Federation's General Fund	-	1,369	-	1,369
Derivative financial instruments	-	2,023	-	2,023
Liabilities				
Derivative financial instruments	-	36	-	36

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

The following tables present items containing financial instruments whose carrying amount is not equal to fair value, classified by hierarchical level.

2013

	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Loans	**$136,488**	**$137,267**	**$-**	**$-**	**$137,267**
Financial liabilities					
Deposits	**116,093**	**117,082**	**-**	**117,082**	**-**
Borrowings	**22,696**	**22,986**	**-**	**22,986**	**-**

Note 6. Fair value measurement (continued)

	2012	
	Carrying amount	Fair value
Financial assets		
Loans	$138,743	$140,187
Financial liabilities		
Deposits	112,195	113,394
Borrowings	28,055	28,506

Note 7. Loans and allowance for credit losses

Loans by borrower category

	2013	2012
Personal		
Mortgages	**$101,999**	$100,407
Consumer and other	**27,246**	30,172
Business		
Commercial and industrial	**7,340**	8,364
Agriculture, forestry and fishing	**-**	-
Public administrations and institutions	**-**	-
	$136,585	$138,943

Loans, impaired loans and allowances

The following tables present the credit quality of loans.

		2013		
	Personal	**Business**	**Collective allowance**	**Total**
Gross loans neither past due nor impaired	**$127,350**	**$7,030**	**$-**	**$134,380**
Gross loans past due but not impaired	**1,848**	**305**	**-**	**2,153**
Gross impaired loans	**47**	**5**	**-**	**52**
Total gross loans	**129,245**	**7,340**	**-**	**136,585**
Individual allowances	**(47)**	**(4)**	**-**	**(51)**
Collective allowance	**-**	**-**	**(46)**	**(46)**
Total net loans	**$129,198**	**$7,336**	**$(46)**	**$136,488**

Note 7. Loans and allowance for credit losses (continued)

2012	Personal	Business	Collective allowance	Total
Gross loans neither past due nor impaired	$127,851	$8,359	$-	$136,210
Gross loans past due but not impaired	2,134	5	-	2,139
Gross impaired loans	594	-	-	594
Total gross loans	130,579	8,364	-	138,943
Individual allowances	(146)	-	-	(146)
Collective allowance	-	-	(54)	(54)
Total net loans	$130,433	$8,364	$(54)	$138,743

Gross loans past due but not impaired

The following tables present the aging of gross loans that are past due but not impaired.

2013	**1 to 29 days**	**30 to 59 days**	**60 to 89 days**	**90 days or more**	**Total**
Personal	**$1,754**	**$-**	**$12**	**$82**	**$1,848**
Business	**305**	**-**	**-**	**-**	**305**
	$2,059	**$-**	**$12**	**$82**	**$2,153**

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

Note 7. Loans and allowance for credit losses (continued)

Change in the allowance for credit losses

	2013			
	Individual allowances Personal	**Individual allowances Business**	**Collective allowance**	**Total**
Balance at beginning of year	**$146**	**$-**	**$54**	**$200**
Provision for credit losses recognized in the Statements of Income	**10**	**1**	**(8)**	**3**
Write-offs and other	**(109)**	**3**	**-**	**(106)**
Balance at end of year	**$47**	**$4**	**$46**	**$97**

	2012			
	Individual allowances Personal	Individual allowances Business	Collective allowance	Total
Balance at beginning of year	$53	$-	$58	$111
Provision for credit losses recognized in the Statements of Income	221	(1)	(4)	216
Write-offs and other	(128)	1	-	(127)
Balance at end of year	$146	$-	$54	$200

Transferred loans

Transferred loans that are not derecognized

Mortgage loans transferred for securitization purposes

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 Canada Mortgage and Housing Corporation (CMHC). Under this program, the Caisse transfers CMHC-guaranteed mortgage loans to a Desjardins Group subsidiary. 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, the loans in the pool are then transferred from the caisses to CMHC. Afterwards, the Caisse may not transfer or sell these assets or pledge them as collateral, as they have been sold, and it may not repurchase them before maturity. 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 prepayment risk, interest rate risk, credit risk and counterparty risk, while the rewards include the cash flows from the assets.

Note 7. Loans and allowance for credit losses (continued)

Consequently, the loans continue to be recognized on the Caisse's Balance Sheets. 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 Sheets under "Borrowings", if applicable.

No loss is expected on the mortgage loans because they are guaranteed by CMHC. Income related to securitization transactions is recognized under "Interest income". The legal guarantee on these transactions is limited to the transferred assets.

Mortgage loans transferred for the covered bond program

The Caisse transferred to a Desjardins Group subsidiary CMHC-insured residential mortgage loans under a covered bond issuance program. The mortgage loans are then transferred to a consolidated structured entity by this Desjardins Group subsidiary. Afterwards, the Caisse may not transfer or sell these assets or pledge them as collateral, as they have been sold, and it may not repurchase them before maturity. As part of these transactions, the Caisse retains substantially all the risks and rewards related to the loans concerned, in particular prepayment risk, interest rate risk, credit risk and counterparty risk, while the rewards include the cash flows from the assets. Consequently, the loans continue to be recognized on the Caisse's Balance Sheets. The Caisse furthermore undertook to make its mortgage loans available to the Desjardins Group subsidiary, to a maximum of the eligible loans for the covered bond programs.

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

The table below presents the carrying amount of mortgage loans legally transferred by the Caisse, but still recognized in the Balance Sheets and the related liabilities, as applicable.

	2013		2012	
	Assets	**Liabilities**	Assets	Liabilities
Mortgage loans transferred for securitization purposes(1)	**$10,726**	**$319**	$7,110	$207
Mortgage loans transferred for the covered bond program	**1,453**	**-**	1.808	-

(1) The fair value of financial assets transferred for securitization purposes and related financial liabilities, as applicable, was $319 and $317 ($210 and $205 in 2012), respectively, for a net position of $2 ($5 in 2012).

Transferred loans that are derecognized

Mortgage loans transferred for securitization purposes before January 1, 2010

Loans transferred for securitization purposes before January 1, 2010 remain derecognized, as the Caisse elected to prospectively apply the derecognition requirements, 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.

Note 7. Loans and allowance for credit losses (continued)

The terms and conditions of the program require that basis swap contracts be entered into with respect to the variable-rate mortgage loans transferred to a Desjardins Group subsidiary. 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 under "Other assets" on the Balance Sheets.

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

Transfer of mortgage loans to other Desjardins Group caisses or components

The Caisse transferred residential mortgage loans to other Desjardins Group caisses or components. These transactions are accounted for as sales since substantially all the risks and rewards of ownership of the assets have been transferred. As part of these transactions, basis swap contracts are entered into with respect to 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 when the loans are transferred under "Other assets" on the Balance Sheets. The Caisse manages the inherent risk of its continuing involvement in the derecognized loans through its global matching strategy.

During previous years, certain transferred loans were derecognized. For the year ended December 31, 2012, the carrying amount of these loans was $175 and the carrying amount of assets representing retained interests that the Caisse continued to recognize with respect to these transfers was $1, which was also their fair value. In 2013, all these retained interests were extinguished, resulting in the recognition of net expenses of $1 ($1 in 2012).

Note 8. Other investments in the Federation

Other investments in the Federation presented in the Balance Sheets comprise:

	2013	2012 Restated (Note 4)
Investments in the Federation's investment funds accounted for using the equity method	**$7,216**	$6,250
Investments in the Federation's General Fund recognized at fair value	**1,369**	1,369
	$8,585	$7,619

Note 8. Other investments in the Federation (continued)

Income on other investments in the Federation comprises:

	2013	2012 Restated (Note 4)
Net surplus earnings from investment funds accounted for using the equity method	**$909**	$752
Interest income from investments in the Federation's General Fund	**37**	38
	$946	$790

Investments in the Federation's investment funds

The Caisse exercises significant influence over the Federation. The Federation is the entity responsible for orientation, coordination and development within Desjardins Group. It provides the Caisse with services of strategic importance, such as services of a technical, financial or administrative nature. In addition, the Federation is the parent company of a number of subsidiaries that offer complementary financial services to the caisses and their members.

The Caisse considers that it is able to exercise significant influence over the Federation, even though it holds less than 20% of the voting rights, given that it is able to exercise influence by participating in various bodies and commissions and advisory groups mandated to establish operating policies, and by the extent of intercompany transactions disclosed in Note 17 and the numerous exchanges of a technical and other nature with these subsidiaries and their parent, the Federation.

The following tables present summary financial information on the investment funds from the non-consolidated financial statements of the Federation:

	2013	2012
Percentage of equity securities(1)	**0.12%**	0.12%
Equity	**$6,264,304**	$5,319,975
Investments in the Federation's investment funds(2)	**7,216**	6,250

(1) Each caisse has one voting right in the Federation.

(2) The carrying amount of investments in the Federation's investment funds reported in the Balance Sheets corresponds to the Caisse's share of the equity of the Federation's investment funds as well as adjustments made by the Caisse in applying the equity method.

	2013	2012
Net surplus earnings	**$817,039**	$656,716
Other comprehensive income	**2,484**	(58,842)
Comprehensive income for the year	**819,524**	597,874
Amount received from the Federation's investment funds	**157**	7

The Federation may, upon a decision of the Board of Directors, finance an investment in an investment fund by way of a call for capital to the caisses. The Board determines the number of shares of the investment fund to be acquired by each of the caisses, by choosing one or another of the allocation bases provided in the regulation of the Federation.

Note 9. Other assets

Other assets presented in the Balance Sheets were primarily composed of:

	2013	2012 Restated (Note 4)
Prepaid expenses	**$538**	$491
Accounts receivables	**1,145**	1,073
Other	**370**	541
	$2,053	$2,105

Note 10. Borrowings

			2013	2012
Line of credit, bearing interest at a rate ranging from 1.28% to 1.86%			**$3,428**	$7,200
Term loan, bearing interest at 2.97%, repayable at maturity in April 2014			**1,500**	1,500
Term loans, bearing interest at a rate ranging from 2.08% to 2.52%, renegotiable quarterly, repayable at their respective maturity dates until June 2016			**13,500**	15,200
Term loans, bearing interest at fixed rates or rates renegotiable quarterly, some of which including an early repayment clause(1)				
Fixed rate	**Maturity**	**Repayable**		
6.01%	April 2019	April 2014	**655**	655
5.79	June 2021	June 2016	**652**	652
5.39	May 2020	May 2015	**1,145**	1,145
4.05	November 2020	November 2015	**878**	877
5.15	December 2026	December 2021	**619**	619
Borrowings resulting from certain securitization transactions, bearing interest at rates ranging from 1.68% to 1.99%, maturing no later than August 2014			**319**	207
			$22,696	$28,055

(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 11. Other liabilities

The other liabilities presented in the Balance Sheets are primarily composed of:

	Note	**2013**	2012 Restated (Note 4)
Accrued interest		**$1,376**	$1,375
Net defined benefit plan liabilities	12	**1,013**	1,550
Other		**665**	501
		$3,054	$3,426

Note 12. Defined benefit plans

Group plans

This note should be read in conjunction with Note 28 to the Desjardins Group audited Combined Financial Statements for the year ended December 31, 2013, approved on February 25, 2014, which presents the defined benefit group plans.

Pension plan

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

The Caisse's share represents 0.06% of the defined benefit group plans of Desjardins Group (0.07% in 2012). The share of the pension expense related to these plans attributable to the Caisse and recognized in profit or loss for the year, is $173 ($243 in 2012 [restated]) and the share of the remeasurement of net defined benefit plan liabilities recognized in other comprehensive income is $247 ($(87) in 2012 [restated]). The Caisse's share of the plan liabilities recognized on the Balance Sheets amounts to $623 ($1,084 in 2012 [restated]).

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 2012). An amount of $390 ($466 in 2012 [restated]) was recognized as a liability, representing the Caisse's share in the plan. The expense for the year related to this plan totals $30 ($31 in 2012 [restated]), while the remeasurement of net defined benefit plan liabilities recognized in other comprehensive income is $96 ($(33) in 2012 [restated]).

Note 13. Income taxes on surplus earnings

The income tax expense on surplus earnings recognized in the Statements of Income is detailed as follows:

	2013	2012 Restated (Note 4)
Current income tax expense on surplus earnings	**$83**	$67
Deferred income tax expense related to origination and reversal of temporary differences	**(96)**	(126)
Deferred income tax expense related to changes in tax rates	**1**	(2)
Other	**(38)**	(56)
	$(50)	$(117)

The income tax expense for surplus earnings recognized in the Statements of Income differs from the income tax expense determined using the statutory rate for the following reasons:

	2013	2012 Restated (Note 4)
Income taxes at the statutory rate of 26.9% (26.9 % in 2012)	**$192**	$109
Eligible small business deduction	**-**	9
Non-taxable investment income and other items	**(207)**	(200)
Other differences	**(35)**	(35)
	$(50)	$(117)

Income tax expense on other comprehensive income

An income tax expense of $81 ($(26) in 2012) was recognized in comprehensive income in relation to the remeasurement of net defined benefit plan liabilities.

Note 14. Capital stock

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

Capital stock comprises qualifying shares, permanent shares and surplus shares.

The Caisse may issue an unlimited number of qualifying shares with a par value of $5, redeemable at the Caisse’s option under certain conditions stipulated by 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 conditions stipulated by the Act. Their rate of interest 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 may be paid in cash or in shares.

Note 14. Capital stock (continued)

Issued and paid-up shares are as follows:

	2013	2012
Qualifying shares	**$31**	$33
Permanent shares	**4,033**	3,894
Surplus shares	**145**	148
	$4,209	$4,075

Note 15. Other income

	2013	2012
Related mainly to deposit administration	**$354**	$369
Related to distribution of Desjardins products and services	**615**	561
Related to administration of other services	**416**	430
	$1,385	$1,360

Note 16. General expenses

	2013	2012
Premises	**$331**	$298
Office and communications expenses	**107**	130
Intercaisse transactions	**195**	226
Other	**606**	638
	$1,239	$1,292

Note 17. Related party transactions

In the normal course of business, the Caisse carries out transactions with other Desjardins Group components. It may also carry out financial transactions with its officer members as well as with members of Desjardins Group's management personnel, 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 normal course of business, the Caisse may have granted loans to related parties. No individual allowance was deemed necessary on these loans.

The table below shows the main financial transactions entered into with certain related parties and the main balances presented on the Balance Sheets, other than those separately identified elsewhere in the Financial Statements.

Note 17. Related party transactions (continued)

	2013		2012	
	Federation[1]	**Other related parties [2]**	Federation	Other related parties Restated (Note 4)
Balance Sheets				
Investment in the liquidity fund under management	**$4,940**	**$-**	$4,940	$-
Other assets	**3,428**	**7**	2,480	4
Borrowings	**22,696**	**-**	28,055	-
Other liabilities	**257**	**1,013**	209	1,550
Statements of Income				
Interest income	**357**	**-**	500	-
Other income	**661**	**340**	579	380
Interest expense	**664**	**-**	718	-
Employees	**-**	**286**	-	274
Computer services	**416**	**4**	414	4
General expenses	**119**	**240**	113	272

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

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

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

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

During the year, the Caisse bought loans at market value for an amount of $651.

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

Key management personnel compensation

Key management personnel of the Caisse comprise the members of the Board of Directors, the general manager, the assistant general manager and the persons reporting directly to him. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Caisse.

Note 17. Related party transactions (continued)

The compensation of the Caisse’s key management personnel was as follows:

	2013	2012 Restated (Note 4)
Short-term benefits	**$456**	$415
Post-employment benefits	**62**	89

Note 18. Guarantees and other commitments

The significant guarantees that the Caisse has granted 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. The Caisse’s policy with respect to collateral received for these letters is generally the same as for loans. The term of these letters does not extend past May 2014. At year-end, the maximum potential amount of future payments related to these letters was $1 ($2 in 2012).

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 information on maximum credit risk exposure included in Note 21 presents these credit commitments as at year-end.

Note 19. Leases

Lessee

Operating lease

The Caisse participates in a Business Centre and entered into a lease with the other participating caisses. The amount presented below includes its share of the commitment under the lease. The Caisse may be jointly, severally and solidarily liable in order to guarantee payment in full of the rent provided for under a lease.

Leases, whose maximum term is 5 years, can have renewal options over a period of 10 years. These leases include rent indexation clauses based on the Consumer Price Index.

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

	2013	2012
Under 1 year	**$139**	$126
1 to 5 years	**511**	179
Over 5 years	**3**	46
	$653	$351
Total minimum lease payments assumed by the related parties	**$310**	$-

Note 19. Leases (continued)

Lease payments recognized as an expense were as follows:

	2013	2012
Minimum payments	**$125**	$119

The lease payments presented above include amounts paid to a Desjardins Group component, which is a related party, totalling $1 (nil in 2012). The total amount of future minimum commitments to this same component was $314 (nil in 2012).

Note 20. Offsetting of financial assets and liabilities

The Caisse transacts derivatives on the over-the-counter market using International Swaps and Derivatives Association (ISDA) master agreements. No financial collateral is pledged or received to manage credit risk, since the counterparty for these agreements is a related party of the Caisse and, consequently, no credit support annex is deemed necessary.

These master agreements do not meet the criteria for offsetting on the Balance Sheets because they create a right of set-off that is enforceable only in the event of default, insolvency or bankruptcy.
The following tables present information on financial assets and financial liabilities not set off in the Balance Sheets that are the subject of a master netting arrangement:

2013

		Related amounts not set off in the Balance Sheets		
	Net amounts not presented in the Balance Sheets [(1)(2)]	**Financial instruments**[(3)]	**Financial collateral received/ pledged**	**Net amounts**
Financial assets				
Derivative financial instruments	**$266**	**$175**	**$-**	**$91**
Total financial assets	**$266**	**$175**	**$-**	**$91**
Financial liabilities				
Derivative financial instruments	**$175**	**$175**	**$-**	**$-**
Total financial liabilities	**$175**	**$175**	**$-**	**$-**

Note 20. Offsetting of financial assets and liabilities (continued)

	2012			
		Related amounts not set off in the Balance Sheets		
	Net amounts not presented in the Balance Sheets [1][2]	Financial instruments[3]	Financial collateral received/ pledged	Net amounts
Financial assets				
Derivative financial instruments	$426	$36	$-	$390
Total financial assets	$426	$36	$-	$390
Financial liabilities				
Derivative financial instruments	$36	$36	$-	$-
Total financial liabilities	$36	$36	$-	$-

[1] The Caisse does not set off derivative financial instruments.

[2] The difference between the amounts presented in this column and the balances reported in the Balance Sheets represents the financial assets and financial liabilities that are not the subject of master netting arrangements.

[3] This is the carrying amount of derivative financial instruments that are the subject of master netting arrangements, but do not meet the criteria for offsetting.

Note 21. 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 main orientations, particularly regarding financial stability and sustained and profitable growth, while complying with regulatory requirements.

The objective of the members of the Caisse's Board of Directors, working together with management and the Federation, is to optimize the risk-return trade-off, within set tolerance limits, by applying integrated risk management and control strategies, policies and procedures to all of the Caisse's activities.

With the aim of ensuring sound and prudent management of the Caisse's activities, the Caisse's Board of Directors has adopted policies and relies, among other things, on laws and regulations, the Desjardins Code of Professional Conduct and on Federation and Desjardins Group 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 is the risk of losses resulting from a borrower's or counterparty's failure to honour its contractual obligations, whether or not such obligations appear on the Balance Sheets.

Credit risk management

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

Note 21. Financial instrument risk management (continued)

Framework

A set of policies and standards govern all aspects of credit risk management at Desjardins Group. This framework defines, among other things:

- The minimum framework for credit risk management and control.
- The roles and responsibilities of the main parties involved.

This framework is rounded out by the credit practices of the Federation. The credit practices adopted by the Federation are applicable to the caisses and their centres. These practices set out:

- The conditions relative to commitment, approval, review and delegation limits.
- The rules relative to management and control of credit activities.
- Financing terms and conditions applicable to borrowers.

Credit granting

To assess the risk of credit activities involving individuals and smaller businesses, credit scoring systems developed by the Federation, based on proven statistics, are used. These systems were developed based on a history of behaviour among borrowers with a profile or characteristics similar to those of the applicant to determine the risk.

The granting of credit to businesses is based on an analysis of the various parameters of each file. To assign a rating, which represents the level of risk, the characteristics of each borrower are analyzed using models based on internal and external historical data, taking into account the specific features of the borrower's economic sector and the performance of comparable businesses. The analysis performed by the system is supplemented by the professional judgment of the various personnel involved with the file.

In every case, system performance is analyzed on an ongoing basis and adjustments are made to assess borrower risk as fully as possible.

Moreover, the scope of the analysis and approval powers are adapted to the risk level and complexity of the transaction; larger loans are approved by the Federation.

Mitigating credit risk

In its lending operations, the Caisse, directly or through its centre, as applicable, obtains collateral in line with credit practices. Collateral normally takes the form of assets, such as cash, receivables, inventory, and movable and immovable property. For some portfolios, programs offered by organizations such as Canada Mortgage and Housing Corporation and *La Financière agricole du Québec* are used in addition to customary collateral.

Furthermore, the number of borrowers—for the most part individuals, but also small- and medium-sized businesses from most sectors of the economy—helps ensure the sound diversification of the financing portfolio. Note 7 to the financial statements presents the distribution of loans by borrower category. Where required, the Caisse uses mechanisms for sharing risk, including selling loans with other components, mainly caisses or certain Desjardins Group subsidiary companies.

Note 21. Financial instrument risk management (continued)

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. A quarterly report on credit activities, covering changes in credit quality, financial issues and the application of frameworks and internal controls, is presented to the Board of Directors.

For certain loans that present irregularities or increased risk, compared to what was accepted at the time of approval, a position must be taken and the loan authorized by the appropriate decision-making level.

Management of higher-risk loans involves more frequent monitoring and the Caisse may be supported by teams from the Federation’s Recovery and Collection Response Unit 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 $33,013 ($31,398 in 2012) and $1 ($2 in 2012), 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 Sheets.

Liquidity risk management and liquidity reserves

The Caisse manages liquidity risk in order to ensure that it has timely and cost-effective access to the funds needed to meet its financial obligations as they become due, in both routine and crisis situations.

Liquidity risk management is a key component of overall risk management strategy. Desjardins Group together with its components and the caisse network have established policies, standards and regulations describing the principles, limits, risk appetite and tolerance thresholds, and procedures that apply to liquidity risk management. Managing this risk involves maintaining a sufficient level of liquid securities at the Caisse and, at the Desjardins Group level, monitoring ratios and indicators, ensuring stable and diversified sources of funding, and adopting a contingency plan to implement in the event of a liquidity crisis.

Policies are reviewed on a regular basis to ensure that they are appropriate for the operating environment and market conditions. They are also updated according to 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. Day-to-day management of securities and the reserve level to be maintained is centralized at Desjardins Group Treasury and monitoring of the risk management sector is supervised by the Desjardins Group Finance and Risk Management Committee. Securities eligible for the liquidity reserves must meet high security and negotiability standards and provide assurance of their adequacy in the event of a possible severe liquidity crisis. The securities held are largely government-issued.

Furthermore, Desjardins Group Treasury is able to issue covered bonds and be active on the market for securitization of CMHC-insured loans.

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

Note 21. Financial instrument risk management (continued)

Sources of funding and contingency plan

Desjardins Group Treasury ensures stable and diversified sources of institutional funding by type, source and maturity. It uses a wide range of financial products and borrowing programs on various markets for its financing needs.

Desjardins Group has developed a liquidity contingency plan that provides for setting up an internal crisis committee vested with special decision-making powers to deal with crisis situations. The plan lists the sources of liquidity available in exceptional situations. It also sets out the decision-making and information process based on the severity level of a possible crisis.

The objective of the plan is to enable quick and efficient action in order to 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 lead to commitments through contracts under which future minimum payments impact the Caisse’s liquidity needs. Such contractual obligations are recognized in the Balance Sheets or are off-balance sheet.

The following tables present financial liabilities as well as other obligations by remaining contractual maturity term. The amounts presented include principal and interest, if any.

2013

	Less than 1 year	1 to 5 years	Over 5 years	Total
Deposits	**$63,773**	**$56,699**	**$-**	**$120,472**
Borrowings[1]	**14,024**	**9,207**	**-**	**23,231**
Other financial liabilities	**378**	**-**	**-**	**378**
Loan commitments	**33,013**	**-**	**-**	**33,013**
Letters of guarantee and credit	**1**	**-**	**-**	**1**
Derivative instruments with net settlement	**(65)**	**214**	**33**	**182**

Note 21. Financial instrument risk management (continued)

Contractual obligations

	2012			
	Less than1 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 guarantee and credit	2	-	-	2
Derivative instruments with net settlement	(13)	49	-	36

(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 of these borrowings are included in the "Less than 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, in particular interest rates, exchange rates, credit spreads and their volatility.

The Caisse is exposed to market risk primarily through positions taken in the course 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 used to achieve the objective of optimizing net interest income while minimizing the negative incidence of interest rate movements. Interest rate risk is managed globally for the caisse network as well as individually for the Caisse.

Risk management for the caisse network

The policies and standard established by the Federation describe the principles, limits and procedures that apply to interest rate risk management. Simulations are used at the caisse network level to measure the effect of different variables on changes in 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 effects of various interest rate environments on changes in this data. These assumptions 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 and liability management committee (the Asset/Liability Committee) is responsible for analyzing and approving the global matching strategy on a monthly basis while respecting the parameters defined in interest rate risk management policies.

Risk management for the Caisse

The Caisse's interest rate risk is managed in accordance with a strategy that involves setting targets and action to be taken when the Caisse finds itself outside the guidelines set out in the standard for individual caisses.

Note 21. Financial instrument risk management (continued)

The following table presents the 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.

	2013	2012
Impact of an increase	**$(97)**	$(63)
Impact of a decrease	**168**	62

The tables below succinctly show the Caisse's asset/liability maturity matching at year-end.

2013

	Net on-balance sheet gap	**Impact of derivative instruments**	**Total gap**
Non-interest sensitive assets and liabilities	**$(29,527)**	**$-**	**$(29,527)**
Interest sensitive assets and liabilities			
Floating rate	**21,693**	**-**	**21,693**
0 to 12 months	**8,773**	**(29,831)**	**(21,058)**
1 to 5 years	**3,132**	**28,067**	**31,199**
Over 5 years	**(2,692)**	**1,764**	**(928)**

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
0 to 12 months	(7,146)	(24,036)	(31,182)
1 to 5 years	9,318	22,272	31,590
Over 5 years	(3,081)	1,764	(1,317)

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, such as 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. Desjardins Group's management practices are based, as required by its policies, on prudent assumptions regarding the maturity profile used in its models in order to determine 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 22. Capital management

The goal of the Caisse's capital management is to ensure that a sufficient base capital is maintained for sound and prudent management.

The capital adequacy of the caisses in Quebec 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 the guideline on adequacy of capital base standards issued by the AMF. The guideline requires that a minimum amount of capital be maintained on a combined basis by 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 capital, differs from the equity disclosed in the Balance Sheets.

Tier 1 capital consists 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 consists of qualifying shares, eligible investment shares, 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 appearing on the Balance Sheets 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 weighing assets appearing on the Balance Sheets and off-balance sheet items by 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.

In accordance with the transitional provision of the guideline issued by the AMF, the standard on the capital adequacy of the caisses, established by the Federation, allows the Caisse to mitigate the impact of the amendments to IAS 19, "Employee Benefits", for a two-year period ending December 31, 2014. As a result, for purposes of calculating the capital ratios, the Caisse has since January 1, 2013, amortized the eligible portion of the IFRS impact related to the impact of IAS 19 of $362 on a straight-line basis and will do so until December 31, 2014. As at December 31, 2013, the impact of IAS 19 not considered in the calculation of Tier 1 capital represented $181.

Note 22. Capital management (continued)

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.

	2013	2012
Tier 1 capital		
Eligible permanent shares and surplus shares	**$4,175**	$4,041
General reserve, eligible appreciation reserve, stabilization reserve and reserve for future member dividends	**8,232**	8,141
Eligible surplus earnings	**689**	661
Other Tier 1 capital	**181**	-
Deductions	**(5,660)**	(5,526)
Total Tier 1 capital	**$7,617**	$7,317
Tier 2 capital		
Qualifying shares and eligible investment shares	**$32**	$34
Eligible collective allowance	**33**	38
Eligible borrowings	**3,948**	3,948
Deductions	**(1,242)**	(1,205)
Total Tier 2 capital	**2,771**	2,815
Total capital	**$10,388**	$10,132

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.