

Financial Statements

Caisse d'économie Desjardins des
employés en Télécommunication

Transit no.: 92239

As at December 31, 2009

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Auditors' Report

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

Pursuant to section 139 of the Act respecting Financial Services Cooperatives, we have audited the balance sheet of Caisse d'économie Desjardins des employés en Télécommunication (the "Caisse") as at December 31, 2009, and the statements of income and of distributable surplus earnings, of distribution, of comprehensive income and accumulated other comprehensive income, of reserves, and of cash flows for the year then ended. These financial statements are the responsibility of the Caisse's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Caisse as at December 31, 2009, and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

*Audit Department*¹

¹Chartered accountant auditor permit No. 13312

Montréal (Québec), March 31, 2010

Caisse d'économie Desjardins des employés en Télécommunication

Balance Sheet

as at December 31

	Note	2009	2008
Assets			
Liquid assets and investments	5	\$11,083,564	\$8,401,725
Loans	6		
Personal		118,292,127	115,305,491
Business		4,529,555	4,994,232
		122,821,682	120,299,723
Allowance for credit losses		737,400	781,476
		122,084,282	119,518,247
Other assets			
Premises and equipment	7	603,321	577,966
Accrued interest and other		3,177,757	2,841,606
		3,781,078	3,419,572
Total assets		\$136,948,924	\$131,339,544
Liabilities			
Deposits			
Term savings		\$75,834,057	\$73,796,962
Other		27,551,463	25,232,207
		103,385,520	99,029,169
Other liabilities			
Borrowings	8	20,202,902	20,669,497
Accrued interest and other		2,321,905	2,503,465
		22,524,807	23,172,962
		125,910,327	122,202,131
Equity			
Capital stock	9	2,538,757	826,431
Distributable surplus earnings		-	389,496
Accumulated other comprehensive income	10	55,525	(105,232)
Reserves		8,444,315	8,026,718
		11,038,597	9,137,413
Total liabilities and equity		\$136,948,924	\$131,339,544

Signed for the Board of Directors

_____, Director

_____, Director

Caisse d'économie Desjardins des employés en
Télécommunication
Statements of Income and of Distributable Surplus Earnings
for the year ended December 31

	Note	2009	2008
Results			
Interest income		\$6,339,131	\$5,664,406
Interest expense		2,872,844	3,168,817
Net interest income		3,466,287	2,495,589
Provision and loan losses		11,983	85,815
Net interest income after provision and loan losses		3,454,304	2,409,774
Other income	11	1,237,915	1,282,989
Other expenses			
Personnel	12	1,867,743	1,761,346
Assessments paid to Desjardins components		463,927	470,877
Premises		283,789	103,769
General expenses	13	1,730,403	1,708,628
		4,345,862	4,044,620
Surplus earnings (deficit) before fair value, taxes and member dividends		346,357	(351,857)
Income (losses) related to fair value of derivative instruments		(354,448)	777,083
Surplus earnings (deficit) before taxes and member dividends		(8,091)	425,226
Income taxes	14	(123,896)	301,042
Surplus earnings for the year before member dividends		115,805	124,184
Member dividends	15	93,822	126,315
Income tax savings relative to member dividends	14	(18,046)	(38,530)
Surplus earnings for the year after member dividends		40,029	36,399
Distributable surplus earnings			
Transfer from (allocation to) appreciation reserve:			
• Investments in Desjardins subsidiary companies		(371,179)	931,453
• Derivative instruments		261,588	(604,140)
Transfer from future member dividends reserve		81,000	29,925
Allocation to statement of distribution		(5,224)	(4,141)
Permanent share issuance costs, net of income taxes		(6,214)	-
Distributable surplus earnings		\$-	\$389,496

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Distribution

for the year ended December 31

	Note	2009	2008
Distributable surplus earnings from previous year		\$389,496	\$265,851
Transfer from statement of distributable surplus earnings	15	5,224	4,141
Distribution by members:			
• Interest on permanent shares		(23,195)	(32,430)
• Interest on surplus shares		(3,989)	-
• General reserve		(372,885)	(244,412)
Income tax savings relative to interest paid on permanent shares and on surplus shares		5,349	6,850
Balance after distribution		\$-	\$-

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

for the year ended December 31

	Note	2009	2008
Comprehensive income			
Surplus earnings for the year after member dividends		\$40,029	\$36,399
Other comprehensive income			
Reclassification to the statement of income following amortization of gains on derivative instruments related to cash flow hedges discontinued in previous years, net of income taxer		(2,543)	(1,900)
Share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method		160,089	(285,281)
Reclassification to the statement of income relative to the share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method		3,211	119,532
		163,300	(165,749)
Total other comprehensive income		160,757	(167,649)
Comprehensive income		\$200,786	\$(131,250)
Accumulated other comprehensive income			
Balance at beginning of year		\$(105,232)	\$62,417
Other comprehensive income for the year		160,757	(167,649)
Balance at end of year	10	\$55,525	\$(105,232)

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Reserves

for the year ended December 31

	2009	2008
Appreciation reserve (total)		
Appreciation reserve – investments in Desjardins subsidiary companies		
Balance at beginning of year	\$491,881	\$1,422,323
Transactions in owners' equity by Desjardins subsidiary companies in which the Caisse's share is accounted for under the equity method	16,121	1,011
Increase from statement of distributable surplus earnings as a result of statutory provisions	371,179	-
Allocation to statement of distributable surplus earnings as a result of statutory provisions	-	(931,453)
Balance at end of year	\$879,181	\$491,881
Appreciation reserve – derivative instruments		
Balance at beginning of year	\$608,436	\$4,296
Increase from statement of distributable surplus earnings as result of statutory provisions	-	604,140
Allocation to statement of distributable surplus earnings as a result of statutory provisions	(261,588)	-
Balance at end of year	\$346,848	\$608,436
Appreciation reserve (total)	\$1,226,029	\$1,100,317
General reserve		
Balance at beginning of year	\$6,533,136	\$6,288,724
Increase resulting from distribution by members	372,885	244,412
Balance at end of year	\$6,906,021	\$6,533,136

Caisse d'économie Desjardins des employés en
Télécommunication
Statement of Reserves (continued)

for the year ended December 31

	Note	2009	2008
Stabilization reserve			
Balance at beginning and at end of year		\$258,690	\$258,690
Future member dividends reserve			
Balance at beginning of year		\$134,575	\$164,500
Allocation to statement of distributable surplus earnings	15	(81,000)	(29,925)
Balance at end of year		\$53,575	\$134,575
Total reserves		\$8,444,315	\$8,026,718

Caisse d'économie Desjardins des employés en Télécommunication

Statement of Cash Flows

for the year ended December 31

	2009	2008
Operating activities		
Surplus earnings for the year after member dividends	\$40,029	\$36,399
Adjustments to determine cash flows		
Provision and loan losses	11,983	85,815
Amortization of premises and equipment	128,417	136,195
Net change in accrued interest receivable and payable	(69,876)	107,111
Losses (income) related to investments in Desjardins subsidiary companies	(371,179)	931,453
Losses (income) related to fair value of derivative instruments	354,448	(777,083)
Other	(282,875)	(28,274)
Cash flows from operating activities	(189,053)	491,616
Financing activities		
Net change in member deposits	3,836,943	10,110,829
Transactions related to borrowings		
Net change in line of credit	388,568	3,426,251
Increase in term loans	7,757,906	2,800,000
Term loans repaid	(8,613,069)	(6,800,000)
New issue of permanent shares	1,692,620	-
Other net change in capital stock	13,492	57,881
Interest on permanent shares and surplus shares, net of income tax savings	(21,835)	(25,580)
Cash flows from financing activities	5,054,625	9,569,381
Investing activities		
Net change in loans	(2,578,018)	(9,905,586)
Net change in investments	(574,074)	(807,239)
Net change in premises and equipment	(153,772)	(69,883)
Cash flows from investing activities	(3,305,864)	(10,782,708)
Net increase (decrease) in cash	1,559,708	(721,711)
Cash at beginning of year	872,122	1,593,833
Cash at end of year	\$2,431,830	\$872,122
Other cash flow information		
Amount of interest paid	\$2,892,399	\$3,156,643
Amount of income taxes paid during the year	48,771	58,678

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 1. [Applicable Legislation and Operations Carried on by the Caisse](#)

The Caisse is a cooperative whose object is to receive the savings of its members and to invest them profitably, to extend credit and supply other financial products and services to its members, to foster cooperation and to promote economic, social and cooperative education. It is governed by the Act respecting Financial Services Cooperatives (the "Act").

The Caisse is listed with the Autorité des marchés financiers. It is also a member of Fonds de sécurité Desjardins, whose main object is to establish and administer a security, liquidity or mutual benefit fund for the benefit of the Desjardins caisses in Québec.

Note 2. [New Accounting Standards](#)

Credit risk and the fair value of financial assets and financial liabilities

On January 1, 2009, the Caisse retrospectively adopted the new abstract of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA) entitled "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). This new EIC abstract states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 did not have any significant impact on the valuation models used to determine the fair value of financial instruments or on the Caisse's results or financial position.

Treatment of embedded derivatives upon reclassification of a financial asset

In June 2009, the Accounting Standards Board (AcSB) amended CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" by adding guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. The Caisse has applied this new guidance to reclassifications made since July 1, 2009. This amendment did not have any impact on its financial statements.

Improvement to disclosure requirements about financial instruments

In June 2009, the AcSB issued amendments to CICA Handbook Section 3862 "Financial Instruments – Disclosures" in order to incorporate the improvements to disclosure requirements about fair value measurements of financial instruments and liquidity risk, issued by the International Accounting Standards Board (IASB) in March 2009. These amendments include in particular the requirement to classify financial instruments reported at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

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

The Caisse has applied the amendments to this standard to its financial statements as at December 31, 2009. For this first year of application, it will not be required to provide comparative information for the disclosures required by the amendments. Since these amendments specifically concern disclosures, they will not have any impact on the Caisse's results or financial position.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 2. New Accounting Standards (continued)

Impairment of Financial Assets

In August 2009, the CICA amended CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" to change the categories into which debt instruments are required or permitted to be classified and to eliminate the distinction between debt securities and other debt instruments. These amendments include the following:

- Debt instruments not quoted in an active market may be classified as loans and receivables, and impairment will be assessed using the incurred credit loss model.
- Loans and receivables that the Caisse intends to sell immediately or in the near term must be classified as held for trading, while loans and receivables for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available for sale.
- Reclassifying financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category is permitted under specified circumstances.
- Reversing an impairment loss relating to an available-for-sale debt instrument is required when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

The Caisse is applying the amendments to this standard retrospectively as at January 1, 2009. These amendments have not had any impact on the Caisse's financial statements.

Note 3. Accounting Policies

In preparing the financial statements according to Canadian generally accepted accounting principles, management is required to make certain estimates and assumptions that have an impact on the amounts reported in the financial statements and the Notes. These estimates, reviewed periodically, are based on circumstances and available information as at the date of the financial statements, thus representing management's best estimate. Items for which management had to make estimates include mainly the allowance for credit losses. Actual results may therefore differ from these estimates.

Financial Instruments

The Caisse has accounted for its financial instruments according to the CICA accounting standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855), "Hedges" (Section 3865) and "Comprehensive Income" (Section 1530). The main requirements of these standards are set out hereinafter.

Since January 1, 2008, the Caisse has adopted the new CICA accounting standards entitled "Capital Disclosures" (Section 1535), "Financial Instruments – Disclosures" (Section 3862), and "Financial Instruments – Presentation" (Section 3863).

The purpose of Section 1535 is to require the disclosure of information that enables financial statement users to evaluate the Caisse's objectives, policies and processes for managing capital. The disclosures required by this new standard are presented in Note 20.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 3. Accounting Policies (continued)

It should be noted that Sections 3862 and 3863 supersede Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3863 carries forward unchanged the presentation standards contained in Section 3861. The purpose of Section 3862 is to inform users in order to enhance their understanding and evaluation of the significance of financial instruments for the Caisse's financial position and performance, as well as to help them better evaluate the nature and extent of risks arising from financial instruments and how they are managed.

Financial instruments – Recognition and measurement

Financial assets should be classified as one of the following: held for trading, available for sale, held to maturity, or loans and receivables. Financial liabilities should be classified as held for trading, or other. Financial assets and liabilities are initially recognized at fair value.

Financial instruments held for trading by the Caisse are comprised exclusively of derivative instruments for the reasons mentioned below. Available-for-sale financial assets are equity securities that are not traded on an active market and are therefore recorded at cost. The held to maturity category is not used. Finally, loans and receivables and financial liabilities not held for trading are recorded at cost after amortization, using the effective interest rate method. Interest income and expense on these assets and liabilities are recorded with net interest income. Transaction costs related to financial instruments are basically attributable to loans and receivables and are capitalized and amortized over the life of the instrument, according to the effective interest rate method.

Derivative instruments and hedges

The Caisse uses swaps and options to manage the risks inherent in its financial assets and liabilities. As provided for in Canadian generally accepted accounting principles, the Caisse elected not to adopt hedge accounting for these derivatives in light of the complexity of the new requirements for documenting hedging relationships.

The Caisse recognizes its derivative instruments at fair value, whether they are stand-alone or embedded. Stand-alone derivative instruments are recorded on the balance sheet as other assets and liabilities while embedded derivative instruments are presented with their host contract according to their nature, under "Term savings" or "Other assets". Any change in the fair value of stand-alone derivatives is recognized in the statement of income under "Income (losses) related to the fair value of derivative instruments", except for any change in relation to term savings linked to the market, which is recognized under "Interest expense". Moreover, any change in the fair value of embedded derivatives is recorded as an interest expense adjustment.

Comprehensive income

Other comprehensive income includes amortization of the balance related to cash flow hedges discontinued in previous years and the share in other comprehensive income of Desjardins Group subsidiary companies for which the Caisse's investment is accounted for under the equity method. The financial statements include a statement of comprehensive income. Accumulated other comprehensive income is presented as an equity item on the balance sheet.

Other accounting policies

To facilitate understanding of these financial statements, the significant accounting policies other than the foregoing have been integrated into the Notes.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 4. Future Accounting Changes

Effective interest method

In June 2009, the AcSB issued an amendment to CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" in order to clarify the interest calculation method for a financial asset after recognition of an impairment loss. The Caisse will adopt this amendment retrospectively in its fiscal year beginning on January 1, 2010. It is currently analyzing the impact of this amendment on its financial statements.

International Financial Reporting Standards

In February 2008, the AcSB issued a news release confirming that publicly accountable enterprises, which includes the Caisse, will be required to apply International Financial Reporting Standards (IFRS) in 2011. The Caisse, through the Fédération des caisses Desjardins du Québec (the FCDO), is taking part in the Desjardins Group IFRS conversion project, which began in summer 2007. The Caisse will adopt IFRS on January 1, 2011.

Note 5. Liquid Assets and Investments

	2009	2008
Cash	\$2,431,830	\$872,122
Investments in Desjardins Group subsidiary companies	4,017,468	3,233,534
Investments in liquidity fund under management	4,634,266	4,296,069
	\$11,083,564	\$8,401,725

Cash includes cash and other sums used in current operations. Investments in Desjardins Group subsidiary companies are accounted for under the equity method. Income on these investments amounted to \$462,147 (2008: losses of \$925,081).

So that the Caisse can manage liquidity risk, it keeps the amounts necessary to maintain a minimum level of liquidity in a fund under management designed specifically for this purpose. The amounts paid into this fund by all the caisses are invested in a portfolio of securities that must satisfy high safety and negotiability standards so that, if the need arises, these could be cashed without incurring a material loss on their value. The amounts paid into this fund are excluded from cash because regulations do not permit them to be used for current operations. The investment in this fund is recorded at cost and classified as available for sale.

At year-end 2009 and 2008, no write-down was required to reflect a permanent impairment in value under investments.

Note 6. Loans

Loans are recorded at amortized cost, using the effective interest rate method, net of the allowance for credit losses, which reflects management's best estimate of potential losses on the loan portfolio. This allowance is made up of specific allowances and a general allowance.

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

Specific allowances are determined for all loans considered to be impaired. A loan is considered impaired when one of the following situations arises: in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal and interest; the loan is more than 180 days in arrears; or the interest or principal repayment is 90 days or more past due, unless the loan is fully secured. The value of impaired loans is adjusted by discounting the expected future cash flows from these loans, and the allowance is equal to the difference between this valuation and the balance of the loan. Any variation in the allowance for credit losses due either to the passage of time or to a revision of expected payments is recorded under "Provision and loan losses" in the statement of income. The Caisse ceases to record interest as soon as a loan is considered impaired. When there is no longer any reasonable doubt concerning the collectibility of principal and interest on an impaired loan, it is restored to current status. Interest on this loan is once again accounted for under the accrual method, and the related allowances are reversed to income.

The general allowance is intended to evaluate loan losses that cannot be determined on an individual basis, and is notably based on the profile of the loan portfolio as at the date of the balance sheet.

Loans by category of borrower

	2009	2008
Personal		
Mortgages	\$90,334,706	\$88,214,268
Consumer and other	27,957,421	27,091,223
Business		
Commercial and industrial	4,529,555	4,994,232
Agriculture, forestry and fishing	-	-
Government and public institutions	-	-
	<u>\$122,821,682</u>	<u>\$120,299,723</u>

Loans and provision

	2009			
	Personal	Business	General allowance	Total
Loans, neither past due nor impaired, gross amount	\$115,384,949	\$4,500,645	\$-	\$119,885,594
Loans, past due but not impaired, gross amount	2,747,404	28,910	-	2,776,314
Gross impaired loans	159,774	-	-	159,774
Total gross loans	<u>118,292,127</u>	<u>4,529,555</u>	<u>-</u>	<u>122,821,682</u>
Specific allowances	(47,200)	-	-	(47,200)
General allowance	-	-	(690,200)	(690,200)
Total net loans	<u>\$118,244,927</u>	<u>\$4,529,555</u>	<u>\$(690,200)</u>	<u>\$122,084,282</u>

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

	2008			Total
	Personal	Business	General allowance	
Loans, neither past due nor impaired, gross amount	\$111,183,407	\$4,762,993	\$-	\$115,946,400
Loans, past due but not impaired, gross amount	4,025,281	37,704	-	4,062,985
Gross impaired loans	96,803	193,535	-	290,338
Total gross loans	115,305,491	4,994,232	-	120,299,723
Specific allowances	(59,211)	(39,418)	-	(98,629)
General allowance	-	-	(682,847)	(682,847)
Total net loans	\$115,246,280	\$4,954,814	\$(682,847)	\$119,518,247

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

Loans past due but not impaired

	2009				Total
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	
Personal	\$2,531,365	\$213,042	\$2,997	\$-	\$2,747,404
Business	-	28,910	-	-	28,910
	\$2,531,365	\$241,952	\$2,997	\$-	\$2,776,314

	2008				Total
	1 to 29 days	30 to 59 days	60 to 89 days	90 days and more	
Personal	\$3,559,109	\$466,172	\$-	\$-	\$4,025,281
Business	37,704	-	-	-	37,704
	\$3,596,813	\$466,172	\$-	\$-	\$4,062,985

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 6. Loans (continued)

Changes in the provision

	2009			
	Specific allowances	Specific allowances	General allowance	Total
	Personal	Business		
Balance at beginning of year	\$59,211	\$39,418	\$682,847	\$781,476
Provision and loan losses shown in the statement of income	38,466	(33,836)	7,353	11,983
Write-offs and other	(50,477)	(5,582)	-	(56,059)
Balance at end of year	\$47,200	\$-	\$690,200	\$737,400

	2008			
	Specific allowances	Specific allowances	General allowance	Total
	Personal	Business		
Balance at beginning of year	\$32,593	\$34,196	\$649,407	\$716,196
Provision and loan losses shown in the statement of income	37,731	14,644	33,440	85,815
Write-offs and other	(11,113)	(9,422)	-	(20,535)
Balance at end of year	\$59,211	\$39,418	\$682,847	\$781,476

Note 7. Premises and Equipment

	Useful Life (years)	2009		2008	
		Cost	Accumulated Depreciation	Net Amount	Net Amount
Equipment	3 to 20	\$1,043,537	\$840,358	\$203,179	\$193,231
Leasehold improvements	10 to 20	812,570	412,428	400,142	384,735
		\$1,856,107	\$1,252,786	\$603,321	\$577,966

Premises and equipment are amortized according to the straight line method, based on their useful life. The amount of depreciation charged to income for the year totalled \$128,417 (2008: \$136,195).

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 8. Borrowings

	2009	2008
Line of credit with an interest rate of 1.27%, variable	\$16,899,727	\$16,511,159
Term loan with an interest rate of 5.15%, repayable at maturity date in August 2010	1,500,000	3,000,000
Term loans bearing interest at fixed rates or rates renegotiable quarterly, some of which loans have a prepayment before maturity clause ⁽¹⁾		
Fixed Rate	Maturing	Repayable
3.89%	March 2014	March 2009
6.50	June 2017	June 2012
6.01	April 2019	April 2014
5.79	June 2021	June 2016
	\$20,202,902	\$20,669,497

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

Note 9. Capital Stock

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

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

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

In addition to this interest, the Caisse issued new permanent shares for \$1,692,620 during the year.

Issued and fully paid capital stock is as follows:

	2009	2008
Qualifying shares	\$36,405	\$38,385
Permanent shares	2,373,990	673,610
Surplus shares	128,362	114,436
	\$2,538,757	\$826,431

Caisse d'économie Desjardins des employés en Télécommunication

Notes to the Financial Statements

for the year ended December 31, 2009

Note 10. Accumulated Other Comprehensive Income

The following table describes the key items included in accumulated other comprehensive income, net of income taxes:

	2009	2008
Gain on derivative instruments related to cash flow hedges discontinued in previous years	\$7,888	\$10,431
Share in other comprehensive income of Desjardins subsidiary companies for which the Caisse's investment is accounted for under the equity method	47,637	(115,663)
	<u>\$55,525</u>	<u>\$(105,232)</u>

Over the next three years, the balance of the accumulated other comprehensive income from cash flow hedges will be reclassified to the statement of income, including \$3,888 in income within the next twelve months.

Note 11. Other Income

	2009	2008
Accrued mainly from deposit administration	\$577,412	\$552,256
Accrued from administration of other services	286,721	280,647
Accrued from distribution of Desjardins products and services	373,782	450,086
	<u>\$1,237,915</u>	<u>\$1,282,989</u>

Income accrued from deposit administration consisted mainly of service charges and charges related to payment orders issued without sufficient funds and to service charges, while income accrued from the administration of other services was made up of fees, in the amount of \$25,088, of charges relating to collections made on behalf of various organizations, and of income accrued from intercaisse transactions.

Income accrued from the distribution of Desjardins products and services comprises fees for the financial activities carried on by Desjardins subsidiary companies through the Caisse.

Note 12. Employee Future Benefits

The Caisse participates in the Desjardins Group defined benefit multi-employer pension plan which guarantees the payment of pension benefits. Benefits are calculated based on the number of years of participation in the plan, and the employee's salary.

In addition, the Caisse provides life and health insurance coverage to its active and retired employees and their dependents, also through Desjardins Group.

These plans are accounted for under the provisions for defined benefit plans. The cost of these plans recognized during the year is presented under "Personnel" in the income statement and is broken down as follows:

	2009	2008
Pension plan	\$134,010	\$131,532
Group insurance plan	95,103	87,755

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Note 13. General Expenses

	2009	2008
Computer services	\$571,495	\$509,747
Office supplies and communications expenses	173,245	167,693
Intercaisse transactions	258,992	281,612
Advertising	117,054	185,003
Expenses related to deposits and services	351,510	311,146
Other	258,107	253,427
	<u>\$1,730,403</u>	<u>\$1,708,628</u>

Note 14. Income Taxes

The income taxes are as follows:

	Taxes (savings)			
	Current	Future	Total 2009	Total 2008
Income taxes	\$(69,393)	\$(54,503)	\$(123,896)	\$301,042
Income tax savings relative to member dividends	(18,046)	-	(18,046)	(38,530)
	<u>\$(87,439)</u>	<u>\$(54,503)</u>	<u>\$(141,942)</u>	<u>\$262,512</u>

The difference between the income tax savings of \$31,593 (2008: expense of \$92,622), calculated at the basic federal and provincial tax rate, and the income tax savings of \$141,942 (2008: expense of \$262,512) presented in the statement of income is mainly attributable to the small business deduction, the non-taxable portion of transactions related to investments in Desjardins Group subsidiary companies, and the revaluation of future income taxes.

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Note 15. Member Dividends

The member dividends presented in the statement of income can be broken down as follows:

	2009	2008
Amounts based on a resolution of the Board of Directors recommending that the general meeting approve this payment of member dividends	\$100,000	\$131,561
Difference between the amount of member dividends paid and the amount recorded based on the resolution of the Board of Directors:		
• Paid in 2009 and recorded as at December 31, 2008	(6,178) ⁽¹⁾	-
• Paid in 2008 and recorded as at December 31, 2007	-	(5,246) ⁽¹⁾
	<u>\$93,822</u>	<u>\$126,315</u>

(1) The amount transferred between the Statement of Distributable Surplus Earnings and the Statement of Distribution was \$5,224 (2008: \$4,141) because of the tax impact.

Member dividends are calculated based on interest on loans and deposits, and on average outstandings for Desjardins Funds purchased by the member through the Caisse. The Board of Directors also decided that an amount of \$81,000 from the reserve for future member dividends should be allocated to the payment of member dividends of \$100,000 for the current year.

Note 16. Related Party Transactions

The Caisse is a member of the FCDQ, which provides the Caisse with various services of a technical, financial and administrative nature. The FCDQ is a cooperative which is the majority owner of the other Desjardins components.

In the ordinary course of business, the Caisse carries out transactions with other Desjardins components. It also carries out financial transactions with its officer members. Transactions with related parties are accounted for at the exchange value, which represents the amount agreed upon by the parties. Conditions are similar to those offered on financial markets.

The table below shows the main transactions other than those specifically identified elsewhere in the financial statements.

	Balance sheet		Income	
	2009	2008	2009	2008
Liquid assets and investments	\$11,083,564	\$8,401,725	\$683,192	\$(707,905)
Other assets	1,411,390	1,194,729	-	-
Income from other sources	n.a.	n.a.	1,199,396	1,695,677
Borrowings	20,202,902	20,669,497	426,137	898,030
Other liabilities	102,689	79,803	-	-
Other charges	n.a.	n.a.	1,388,498	1,007,914

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Note 16. Related Party Transactions

Income from other sources is derived chiefly from intercaisse transactions, swaps and fees related to the distribution of Desjardins products and services, while other charges relate mainly to swaps, data processing services, intercaisse transactions and insurance services.

During the year, the Caisse purchased and sold loans at market value. Sales exceeded purchases by \$2,220,834 and a gain of \$314,493 was realized on the loans sold.

Note 17. Fair Value of Financial Instruments

The following table shows the fair value of financial instruments carried or not carried on the Caisse's balance sheet. Interest rate sensitivity is the main cause of fluctuation in the fair value of the Caisse's financial instruments. The carrying value of financial instruments other than derivatives is not adjusted to take into account increases or reductions in fair value as a result of interest rate fluctuations.

The fair value of financial instruments is as follows:

	2009		2008	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Liquid assets and investments	\$11,083,564	\$11,247,096	\$8,401,725	\$8,457,422
Loans	122,084,282	124,638,333	119,518,247	120,001,752
Other financial assets	992,748	992,748	514,233	514,233
Liabilities				
Deposits	103,385,520	104,677,714	99,029,169	100,356,092
Borrowings	20,202,902	20,371,409	20,669,497	20,789,545
Other financial liabilities	1,022,332	1,022,332	1,045,225	1,045,225
Derivative instruments				
Debit position	480,935	480,935	796,074	796,074
Credit position	43,989	43,989	-	-

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Note 17. Fair Value of Financial Instruments (continued)

The fair value of financial instruments is based on the following estimation methods and assumptions:

- The fair value of financial assets and liabilities is determined based on a discounted cash flow method that uses market interest rates for similar financial assets and liabilities.
- The fair value of derivative instruments is calculated based on the net present value of expected cash flows at the market interest rates currently charged for instruments with similar features and maturities. The Caisse deals exclusively with Caisse centrale Desjardins as the counterparty for all its derivative instruments. Derivative instruments consist of interest rate swaps, options and forward exchange contracts. At year-end, the notional amount of all the derivative instruments totalled \$11,225,843.

Finally, the fair value of items not considered financial instruments, such as premises and equipment, is not included in the preceding table.

For financial instruments recognized at fair value on the balance sheet, their measurements were established according to the following hierarchy:

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

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

	2009			
	Level 1	Level 2	Level 3	Total
Assets				
Cash	\$2,431,830	\$-	\$-	\$2,431,830
Derivative Instruments				
Debit position	-	480,935	-	480,935
Credit position	-	43,989	-	43,989

Note 18. Commitments

At year-end, minimum future commitments under leases for premises are as follows:

2010	\$115,027
2011	116,127
2012	107,595
2013	104,407
2014	47,368
2015 and thereafter	173,340
	\$663,864

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Note 18. Commitments (continued)

Credit commitments

The Caisse's credit commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit and guarantee. The Maximum Credit Risk Exposure table in Note 19 presents these credit commitments as at year-end.

Note 19. 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. The Caisse enjoys a risk management framework supplied by the FCDQ, whose objective is to optimize the risk/return trade-off.

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

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

Credit risk

Credit risk represents the risk of losses if a borrower or a counterparty fails to honour its contractual obligations, appearing or not on the balance sheet.

Credit risk management

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

Framework

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

For this purpose, they define, among other things:

- The minimum framework for credit risk management and control. This framework is rounded out by the credit practices of the FCDQ and the credit policy of the Caisse and its Business Centre.
- The roles and responsibilities of the main parties involved in credit.

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

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

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Note 19. Financial Instrument Risk Management (continued)

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

Credit granting

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

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

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

Mitigating credit risk

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

The large number of borrowers, for the most part consumers, but also small and medium-sized enterprises from many sectors of the economy, helps promote sound diversification of the financing portfolio. Note 6 to the financial statements presents the breakdown of loans by category of borrower. When required, the Caisse uses mechanisms to share risk, notably selling loans to other components, mainly caisses or certain Desjardins subsidiary companies.

File monitoring and management of higher risks

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

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Notes to the Financial Statements

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Note 19. Financial Instrument Risk Management (continued)

Maximum credit risk exposure	2009	2008
Recognized on the balance sheet		
Liquid assets and investments ⁽¹⁾	\$6,003,131	\$3,975,877
Loans:		
• Personal	118,244,927	115,246,280
• Business	4,529,555	4,954,814
• General allowance	(690,200)	(682,847)
Other financial assets	2,921,458	2,753,187
	<u>\$131,008,871</u>	<u>\$126,247,311</u>

(1) Liquid assets and investments exposed to credit risk exclude, in particular, investments in Desjardins Group subsidiary companies.

At year-end, the maximum credit risk exposure for loan commitments and for letters of credit and guarantee was \$21,974,762 and \$8,000, respectively.

Liquidity risk

Liquidity risk refers to the Caisse's capacity to raise the necessary funds (by increasing liabilities or converting assets) to meet a financial obligation, whether or not it appears on the balance sheet, on the date it is due or otherwise.

The purpose of liquidity risk management is to ensure access, on a timely basis and in a profitable manner, to the funds needed to meet the Caisse's financial obligations as they become due, both under normal circumstances and in a crisis situation. Managing this risk involves maintaining a minimum level of liquid securities, stable and diversified sources of funding, and an action plan to implement in extraordinary circumstances. Liquidity risk management is a key component in an overall risk management strategy because it is essential to preserving market and depositor confidence.

Policies have been established describing the principles, limits and procedures that apply to liquidity risk management. Desjardins Group has also developed a liquidity contingency plan that includes setting up a liquidity crisis committee vested with special decision-making powers to deal with a crisis situation. This plan permits quick and effective intervention in order to minimize disruptions caused by sudden changes in member and client behaviour and potential disruptions in markets or economic conditions.

A specific framework sets out the minimum level of liquidity that the Caisse must maintain. This liquidity level is centrally managed by the Desjardins Group Treasury and is monitored on a daily basis. Eligible securities must meet high safety and negotiability standards. The liquid securities portfolio comprises mostly securities issued by governments, public bodies and private companies with high credit ratings, i.e., AA- or better.

The Desjardins Group Treasury ensures stable and diversified sources of funding by type, source and maturity. Desjardins Group can also issue securities and borrow on national and international markets to round out and diversify its funding.

A securitization program for mortgages insured by the Canada Mortgage and Housing Corporation is also in place.

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Note 19. Financial Instrument Risk Management (continued)

The following table presents financial liabilities, deposits and borrowings, by remaining contractual maturity:

	2009			Total
	Under 1 year	1 to 5 years	Over 5 years	
Deposits	\$57,649,374	\$50,778,391	\$-	\$108,427,765
Borrowings ⁽¹⁾	20,311,985	-	-	20,311,985
Other financial liabilities	1,132,663	-	-	1,132,663
Loan commitments	21,974,762	-	-	21,974,762
Letters of credit and guarantee	8,000	-	-	8,000
Derivative instruments with net settlement ⁽²⁾	(20,393)	49,751	18,828	48,186

(1) Borrowings include subordinated securities with a related company, redeemable at the option of the holder under certain conditions and for specified purposes. This clause implies that all borrowings are included in the "Under 1 year" category. Their maturity dates range from June 1, 2017 to June 1, 2021.

(2) Cash disbursements on derivative instruments with net settlement could be accompanied by related cash receipts before maturity, thereby representing total financial liabilities for derivative instruments with net settlement.

Market risk

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

Interest rate risk management

The Caisse is mainly exposed to interest rate risk through positions taken in the course of its traditional financing and savings recruitment activities. Interest rate risk refers to the potential impact of interest rate fluctuations on the economic value of equity. This impact depends on a number of factors including asset/liability matching and the interest yield curve. Dynamic and prudent management is applied to optimize net interest income while minimizing the negative impact of interest rate movements. Interest rate risk is managed globally for the caisse network as well as individually for the Caisse.

Caisse network risk management

The policies developed by the FCDQ describe the principles, limits and mechanisms used to manage this risk. Simulations are run at the caisse network level to measure the impact of different variables on net interest income and the economic value of equity (present value of estimated cash flows from assets less liabilities) for all the caisses. The assumptions used in the simulations are based on an analysis of historical data and the impact of different interest rate conditions on the data, and concern changes in the structure of the balance sheet, member behaviour and pricing. Desjardins Group's Asset/Liability Committee is responsible for analyzing and adopting the global matching strategy while respecting the parameters defined in risk management policies.

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Note 19. Financial Instrument Risk Management (continued)

Risk management at the Caisse

The Caisse's interest rate risk is managed in compliance with this strategy, in particular by setting targets and action to be taken when the Caisse goes beyond the guidelines fixed for the caisses as a whole.

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

	2009	2008
Impact of an increase	\$42,753	\$(149,819)
Impact of a decrease	(29,087)	163,703

The extent of the interest rate risk depends on the gap between assets, liabilities and off-balance sheet instruments. The position presented reflects the position at year-end, and may change depending on members' behaviour, the interest rate environment and the strategies adopted by the Asset/Liability Committee.

The table below succinctly shows the Caisse's asset/liability matching at year-end. The information is from an internal report provided to Caisse officers on interest rate risk management needs.

	2009		
	Net on-balance sheet gap position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	\$(26,826,797)	\$-	\$(26,826,797)
Interest-sensitive assets and liabilities			
Floating rate	22,173,975	-	22,173,975
Fixed rate – 0 to 12 mos.	(3,150,365)	(10,622,329)	(13,772,694)
Fixed rate – 1 to 5 yrs.	10,636,654	9,969,840	20,606,494
Fixed rate – Over 5 yrs.	(1,542,225)	652,489	(889,736)
	2008		
	Net on-balance sheet gap position	Impact of derivative instruments	Total gap position
Non-interest sensitive assets and liabilities	\$(26,184,127)	\$-	\$(26,184,127)
Interest-sensitive assets and liabilities			
Floating rate	17,011,748	-	17,011,748
Fixed rate – 0 to 12 mos.	(6,378,843)	(11,098,074)	(17,476,917)
Fixed rate – 1 to 5 yrs.	17,074,054	11,098,074	28,172,128
Fixed rate – Over 5 yrs.	(321,978)	-	(321,978)

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

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Note 19. Financial Instrument Risk Management (continued)

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

The impact of derivative instruments includes the impact of interest rate swaps in which the Caisse participates, and the effect of derivatives on interest rates contracted in the caisse network through liquidity funds under management.

A total positive matching gap position for a given period means that steadily rising interest rates would increase the Caisse's net interest income while a drop in interest rates would reduce net interest income. The reverse is true if the total matching gap position is negative.

Note 20. Capital Management

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

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

The Caisse's regulatory capital, which constitutes equity, differs from the equity disclosed on the balance sheet.

Capital is comprised of eligible permanent shares, surplus shares and qualifying shares, the general reserve, the eligible appreciation reserve, the stabilization reserve, the future member dividends reserve, eligible surplus earnings and the eligible portion of the general allowance for credit losses.

Capital also includes certain eligible borrowings as well as eligible shares in investments, and is reduced by certain investments. If necessary, the total is reduced by onerous surplus equity.

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

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

The Caisse's risk assets are determined by the weighting of on-balance sheet and off-balance sheet items according to the risk associated with each of these items, in accordance with the FCDQ standard.

The Caisse must maintain minimum capital corresponding to 6.75% of its expansion assets and 10.80% of its risk assets.

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Note 20. Capital Management (continued)

The following table shows the composition of the Caisse's regulatory capital:

	2009	2008
Capital		
Eligible permanent shares, surplus shares and qualifying shares	\$2,404,028	\$788,136
Eligible reserves	7,806,871	8,377,022
Eligible surplus earnings	326,948	372,325
Eligible general allowance	690,200	682,847
Eligible borrowings	1,582,155	937,318
	12,810,202	11,157,648
Investments ⁽¹⁾	(2,917,194)	(2,855,148)
	\$9,893,008	\$8,302,500

(1) This amount corresponds to investments in Desjardins Group subsidiary companies at equity value.

At year-end, the Caisse's capitalization ratios were higher than required by the standard.

Note 21. Comparative Figures

Certain figures from the previous year have been reclassified to conform with the current year's presentation.