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1995 Annual Report

Caisse centrale Desjardins

Desjardins helping you do it your way

1995 Annual Report

Caisse centrale Desjardins

La Caisse centrale Desjardins publie son
Rapport annuel en français et en anglais

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MANAGEMENT'S MESSAGE

After a year of solid growth in 1994, the Canadian economy stumbled early in 1995. Higher interest rates and weaker demand slowed the pace of business lending. Even though economic conditions were more difficult, Caisse centrale consolidated its financial base and improved its profitability.

Net interest income grew 13.5% while provisions for credit losses declined. As a result, net earnings rose $13.8 million or 79.3% to $31.2 million. One of the main reasons for our excellent performance in 1995 was the continuous improvement in our lending portfolio. No new non-performing loan was recorded during 1995. These loans were fully covered at December 31, 1995, compared with a coverage ratio of 88% at the same time last year. The gross amount for non-performing loans represented only 0.35% of total loans, compared with 1.35% at December 31, 1994. These ratios compared very favorably with those of the major Canadian banks at October 31, 1995. The provision for credit losses charged to the income statement for the financial year stood at $8 million compared to $20 million last year. Losses were at their lowest level since 1990.

At December 31, 1995, assets totalled $5.3 billion, down $93 million or 1.7% from the previous year due primarily to the decrease in loans to federations and the private sector combined with an increase in securities.

The securities portfolio stood at $1.8 billion which represented 33% of total assets at December 31, 1995 compared with 24% last year. Although these securities generate lower profit margins than do loans, this high level of liquidities was maintained throughout the year due to economic and political uncertainties. This prudent strategy was aimed to ensure reliable funding sources for the Desjardins network in the event of tighter credit on financial markets. During 1995, Caisse centrale exceeded regulatory requirements by an average of $873 million. Almost 90% of the securities are issued or guaranteed by Canada, the provinces, municipalities, public and parapublic bodies and Canadian banks.

The loan portfolio amounted to $3.5 billion at December 31, 1995, down $530 million or 13.2% from last year. Loans to the federations decreased by $493 million to stand at $1.6 billion, as a direct result of high savings level within the network. The drop of $31 million in loans to the public and parapublic sector stems from the popularity of the Publi-privilège option, average use of which was $305 million for the period, a steep increase of 49% over the corresponding period.

The decline of $198 million in loans to the private sector reflects Caisse centrale strategy for developing the medium-sized business market, in cooperation with the Desjardins network, and active risk management in the context of stricter credit policies. It should be noted, however, that the decrease in this loan portfolio was partly offset by new business generated by the program of loans to medium-sized businesses, launched in cooperation with the network and by an increase of $129 million from loans to other Desjardins entities.

At the end of 1995, outstanding deposit liabilities and subordinated debentures totalled $4.77 billion, down $61 million from last year. Funds raised on international markets accounted for 72% (1994: 70%) or $3.4 billion.

In addition, as the financial agent of the Mouvement Desjardins, Caisse centrale managed the distribution and marketing of Capital Desjardins' US $200 million issue of senior notes. This issue provided the Mouvement with the flexibility it required to increase its level of capitalization through the institutional market to match that of the banks and to expand without changing its cooperative character.

With a view to harmonize its offer of services to medium-sized firms, Caisse centrale, as per an earlier agreement with Trustco Desjardins, took over management of Crédit Industriel Desjardins' productive loan portfolio, and integrated their services into its activities.

To extend our partnerships around the world and to mutually enlarge our banking payment network, Caisse centrale concluded agreements through the years with major international financial institutions such as US Central Credit Union and DG Bank of Germany.

During 1995, additional cooperation agreements were concluded with Hapoalim Bank of Israel and the Banque Centrale populaire du Maroc (of Morocco).

On the international front, it is also to be noted that Desjardins Federal Savings Bank, a wholly-owned subsidiary of Caisse centrale and the first Mouvement Desjardins banking establishment outside Canada, achieved profitability during its third full year of operations.

In 1995, Caisse centrale paid $38.8 million to the network as remuneration of capital stock, up sharply from $16 million in 1994 and the sums distributed to members due on account of charges collected rose to $6.8 million from $5.8 million in 1994.

Caisse centrale's ratio of capital to risk-weighted assets and off-balance financial instruments reached 19.86% (1994: 19.39%). This is well above the minimum prescribed ratio of 8% set by the Bank for International Settlements.

To sum up, Caisse centrale strenghthened its financial base during 1995 and improved the various ways it meets clients' needs in the markets it serves. Considering the 1996 economic forecasts, our strategies will be to cautiously manage our risks while intensifying development efforts aimed at medium-sized businesses and by targeting large Quebec corporations capable of generating benefits for the Desjardins network.

Claude Béland

Claude Béland
Chairman of the Board

Jean-Guy Langelier,
President and
Chief Executive Officer

Montreal
February 9, 1996

Consolidated Financial Statements

MANAGEMENT'S REPORT

Management is responsible for preparing the consolidated financial statements and related information appearing in the Annual Report and for ensuring its reliability and accuracy. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include estimates based on the best judgment of management.

The accounting system of Caisse centrale Desjardins and related internal controls and procedures are designed to ensure the reliability of financial information and, to a reasonable degree, to safeguard assets against loss or unauthorized use. These procedures include quality standards in hiring and training employees, an organizational structure with clearly defined lines of responsibility, written and updated policies and procedures, planning and follow-up of projects, budget controls by cost centres and divisional performance accountability. The internal control procedures are supplemented by regular independent reviews of Caisse centrale Desjardins' major areas of operations. In addition, in the course of his duties, the Internal Auditor may confer at any time with the Board of Directors' Audit Committee. Composed entirely of Directors who are neither officers nor employees of Caisse centrale Desjardins, this Committee ensures that management has fulfilled its responsibilities with respect to financial information and the application of internal controls. During 1995, the Committee met six times. In addition, the Ethics Committee, also composed entirely of Directors who are neither officers nor employees of Caisse centrale Desjardins, monitors the established procedures to identify and regulate conflicts of interests. This Committee met five times.

The Inspector General of Financial Institutions examines the affairs of Caisse centrale Desjardins annually to ensure that the provisions of its constituent legislation, particularly with respect to the protection of depositors, are duly observed and that Caisse centrale Desjardins is in a sound financial condition.

The independent auditors appointed by the general meeting of members, Raymond, Chabot, Martin, Paré and Samson Bélair/Deloitte & Touche, have the responsibility of auditing the consolidated financial statements in accordance with generally accepted auditing standards, and their report follows. They may, at any time, confer with Caisse centrale Desjardins' Audit Committee on all matters concerning the nature and execution of their mandate, particularly with respect to the accuracy of financial information provided by Caisse centrale Desjardins and the reliability of its internal control procedures.

Claude Béland

Jean-Guy Langelier
President and Chief
Executive Officer

Claude Béland
Chairman of the Board

Montreal,
February 9, 1996

AUDITORS' REPORT

To the Members of Caisse centrale Desjardins

We have audited the consolidated balance sheets of Caisse centrale Desjardins as at December 31, 1995 and 1994 and the consolidated statements of income, retained earnings and general reserve and changes in financial position for the years then ended. These financial statements are the responsibility of Caisse centrale Desjardins' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether 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 consolidated financial statements present fairly, in all material respects, the financial position of Caisse centrale Desjardins as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Samson Bélair / Deloitte & Touche

General Partnership
Chartered Accountants

Raymond, Chabot, Martin, Paré

General Partnership
Chartered Accountants

Montreal,
February 9, 1996

CONSOLIDATED BALANCE SHEETS
as at December 31

(in thousands dollars)	1995	1994
ASSETS		
Cash Resources		
Cash and deposits with Bank of Canada	$ 10,560	$ 40,789
Securities (note 3)		
Investment account	1,650,733	1,127,350
Trading account	119,086	173,204
	1,769,819	1,300,554
Loans		
Day, call and short loans to investment dealers and brokers, secured	60,000	---
Other loans (notes 4 and 5)	3,419,199	4,008,565
	3,479,199	4,008,565
Other		
Fixed assets, less accumulated depreciation	1,709	1,723
Other assets (note 6)	74,195	76,848
	75,904	78,571
	$ 5,335,482	$ 5,428,479
LIABILITIES		
Deposits (note 7)		
Payable on demand	$ 228,339	$ 210,587
Payable on a fixed date	4,470,685	4,552,852
	4,699,024	4,763,439
Other Liabilities (note 8)	127,638	153,988
Subordinated Debentures (note 9)	70,477	66,991
MEMBERS' EQUITY		
Capital Stock issued and paid (note 10) 409,403 shares	409,403	409,403
Retained Earnings	---	5,718
General Reserve	28,940	28,940
	438,343	444,061
	$ 5,335,482	$ 5,428,479

On behalf of the Board,

Claude Bérard

Director Director

CONSOLIDATED STATEMENTS OF INCOME
for the years ended December 31

(in thousands of dollars)	1995	1994
Interest Income		
Loans	$ 284,990	$ 295,984
Securities	147,557	77,763
	432,547	373,747
Interest Expense	374,908	322,944
Net Interest Income	57,639	50,803
Provision for credit losses	7,958	20,067
Net Interest Income After Provision for Credit Losses	49,681	30,736
Other income		
Service charges on checking and deposit accounts	9,287	10,223
Credit fees	324	453
Foreign exchange revenue	1,914	866
Other	1,700	1,504
	13,225	13,046
	62,906	43,782
Non-Interest Expenses		
Salaries and benefits	11,258	10,680
Premises, equipment and furniture, including depreciation	5,243	4,972
Other	6,604	5,299
	23,105	20,951
Net Income Before Income Taxes	39,801	22,831
Income taxes (note 12)	8,617	5,437
Net Income	$ 31,184	$ 17,394

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE
for the years ended December 31

(in thousands of dollars)	1995	1994
Retained Earnings		
Balance at beginning of year	$ 5,718	$ 6,052
Net income for the year	31,184	17,394
Remuneration of capital stock and other payments to members	(45,564)	(21,822)
Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 12)	8,662	4,094
Balance at end of year	$ ---	$ 5,718
General Reserve		
Balance at beginning and end of year	$ 28,940	$ 28,940

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
for the years ended December 31

(in thousands of dollars)	1995	1994
Cash flows from operating activities		
Net income	$ 31,184	$ 17,394
Items not affecting cash resources		
Provision for credit losses	7,958	20,067
Depreciation of fixed assets	679	610
Deferred income taxes	(362)	(4,109)
Net change in other assets	3,015	953
Net change in other liabilities	(2,087)	(8,410)
	40,387	26,505
Cash flows used in financing activities		
Decrease in deposits	(60,929)	(262,826)
Obligations related to securities sold short	(33,850)	49,761
Remuneration of capital stock and other payments to members, net of related recovery of income taxes	(28,316)	(17,730)
	(123,095)	(230,795)
Cash flows from investing activities		
Net decrease (increase) in:		
Securities	(469,265)	(192,549)
Loans	522,408	427,668
Fixed assets	(664)	(252)
	52,479	234,867
Net increase (decrease) in cash resources	(30,229)	30,577
Cash and deposits with Bank of Canada at beginning of year	40,789	10,212
Cash and deposits with Bank of Canada at end of year	$ 10,560	$ 40,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1995 and 1994
(All tabular figures are in thousands of dollars)

1. INCORPORATION

Caisse centrale Desjardins was established on June 22, 1979, by an Act of the Quebec Legislature (An Act to amend the Act relating to La Confédération des caisses populaires et d'économie Desjardins du Québec), which Act was replaced on June 22, 1989 by an Act relating to the Mouvement des caisses Desjardins (1989 S.Q., chap. 113). Caisse centrale Desjardins is a cooperative institution that is also governed by the provisions of the Savings and Credit Unions Act relating to credit unions and federations (1988 S.Q., chap. 64).

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Caisse centrale Desjardins are prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies are summarized below.

Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of Desjardins Federal Savings Bank, Caisse centrale Desjardins' wholly-owned subsidiary, after elimination of intercompany transactions and balances.

Securities

Securities include investment account and trading account securities. Obligations related to securities sold short are included in "Other liabilities".

Investment account securities are purchased with the original intention to hold them to maturity or until more attractive transactions are available. These securities are recorded at amortized cost. Premiums and discounts are amortized over the terms of the related securities on the straight-line basis.

Amortization of premiums and discounts, gains and losses realized on the disposal of securities held for purposes other than hedging as well as write-downs in the value of securities to reflect permanent impairment in value are included in income in the period in which they occur and recorded in "Interest income from securities" in the statement of income. Gains and losses realized on disposals of securities purchased for hedging purposes are deferred and recognized in income over the expected remaining life of the hedged item.

Securities of the trading portfolio, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal, and unrealized valuation adjustments are included in "Interest income from securities" in the statement of income.

Loans

Loans are stated at their principal value, net of a cumulative allowance for credit losses unamortized discounts and unamortized loan fees. If considered necessary, collateral is required from customer under various forms.

Interest income is recorded on the accrual basis. Loans are placed on a non-accrual basis whenever: a) there is doubt regarding the collectibility of principal or interest or, b) when payment of interest is ninety days past due. Upon classification of a loan to a non-accrual basis, any previously accrued but unpaid interest thereon is reversed against interest income of the current period. Subsequently, amounts received on non-accrual loans are recorded as interest income only if management has determined that the loan does not require a specific provision for loss; otherwise, interest received is credited to capital.

Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility.

Fees received on new loans, restructured or renegotiated loans are considered as adjustments to loan yield and recognized as "Interest Income" over the expected term of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest Income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other Income" over the commitment or standby period.

Cumulative allowance for credit losses

A cumulative allowance for credit losses is maintained at a level which is considered adequate to absorb losses. This allowance is established for anticipated losses on loans and off-balance sheet items. The allowance for off-balance sheet items is included in "Other Liabilities". The cumulative allowance for credit losses is increased by the provisions charged to the statement of income and reduced by the write-offs net of recoveries. Credit risks are reviewed regularly by management and specific provisions are established as a result of an evaluation of each outstanding loans. Caisse centrale Desjardins also maintains a provision for doubtful accounts for anticipated credit losses. This provision, which is prudent in nature, is based on the economic conditions and trends of particular industries or certain groupings of credits in the loan portfolio.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

Derivatives

Derivatives are used mainly to manage Caisse centrale Desjardins' own exposure to interest rate and foreign currency exposure and as intermediary for the Desjardins' network. Any income or expense associated with transactions used for hedging purposes is recorded over the life of the agreements. Transactions related to trading activities are marked to market, with the resulting gains and losses recognized immediately in the statement of income.

Fixed assets

Fixed assets are recorded at historical cost and depreciated over their estimated useful lives in accordance with the following methods and annual rates:

Classes	Methods	Rates
Office furniture and equipment	Diminishing balance	20 %
Computer equipment	Diminishing balance	30 %
Computer software	Straight-line	20 %
Leasehold improvements	Straight-line	Term of the leases

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated at rates prevailing on the balance sheet date; income and expenses are translated at the average rates prevailing during the year. Foreign exchange trading positions, including spot and forward contracts, are valued at prevailing market rates and the resulting gains and losses are included in "Other income".

Income taxes

Caisse centrale Desjardins provides for income taxes using the tax allocation method. The recovery of income taxes shown in the statement of retained earnings relates to the remuneration of capital stock and other payments to members which, for income tax purposes, are deductible. Deferred income taxes resulting from cumulative timing differences as well as income taxes recoverable or payable are included either in "Other assets" or "Other Liabilities", as applicable.

New accounting standards

Effective financial year 1996, the Canadian Institute of Chartered Accountants, Handbook section 3025 on impaired loans, will be implemented. Under these recommandations, impaired loans are to be recorded at estimated realizable amounts which are defined as the present value of the expected future cash flows. Application of this accounting method has no impact on the financial condition and results of operations of Caisse centrale Desjardins and consequently no adjustment is required to "Retained Earnings" as at January 1st, 1996.

3. SECURITIES

	1995						1994	
	Maturity							
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Carrying Value	Estimated Market Value	Carrying value	Estimated Market Value
INVESTMENT ACCOUNT SECURITIES								
Issued or guaranteed by Canada	$ 554 036	$ 202 120	$ 28 652	$ 10 496	$ 795 304	$ 803 451	$ 287 873	$ 283 924
Provinces, municipal, public or school corporations in Canada	269 950	274 289	93 572	30 728	668 539	680 776	657 472	650 796
Securities of U.S. Treasury and other U.S. Agencies	91 493	5 562	1 978	2 331	101 364	99 831	37 511	30 768
Other securities								
Securities of Canadian issuers								
- banks	5 967	---	---	---	5 967	5 973	64 243	64 244
- members	---	---	---	---	---	---	9 024	8 971
- other Desjardins entities	---	---	---	50	50	50	16 024	16 020
- other issuers	19 643	12 736	---	40 252	72 631	73 067	55 203	54 740
Securities of other foreign issuers	6 878	---	---	---	6 878	6 867	---	---
Total investment account securites	$ 947 967	$ 494 707	$ 124 202	$ 83 857	$ 1 650 733	$ 1 670 015	$ 1 127 350	$ 1 109 463
TRADING ACCOUNT SECURITIES								
Issued or guaranteed by Canada	$ 525	$ 42 479	$ 41 081	$ 1 027	$ 85 112	$ 85 112	$ 85 232	$ 85 232
Provinces, municipal, public or school corporations in Canada	22 743	387	4 969	5 875	33 974	33 974	87 972	87 972
Total trading account securities	$ 23 268	$ 42 866	$ 46 050	$ 6 902	$ 119 086	$ 119 086	$ 173 204	$ 173 204
Total securities	$ 971 235	$ 537 573	$ 170 252	$ 90 759	$ 1 769 819	$ 1 789 101	$ 1 300 554	$ 1 282 667
Unrealized gain (loss)						$ 19 282		$ (17 887)

4. OTHER LOANS

	1995	1994
Public and parapublic institutions	$ 263,801	$ 294,565
Banks	3,304	---
Members	1,567,283	2,060,133
Other Desjardins entities	929,374	799,503
Other - private sector	678,146	902,103
	3,441,908	4,056,304
Cumulative allowance for credit losses	(22,709)	(47,739)
	$3,419,199	$4,008,565
Non-accrual loans	$ 12,076	$ 54,001
Cumulative allowance for credit losses	(22,709)	(47,739)
Total net non-accrual loans	$(10,633)	$ 6,262

5. CUMULATIVE ALLOWANCE FOR CREDIT LOSSES

	1995	1994
Balance at beginning of year	$47,739	$ 97,003
Provision for credit losses	7,958	20,067
Write-offs	(31,988)	(69,331)
Allocation to the provision for off-balance sheet items	(1,000)	---
Balance at end of year	$22,709	$ 47,739
Consisting of:		
Specific provisions	$ 4,200	$ 29,200
Provision for doubtful accounts	18,509	18,539
Total	$22,709	$ 47,739

6. OTHER ASSETS

	1995	1994
Accrued interest	$50,223	$46,206
Income taxes recoverable	1,831	---
Deferred income taxes	3,796	3,434
Other	18,345	$27,208
	$74,195	$76,848

7. DEPOSITS

	1995	1994
Canada	$ 28,739	$ 21,064
Provinces	42,604	61,756
Banks	526,775	278,078
Members - for clearing purposes	7,424	18,745
- for other purposes	833,661	485,089
Other Desjardins entities	148,786	273,944
Other	3,111,035	3 624,763
	$4,699,024	$4 763,439

8. OTHER LIABILITIES

	1995	1994
Accrued interest	$ 67,035	$ 63,492
Income taxes payable	---	4,712
Obligations related to securities sold short	38,516	72,366
Cheques and other items in transit, net	5,093	8,236
Remuneration of capital stock payable	8,587	---
Other	8,407	5,182
	$127,638	$153,988

9. SUBORDINATED DEBENTURES

The debentures are obligations whose repayment is subordinated to the claims of depositors and other creditors. Denominated in Luxembourg Francs with a nominal value of 1,500,000,000 - Canadian equivalent of $ 70,477,000 - and maturing on December 4, 2002, the subordinated debentures are not redeemable and they bear interest at the annual rate of 8.5 %. In relation with these subordinated debentures, Caisse centrale Desjardins entered into hedging transactions to eliminate foreign exchange exposure.

10. CAPITAL STOCK

The capital stock of Caisse centrale Desjardins is composed of the shares subscribed for by its members. The par value of each share is $1,000 and no share can be issued without having been fully paid for. Except with the prior written approval of the Inspector General of Financial Institutions, Caisse centrale Desjardins shall not redeem the shares held by a member applying therefor; the redemption of shares shall be made at par value and must not leave Caisse centrale Desjardins with an insufficient capital base to meet its requirements. Caisse centrale Desjardins shall not, however, redeem more than 10% of its shares during any one fiscal year.

11. REMUNERATION OF CAPITAL STOCK

The Act incorporating Caisse centrale Desjardins stipulates that the Board of Directors can declare interest on shares; it then determines the terms of payment thereof. It cannot declare or pay interest on shares if this would render Caisse centrale Desjardins insolvent or decrease the paid-up capital stock.

12. INCOME TAXES

The income taxes as shown in the financial statements are detailed as folows:

	1995	1994
Statements of income	$ 8,617	$ 5,437
Statements of retained earnings		
Recovery of income taxes related to the remuneration of capital stock and other payments to members	(8,662)	(4,094)
Total income taxes	$ (45)	$ 1,343
Current and deferred income taxes are as follows:		
Current	$ 317	$ 5,452
Deferred	(362)	(4,109)
Total income taxes	$ (45)	$ 1,343

No recovery of income taxes related to the results of the subsidiary was recorded in 1994; this explains the difference between the statutory rate as adjusted for the large corporations' tax and the effective rate. In 1995, this difference is not material.

13. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of business, Caisse centrale Desjardins offers its customers various off-balance sheet instruments to meet their needs for liquidity and foreign exchange and interest rate protection. Caisse centrale Desjardins uses some of these instruments to hedge its own exposure to foreign exchange and interest rate risks.

All off-balance sheet financial instruments are subject to normal credit standards, financial controls and other usual monitoring procedures that are normally applied. In the opinion of management, these transactions do not represent an unusual risk and no material losses are anticipated as a result of these transactions.

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK

The primary purpose of the instruments is to ensure that funds are available to a customer as required. Caisse centrale Desjardins' policy with respect to collateral security for these instruments are generally the same as for the loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that Caisse centrale Desjardins will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because Caisse centrale Desjardins does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. Caisse centrale Desjardins is exposed to a credit risk in an amount equal to the total unused commitments. However, most commitments to extend credit are contingent upon customers maintaining specific credit standards. Longer-term commitments are closely monitored because they have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table discloses the contract amount and the risk-weighted balance, which is based on the rules of capital adequacy as prescribed by the Bank for International Settlements (BIS).

	1995		1994	
	Contract Amount	Risk-weighted balance	Contract Amount	Risk weighted balance
Guarantees and standby letters of credit	$ 153,015	$ 46,713	$ 292,900	$ 72,877
Commitments to extend credit (original term to maturity):				
■ more than one year	772,307	225,164	477,653	145,115
■ one year or less and conditionals	5,179,773	4,147	4,559,093	10,441
Total	$6,105,095	$276,024	$5,329,646	$228,433

DERIVATIVES

Caisse centrale Desjardins uses derivatives on interest rates and foreign exchange mostly to manage its own exposure and as intermediary for the Desjardins network.

Interest rate contracts include interest rate swaps and forward rate agreements. Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged. Forward rate agreements are interest rate futures, negotiated between two counterparties which call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate.

Foreign exchange forward contracts include spot and forward contracts and currency swaps. Foreign exchange forwards contract represent commitments to exchange two currencies at a specified future date based on a rate agreed by both parties at the inception of the contract. Foreign exchange spot contracts are similar to forward contracts except that delivery is within two business days of the contract date. Caisse centrale Desjardins enters into these contracts to service the needs of customers and to manage its own asset/liability exposure.

Caisse centrale Desjardins uses currency swaps and cross currency interest rate swaps exclusively to manage its own asset/liability exposure. For cross-currency swaps, fixed interest payments and notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Credit risk is managed within the authorization limits granted to customers.

The following table summarizes the derivative portfolio and related credit exposure of Caisse centrale Desjardins.

- Notional amount - represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- Replacement cost - represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.
- Future credit exposure - represents the potential for future changes in value based upon a formula prescribed by the BIS.
- Credit risk equivalent - represents the total or replacement cost and future credit exposure.
- Risk-weighted balance - represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by the BIS.

	Notional amount	Replacement cost	Future credit exposure	Credit risk equivalent	1995 Risk-weighted balance	1994 Risk-weighted balance
Interest Rate Contracts						
Swap contracts	$ 4,576,413	$ 45,731	$ 11,640	$ 57,371	$ 14,805	$ 15,669
Forward rate agreements	61,661	70	---	70	14	80
Total interest rate contracts	$ 4,638,074	$ 45,801	$ 11,640	$ 57,441	$ 14,819	$ 15,749
Foreign exchange contracts						
Spot and forward contracts	$ 2,611,244	$ 13,381	$ 28,237	$ 41,618	$ 8,493	$ 17,383
Swap contracts	2,986,618	49,849	131,802	181,651	37,115	27,225
Total foreign exchange contracts	$ 5,597,862	$ 63,230	$160,039	$223,269	$ 45,608	$ 44,608
Other exchange-traded contracts						
Options purchased	$ 21,445	---	1,716	$ 1,716	$ 343	$ 214
Options written	21,445	---	---	---	---	---
Total other exchange-traded contracts	$ 42,890	---	1,716	$ 1,716	$ 343	$ 214
Total derivatives	$10,278,826	$109,031	$173,395	$282,426	$ 60,770	$ 60,571
Replacement cost						
Derivatives other than trading					$ 73,607	$ 90,620
Trading derivatives					35,424	37,247
Total					$109,031	$127,867

Most of the replacement cost is related to transactions entered into with banks, members, other Desjardins entities and public and parapublic corporations.

The following table presents the term to maturity of the notional amounts of the derivatives.

	Term to maturity					
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	1995 Total	1994 Total
Interest Rate Contracts						
Swap contracts	$2,198,441	$1,711,210	$596,697	$ 70,065	$ 4,576,413	$ 4,747,526
Forward rate agreements	61,661	---	---	---	61,661	381,242
Total interest rate contracts	$2,260,102	$1,711,210	$596,697	$ 70,065	$ 4,638,074	$ 5,128,768
Foreign exchange contracts						
Spot and forward contracts	$2,535,080	$ 58,512	$ 17,652	$ ---	$ 2,611,244	$ 3,516,192
Swap contracts	864,219	1,385,491	55,304	681,604	2,986,618	2,427,007
Total foreign exchange contracts	$3,399,299	$1,444,003	$ 72,956	$681,604	$ 5,597,862	$ 5,943,199
Other exchange-traded contracts						
Options purchased	---	$ 17,925	$ 3,520	---	$ 21,445	$ 21,445
Options written	---	17,925	3,520	---	21,445	21,445
Total other exchange-traded contracts	---	$ 35,850	$ 7,040	---	$ 42,890	$ 42,890
Total derivatives	$5,659,401	$3,191,063	$676,693	$751,669	$10,278,826	$11,114,857

14. LEASE COMMITMENTS

Future rental commitments for long-term leases expiring up to 2005 amount to $ 7,086,000. The annual rental payments for the next five years are $ 768,000 in 1996, $ 828,000 in 1997, $ 860,000 in 1998, $ 865,000 in 1999 and $ 874,000 in 2000.

15. OTHER TRANSACTIONS WITH THE DESJARDINS GROUP

These transactions with members and other entities of the Desjardins Group represent those not disclosed elsewhere in the financial statements.

Under the Incorporating Act, the member federations are not restricted parties with respect to Caisse centrale Desjardins. Thus, various transactions, notably lending operations are entered into at more favorable terms than those with unrelated parties. These transactions are done through the normal course of business and accounted for at the exchange value.

Transactions with other entities of the Desjardins Group are done at similar conditions then those with unrelated parties.

	1995		1994	
	Member federations	Other entities of the Desjardins Group	Member federations	Other entities of the Desjardins Group
Other assets	$ 21,472	$ 13,571	$ 28,664	$ 9,614
Other liabilities	11,034	2,245	8,724	2,483
Interest income	142,800	69,005	194,709	49,073
Interest expense	56,577	13,604	29,673	10,602
Other income	127	1,080	44	1,196
Non-interest expense	96	3,734	59	3,324

16. PENSION PLAN

Caisse centrale Desjardins has an employee pension plan with which all employees are registered automatically at age 25 on a joint contributory basis.

An actuarial valuation of the pension plan is performed at least every three years. As at January 1, 1994, the date of the latest valuation, the pension plan was fully funded.

The total pension expense arising from employer contributions aggregated $ 915,000 for the year ended December 31, 1995 (1994 - $ 746,000).

17. SEGMENTED INFORMATION

Caisse centrale Desjardins has a dominant industry segment whose income is from interest on loans and securities and other related activities essentially in Canada.

Management Analysis of Financial Condition and Results of Operations

FINANCIAL HIGHLIGHTS
As at December, 31

(in thousands of dollars)	1995	1994	1993	1992	1991
Results of operations					
Net interest income	57,639	50,803	50,537	56,519	66,712
Other income	13,225	13,046	13,973	18,402	13,943
Net income	31,184	17,394	15,006	4,259	46,284
Return on average assets	0.56 %	0.31 %	0.26 %	0.08 %	1.10 %
Return on members' equity	7.02 %	3.91 %	3.42 %	0.94 %	10.35 %
Financial condition					
Total assets	5,335,482	5,428,479	5,650,965	6,440,169	5,087,096
Securities	1,769,819	1,300,554	1,108,005	1,088,628	893,536
Loans	3,479,199	4,008,565	4,456,300	5,198,530	4,017,961
Deposits	4,699,024	4,763,439	5,037,296	5,808,185	4,549,662
Subordinated debentures	70,477	66,991	55,960	58,594	---
Members' equity	438,343	444,061	444,395	438,343	454,097
Capital ratio - BIS risk-based	19.86 %	19.39 %	17.22 %	16.03 %	15.46 %
Other information					
Remuneration of capital stock	38,804	16,000	5,000	17,621	39,486
Other payments to members	6,760	5,822	6,026	6,540	7,327
Percentage of funds issued on international markets	72 %	70 %	53 %	50 %	46 %

RATINGS

Despite more rigorous requirements by ratings agencies, the high credit ratings of Caisse centrale remained unchanged for the eighth consecutive year. The federations' commitment to maintain minimum capital ratios and the availability of stand-by lines of credit by Caisse centrale are only some of the factors at the basis of this stability. The ratings are as follows:

	Short-term	Medium and long-term
Moody's	P-1	Aa3
Standard & Poor's	A-1 +	AA
D.B.R.S.	R-1 M	AA
C.B.R.S	A-1 +	A+

MANAGEMENT'S ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report compares the financial condition and results of operations of Caisse centrale Desjardins for the years ended December 31, 1995 and 1994. It also discusses Caisse centrale's forecast and credit risk management strategy.

REVIEW OF THE ECONOMY

The year 1995 was marked by a noticeable economic slowdown in Canada. Our economy's moderate performance followed on the heels of impressive results recorded in 1994. Canadian economic expansion declined by almost one half compared with the previous year, and the growth in gross domestic product decreased from 4.6% to 2.5%. Deceleration in the US economy, combined with interest rate hikes early in the year, had a devastating effect on an economy already made fragile by ongoing structural problems.

Domestic demand was rekindled in 1994 but stagnated in 1995. Debt concerns coupled with persistently high interest rates limited the growth potential of the Canadian economy. The private sector continued to create jobs, but at half the 1994 rate. However, these gains were offset by public sector job losses.

Public spending cuts went even deeper in 1995 and were accompanied by reduced economic activity. Corporate investment propped up domestic demand and remained fairly vigorous in 1995. Increased corporate profits helped more than anything else to maintain a climate of confidence in the business community.

The financial climate remained very volatile in 1995, with the Mexican monetary crisis occurring early in the year. The setbacks of the Mexican peso affected the Canadian dollar, which tumbled to 70 cents US after trading at 73 cents US before the crisis. Short and long-term Canadian interest rates reacted by climbing sharply, a trend reinforced by rising interest rates in the United States.

In Canada, the state of public finances worried international investors. The budget period was marked by volatility. Internationally, the American dollar was in crisis because of continued economic sluggishness in the United States, compounded by the US federal government and current account deficits. The Canadian dollar experienced even stronger downward pressure, and short-term interest rates rose to 8.5 %.

The economic slowdown in the United States and Europe triggered a drop in interest rates as the year progressed. During the Quebec referendum campaign, however, Canadian financial markets once again became temporarily volatile. They ended the year on a calmer note, though, in anticipation of healthier provincial and federal public finances. Canada's current account balance improved significantly in 1995 as well, with a higher trade surplus and reduced tourism deficit. By year-end 1995, the gap between Canadian and US interest rates had narrowed, 3-month treasury bills were trading at approximately 5.5%, or 300 basis points lower than their peak for the year, and the Canadian dollar stood at 73.25 cents US.

During 1996, the pace of economic activity is expected to increase, given a stronger US economy and lower interest rates, especially during the first six months of the year.

Even if the Bank of Canada wanted to soften the monetary policy in 1996, inflation will remain low. The Bank of Canada's main goal should remain the promotion of strong economic growth and a low inflation rate. Under these conditions, interest rates would remain as low as possible, sustaining the narrow gap between Canadian and American rates and putting pressure on the value of the Canadian dollar. On the other hand, the dollar is expected to recover in relation to its US counterpart as a result of the positive impact made by public spending restraint in Canada, combined with a substantial drop in our current account deficit.

FINANCIAL HIGHLIGHTS

Despite the gloomy economic climate, Caisse centrale continued to respond actively to market changes by continuing to implement a sound management approach consistent with strategies developed during previous years. The following achievements demonstrate the success of this approach:

HIGHER NET INCOME

The net income for the 1995 financial year stood at $31.2 million, an increase of 79.3% or $13.8 million over 1994. This impressive growth can be attributed to the improved quality of assets which made possible a reduction in the provision for credit losses, as well as to a higher return from liquid management assets. These factors helped to offset the effects of lower revenues from loans to the private sector and higher income taxes.

With the growth in net income, the return on average assets increased from 0.31% to 0.56%, a remarkable improvement given the high proportion of liquidities maintained during 1995. Although these securities involve little risk, they generate lower profit margins than do loans. Securities accounted for 34% of average assets in 1995, compared to 25% in 1994.

IMPROVED ASSET QUALITY

Caisse centrale consolidated its financial position by continuing to streamline its loan portfolio and by joining with the Desjardins network to make medium-sized business the focus of its corporate development strategy. The result was a substantial reduction of outstanding problem loans, as the following statistics show. Nearly 76% of the $210 million in reimbursements recorded for the private sector portfolio in 1995 were high-risk loans. The provision for credit losses for the financial year stood at $8 million, down from $20 million the previous year. Caisse centrale succeeded in lowering its credit losses for a third consecutive year.

Non-accrual loans stood at $12 million, a drop of $42 million or 78%. According to risk ratings set out in Caisse centrale's general credit policy, 91% of the private sector portfolio was made up of loans in the excellent, very good and good categories, up from 84% at December 31, 1994. By year-end, no new non-performing loans had been recorded. The non-accrual loans were fully covered at December 31, 1995, compared with a coverage ratio of 88% at the same time last year. Finally, the gross amount of non-performing loans represented only 0.35% of total loans, compared with 1.35% at December 31, 1994. These ratios compared very favourably with those of the major Canadian banks at October 31, 1995.

Increased Loans to Medium-sized Business

More than 30 caisses throughout the federations conducted new business totalling $122 million with 35 businesses during the financial year. These figures compare well with the previous year, when the volume of new business stood at $69 million and involved 20 companies and 19 caisses.

Preventive Management of Liquidities and Funding Sources

Caisse centrale maintained a high level of liquidities in response to the political and economic uncertainty that marked 1995. This was a very prudent strategy, aimed at ensuring reliable funding sources for the network in the event of tighter credit on financial markets. During 1995, Caisse centrale exceeded regulatory requirements by an average $873 million. It continued to rely on international funding sources, which made up 72% of the deposit liabilities and subordinated debentures at December 31, 1995, for a total of $3.4 billion.

Major Issue by Capital Desjardins Inc.

As the Mouvement Desjardins' financial agent, Caisse centrale managed the distribution and marketing of Capital Desjardins' US $200 million issue of senior notes. This issue provided the Mouvement with the flexibility it required to increase its level of capitalization through the institutional market to match that of the banks and to expand without changing its cooperative character. Caisse centrale was granted a mandate by the Board of Directors to assume the responsibility of distributing and marketing the issue. Credit ratings equivalent to those usually granted for similar securities issued by the major Canadian banks were obtained.

Strong Credit Ratings

The credit ratings of Caisse centrale remained unchanged for the eighth consecutive year despite stricter requirements by the rating agencies. These excellent ratings have enabled Caisse centrale to maintain the cost of the funds it raises and to provide the Mouvement Desjardins with ready access to the Canadian and international debt securities markets.

Profitability at Desjardins Federal Savings Bank

Desjardins Federal Savings Bank, a wholly-owned subsidiary of Caisse centrale and the first Mouvement Desjardins banking establishment outside Canada, achieved profitability during its third full year of operations and continues to offer a full range of products and services to Desjardins members in Florida.

Services offered to the Desjardins network

To harmonize its offer of services to medium-sized firms, Caisse centrale took over management of Crédit Industriel Desjardins (CID) productive loan portfolio, and integrated the offer of services into its activities, in keeping with an earlier agreement with Trustco Desjardins. These actions permitted Trustco Desjardins to benefit from major savings at the non-interest expense level.

In order to coordinate operations more efficiently and earn savings for the whole Mouvement, Caisse centrale integrated the cash management of the federations, as well as the treasury management of the Confederation, the Société de services des caisses Desjardins and its subsidiaries.

Caisse centrale also implemented a package of new financial products, as well as a sharing program for fees and interest rebates aimed at attracting loans for medium-sized businesses referred by the Desjardins network. Cooperation agreements were signed with four federations in order to increase business development initiatives targeting import and export firms.

In 1995, the fifteenth anniversary of Caisse centrale, the remuneration of capital stock topped $38.8 million, which represents an average return on investment of 8.8%, a full 1.7% higher than the average rate for 90-day bank acceptances. This performance should be evaluated in light of Caisse centrale's mission considering that a very large proportion of transactions with members are carried out under favourable terms.

Capital Adequacy

At the end of 1995, Caisse centrale's ratio of capital to risk-weighted assets and off-balance financial instruments reached 19.86%, compared with 19.39% in 1994. This is well above the minimum prescribed ratio of 8% set by the Bank for International Settlements.

A more detailed analysis of these results is included in the following sections.

Net Interest Income

Net interest income is the difference between the amount Caisse centrale earns from assets such as loans and securities and the amount it pays on interest-bearing instruments such as deposits and subordinated debentures. It is affected by interest rate fluctuations, funding supply strategies and by the mix and composition of its financial instruments, whether interest-bearing or not. Capital and liabilities exempt from interest decrease the need for outside interest-bearing funds.

Net interest income climbed by $6.8 million, or 13.5%. As Table I shows, the net interest margin grew from 0.90% in 1994 to 1.03% in 1995. This increase was mainly due to higher interest rates and the lower cost of non-productive assets. As mentioned previously, Caisse centrale's strategy in 1995 was to maintain a high level of liquidities in order to cover possible cash requirements arising from uncertainty on the financial markets. These factors helped to offset a drop of $533 million or 13% of the average loan volume (excluding day to day loans). It should be noted that liquidities generate a lower net margin than loans, and that higher average volume does not have the same degree of impact on the interest margin.

The decrease of $234 million or 24% in loans to the private sector resulted from a stricter lending policy. Caisse centrale obtained substantial reimbursements of high-risk loans during the year. In 1996, Caisse centrale intends to work closely with the network to increase its market share, by intensifying development efforts aimed at medium-sized business and by targeting large Quebec firms capable of generating positive results for the Mouvement Desjardins. The reimbursement of problem loans in 1995, considering their higher margins, should however result in some narrowing of the interest margin.

Table I
NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES
For the years ended December 31

(in thousands of dollars)	1995			1994		
	Average balance(3)	Interest	Average rate	Average balance(3)	Interest	Average rate
ASSETS						
Securities	1,913,464	147,557	7.71 %	1,414,262	77,763	5.50 %
Loans						
Day to day	98,488	6,944	7.05	162,436	8,326	5.13
Members	1,612,421	131,049	8.13	2,034,768	151,182	7.43
Other Desjardins entities	817,981	67,301	8.23	686,059	47,588	6.94
Public and parapublic sector	304,863	24,812	8.14	312,918	23,316	7.45
Private sector (1)	746,356	70,920	9.50	980,404	73,953	7.54
Other (2)	---	(16,036)	---	---	(8,381)	---
	3,580,109	284,990	7.96	4,176,585	295,984	7.09
Total interest - bearing assets	5,493,573	432,547	7.87	5,590,847	373,747	6.68
Other assets	84,826	---	---	83,978	---	---
TOTAL ASSETS	5,578,399	432,547	7.75	5,674,825	373,747	6.59
LIABILITIES AND MEMBERS' EQUITY						
Deposits and debentures						
Demand deposits	221,538	12,283	5.54	183,105	7,202	3.93
Fixed-term deposits	4,692,200	356,638	7.60	4,789,705	310,048	6.47
Debentures	70,436	5,987	8.50	66,991	5,694	8.50
Total interest - bearing liabilities	4,984,174	374,908	7.52	5,039,801	322,944	6.41
Other liabilities	145,488	---	---	185,099	---	---
Members' equity	448,737	---	---	449,925	---	---
TOTAL LIABILITIES AND MEMBERS' EQUITY	5,578,399	374,908	6.72	5,674,825	322,944	5.69
NET INTEREST INCOME		57,639	1.03 %		50,803	0.90 %

(1) Average non-accrual loans, net of average specific provisions are included in private loans.

(2) Other interest expenses, including hedging operations.

(3) Average balances for 1995 and 1994 are on a daily basis. Average balances for the previous years, disclosed elsewhere in this analysis, are on a monthly basis.

The average volume of loans to the federations reached $1.6 billion in 1995, down from $2 billion in 1994, mainly because of the surplus liquidities in the Desjardins network. It should be noted that short-term loans are granted at the cost of funds, while medium-term loans have a minimal net spread of 0.05%. Under Caisse centrale's Incorporating Act, the federations are not considered restricted parties. As a result, various transactions, notably lending operations, are entered into at more favorable terms than those with unrelated parties.

The average volume of loans to other Desjardins entities was $818 million in 1995, up by $132 million or 19%. Financing operations with other Desjardins entities are done at similar conditions then those with unrelated parties.

Caisse centrale expects to see a decrease in net interest income in 1996, linked mainly to the impact of an anticipated interest rate decline on liquid assets, as well as to lighter activity in the loan portfolio.

OTHER INCOME

Caisse centrale offers its customers a wide range of domestic and international banking services. It is the sole representative of the Mouvement Desjardins in dealings with foreign banks through a network of correspondents in more than 80 countries, as well as through cooperation agreements with several financial institutions. In addition, Desjardins Federal Savings Bank, a wholly-owned subsidiary of Caisse centrale, offers a variety of services to members residing or travelling in Florida.

Other income is generated mainly by fee-based services such as service charges on checking and deposit accounts as well as credit fees and foreign exchange revenue. As Table II shows, other income stood at $13.2 million in 1995, an increase of $179,000 or 1.4% over the previous year.

In 1995, Caisse centrale was able to take advantage of volatile exchange rates and make substantial gains from its activities on the foreign exchange markets. Foreign exchange revenue rose to $1.9 million, a jump of $1 million or 121% compared with the previous year, gains which helped to offset the drop in income from fee-based services.

Payment service charges stood at $9.3 million, a decline of $936,000 or 9.2%, due mainly to a change in the collection methods used by the Ministère des Finances du Québec. Since last May, collection has taken place mostly at the caisses level. The past several years have also seen an irreversible trend toward direct deposit and electronic payment. This has reduced the number of checks in circulation and therefore the income from service and transit charges. Credit fees declined by $129,000 or 28.5%, after a 51.1% drop in 1994 which was caused by a decision to opt gradually out of the syndicated loans granted to large corporations.

Other income generated by Desjardins FSB rose by 13% over the previous year, to reach $620,000.

In 1996, the trend affecting service charges on checking accounts and deposits is expected to continue and impact negatively on other revenues.

Table II
OTHER INCOME
For the years ended December 31

(in thousands of dollars)	1995	1994	Variation
Deposit and payment services charges	9,287	10,223	(9.2)%
Credit fees	324	453	(28.5)
Foreign exchange revenue	1,914	866	121.0
Other	1,700	1,504	13.0
TOTAL	13,225	13,046	1.4 %

REMUNERATION OF CAPITAL STOCK AND OTHER PAYMENTS TO MEMBERS

In 1995, Caisse centrale paid $38.8 million into the network in the form of remuneration of capital stock, up sharply from $16 million in 1994.

Since the end of 1992, the remuneration of capital stock has been based on Caisse centrale's results. In order to provide the federations with faster access to their capital stock remuneration, the Board of Directors of Caisse centrale agreed to declare the remuneration of capital stock on a monthly rather than a quarterly basis. The year this decision was adopted, it resulted in the accounting of remuneration equivalent to 15 months of results (i.e. the last quarter of 1994 and the 12 months of 1995).

Caisse centrale joined with the Desjardins network to offer Canadian public and private organizations a wide range of banking services. The sums distributed to members related to service charges collected rose to $6.8 million from $5.8 million in 1994. This increase was largely due to the new program of rebates on shared loans, launched in conjunction with the caisses in 1994. For 1996, Caisse centrale anticipates lower rebates on shared loans following the repatriation of a certain number of loans to federations having surplus liquidities. Factors exerting downward pressure on other revenues are also expected to have an impact on other payments to members.

NON-INTEREST EXPENSES

Non-interest expenses include salaries and staff benefits, premises, equipment, furniture and other operating expenses. As outlined in Table III, they totalled $23.1 million, up from $20.9 million in 1994. Over half of this increase was related to strategic initiatives aimed at launching an institutional fixed income service, contributions paid to the Mouvement Desjardins for various sponsorships, and the participation fees paid to the Canadian Depository for Securities Ltd. for their debt clearing service. Most of these investments were required to improve efficiency and customer service and to boost profitability. The balance reflects the indexing of salaries and staff benefits and well as operating costs. In 1996, Caisse centrale will continue to monitor operating costs closely in order to improve productivity.

SALARIES AND BENEFITS

Human resource costs accounted for 48.7% of all expenses, compared with 51% in 1994. They totalled $11.3 million in 1995, an increase of $578,000 or 5.4% over the previous year. It should be noted that in 1994, several positions were left vacant and salaries and benefits rose by less than 1%. Some of these positions were filled in 1995 in order to bolster our development initiatives. The balance reflects the indexing of salaries and benefits.

PREMISES, EQUIPMENT AND FURNITURE *(including subcontracting expenses)*

The cost of premises, equipment and furniture rose by 5.5% or $271,000 over the previous year. It should be noted that Caisse centrale, as designated banker and financial agent for the Mouvement Desjardins, paid participation fees of $107,000 to the Canadian Depository for Securities Ltd. for their debt clearing service.

OTHER EXPENSES

In order to meet the needs of the Desjardins network and its institutional customers, Caisse centrale absorbed substantial costs to establish an institutional fixed income service which involved, in particular, the cost of obtaining a license. These investments will pay off during 1996 in the form of increased profitability. The commitment of Caisse centrale to the Mouvement Desjardins also took the form of contributions to advertising and promotion. The sharp 45.8% rise in these costs was related to the sponsorships already mentioned. Training costs of $111,000 were also paid, up from $49,000 in 1994, in order to provide up-to-date professional training for staff.

If these costs are excluded, other expenses grew by $198,000, or 4%. It should be emphasized that close to 61% of the professional fees are regulatory in nature (including inspection and auditing fees), or directly related to our responsibility for supplying funds to the network (including credit rating agency fees, the cost of issuing securities, and charges paid to Canadian securities commissions).

Table III
NON-INTEREST EXPENSES
For the years ended December 31

(in thousands of dollars)	1995	1994	Variation
Salaries and staff benefits	11,258	10,680	5.4 %
Premises, equipment and furniture including depreciation			
Rental and taxes	1,654	1,652	0.1
Depreciation	679	610	11.3
Subcontracting expenses	2,245	2,115	6.1
Other	665	595	11.8
	5,243	4,972	5.5
Other expenses			
Advertising, promotion and publication	420	288	45.8
Business development	729	677	7.7
Telecommunications, mailing and couriers	887	780	13.7
Insurance	383	354	8.2
Supplies, stationery and printing	406	382	6.3
Employee training	111	49	126.5
Professional fees	1,142	1,390	(17.8)
Membership dues paid to the Confederation	656	635	3.3
Amortization of the start-up costs for the subsidiary	198	198	---
Start-up costs for institutional fixed income services	913	---	n.a.
Others	759	546	39.0
	6,604	5,299	24.6
TOTAL	23,105	20,951	10.3 %
Non-interest expenses on average assets	0.41 %	0.37 %	

INCOME AND OTHER TAXES

Caisse centrale uses the tax allocation method to provide for income taxes. Current and deferred income taxes are detailed in Note 12 to the financial statements.

Income tax expense recorded on the statement of income amounted to $8.6 million, up $3.2 million over 1994 because of the rise in net income. This figure also includes $1 million for the large corporations tax, similar to the amount paid in 1994. Since 1995, the compensation tax on salaries has been recorded in the non-interest expenses. Amounts for the previous years have been reclassified for comparison purposes.

COMMENTS ON THE BALANCE SHEET

Average assets of Caisse centrale stood at $5.6 billion in 1995, down $96 million or 1.7% from 1994, primarily due to the decrease in loans to members and the private sector ($422 million and $234 million respectively), as well as a $499 million increase in securities.

As shown in Table IV, assets totalled $5.3 billion at December 31, 1995, down $93 million or 1.7% from the previous year. Total assets edged downward for the same reasons as average assets: decreased loans to members and the private sector, offset by higher securities.

Securities represented 33% of assets, up $470 million or 36%. At year-end 1995, the estimated market value of the securities portfolio exceeded its book value by $19 million. Investment account securities made up 93% of the portfolio, up $523 million or 46% over the past year, mainly due to holdings of Canadian government securities. The trading portfolio was down by $54 million or 31%, and represented only 7% of all securities.

Table IV
ASSET MIX
As at December 31

(in millions of dollars)	1995	1994	1993	1992	1991
Securities	1,770	1,300	1,108	1,089	894
Loans	3,479	4,009	4,456	5,198	4,018
Other assets	86	119	87	153	175
TOTAL	5,335	5,428	5,651	6,440	5,087
Average assets	5,578	5,675	5,801	5,322	4,227

Loans

At year-end 1995, the loan portfolio stood at $3.5 billion, down $530 million or 13.2% from 1994.

Loans to public and parapublic institutions declined $31 million or 10.5% compared with December 31, 1994. The popularity of the Publi-privilège option accounts for the downward trend evident since 1993. Caisse centrale's customers have favoured this off-balance sheet product because of its attractive financing costs. Average outstanding associated with the program rose to $305 million, up $100 million or 49% over the previous year.

Most of the loan portfolio reductions came from transactions with members. The federations did not use their credit facilities because of high savings levels within the Desjardins network. At year-end 1995, outstanding loans to members stood at $1.6 billion, down $493 million or 24%.

Loans to other Desjardins entities totalled $929 million, a substantial gain of $129 million or 16.2% compared with December 31, 1994. This upturn can be attributed to the efforts made Caisse centrale to centralize the financing operations of various corporations, as well as to increased business volume within the Desjardins network.

The $198 million decline in loans to the private sector is a direct result of two factors: Caisse centrale's strategy for developing the medium-sized business market in cooperation with the Desjardins network, and active risk management in the context of stricter credit policies. It should be noted, however, that decreases in the loan portfolio were partly offset by new business generated by the loan program to medium-sized business, launched in cooperation with the network. With the exception of loans to members and to other Desjardins entities, the other categories should rise by the end of 1996.

As shown in the following pages, these initiatives have complemented the strategies of previous years and contributed to the improvement of the loan portfolio.

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Table V
LOAN PORTFOLIO
After cumulative allowance for credit losses as at December 31

(in millions of dollars)	1995	1994	1993	1992	1991
Composition					
Day to day	60	---	8	--	15
Public and parapublic sectors	264	295	364	548	530
Banks	3	---	--	--	5
Members	1,567	2,060	2,325	2,871	1,656
Other Desjardins entities	929	800	648	558	330
Other - private sector	656	854	1,111	1,221	1,482
TOTAL	3,479	4,009	4,456	5,198	4,018
Geographic distribution					
Québec	3,213	3,604	3,872	4,560	3,294
Ontario	158	223	383	421	518
Other Canadian provinces	83	154	177	202	201
Other countries	25	28	24	15	5
TOTAL	3,479	4,009	4,456	5,198	4,018
Average Loans	3,580	4,176	4,397	4,295	3,390

Table VI
BREAKDOWN OF LOANS TO PRIVATE SECTOR
After cumulative allowance for credit losses as at December 31

(in millions of dollars)	1995		1994	
	$	%	$	%
Primary industries	107	15.9	96	11.0
Manufacturing industries				
. Food and tobacco	40	5.9	40	4.6
. Textiles, rubber and plastics	23	3.4	30	3.4
. Wood and furniture	7	1.0	2	0.2
. Pulp and paper	74	11.0	137	15.7
. Metal products	47	7.0	67	7.7
. Other	53	7.9	106	12.1
Real estate	85	12.6	103	11.8
Transportation and communications	94	13.9	97	11.1
Wholesale and retail trade	24	3.6	62	7.1
Financial intermediaries	45	6.7	80	9.2
Other service corporations	75	11.1	53	6.1
	674	100.0	873	100.0
Provision for doubtful accounts	(18)		(19)	
TOTAL	656		854	

RISK MANAGEMENT REVIEW OVERVIEW

The major risks of Caisse centrale are credit, liquidity, market (more specifically exchange and interest rate risks), legal and operational. Policies and management practices have been established to facilitate the monitoring of risk-taking. The Management Committee is involved in monitoring risks from a variety of perspectives and ensuring that transactions respect established limits. New transactions and material changes to existing businesses are subjected to new product reviews to assure management that all significant risks are identified and adequate control procedures are in place.

The fundamental responsibility of the Management Committee is to establish market risk limits and concentration limits for credit risk, by considering exposure to particular products, counterparties and industry sectors.

The Management Committee is composed of senior management members of Caisse centrale. This committee meets regularly to review and discuss trends in the market and liquidity risk profiles. The Credit Committee, also composed of senior management members, meets regularly to review credit risk developments. The Board of Directors periodically reviews risk management policies, practices and trends in our risk profiles.

Operating within defined corporate policies and standards, business managers are subject to independent review. They are responsible for managing risks and are encouraged to protect against losses from unexpected events by limiting and diversifying exposures and activities across a variety of instruments, markets, clients and geographic regions. Integral to the management of market and credit risk is the development of models used in simulation and pricing of certain instruments. Under the responsibility of the Management Committee, business managers establish guidelines for the development and use of simulation models.

The practices and procedures by which Caisse centrale manages its risks continually evolve as its business activities change in response to market and product developments. Caisse centrale is always seeking to strengthen the risk management process through continuous investments in technology and training. Periodic reviews performed by regulators, internal and external auditors subject our practices to additional scrutiny.

Credit Risk

Credit losses can occur if a borrower or counterparty does not fully honour its contractual obligations to Caisse centrale. These obligations can involve loans, commitments, guarantees and derivative contracts with positive market values.

Managing credit risk has both qualitative and quantitative aspects. The qualitative aspect is determining the creditworthiness of the counterparties. Experienced credit officers evaluate the credit quality of the counterparties and assign internal credit ratings based upon this evaluation. These officers are responsible for credit screening and monitoring credit risks which are revised by an independent department.

Credit concentration limits for various industries, products, and geographic regions are set by the Credit Committee. Credit limits for clients and counterparties are established by credit officers with direct knowledge of the borrowers' creditworthiness. Authorized limits are reviewed and monitored periodically by the Board of Directors.

The quantitative aspect of credit risk begins with the measurement of Caisse centrale's credit exposure to each counterparty. The Credit Committee is responsible for establishing the framework of policies and practices required to measure such risk. Credit exposure is measured in terms of both current and potential credit exposure. Current credit exposure is generally represented by the notional or principal value for on-balance sheet financial instruments and by the replacement cost (the positive market value) of derivative instruments. Caisse centrale also estimates the potential credit exposure by considering its sensitivity to market changes.

This process involves numerous simulations based on the credit quality of our counterparties, maturity, default probabilities, volatility and the expected recoveries in the event of default, as well as the diversification across counterparties, industries, and geographic regions of our global credit portfolio.

These elements are subjected to review procedures, as are products and credit risks requiring a strict follow-up. These risks are examined regularly by the Credit Committee, or the Management Committee, as the case may be. This group of senior officers evaluates the pertinence of the provision for doubtful accounts and informs the Board of Directors the portion of credit exposures that should be written off and the amount of any provision for credit losses.

Credit Policies

Throughout the years, Caisse centrale has developed and adopted credit policies to detect problem loans and therefore take appropriate measures to rectify the situation. Credit policies are revised annually. During the year, significant effort was dedicated to increasing the quality of the loan portfolio. This monitoring is done within a rigorous environment by applying a highly selective risk management policy and working towards well-defined risk diversification procedures.

The general credit policy establishes the principles and limits within which financing operations involving a credit risk must be transacted and the authorizations required. The policy permits to better control and diversify the portfolio while favouring new loans to the medium-sized corporations. It defines borrowers' eligibility criteria, establishes the credit risks valuation mechanisms and the types of financing available. It also establishes the monetary, sector-related, geographic, risk and term limits in order to ensure the desired level of diversification of the loan portfolio. Finally, the policy establishes the levels of authorization and delegations of authority required for the approval and management of credit commitments.

This policy measures all loans against eight risk categories. Periodic reviews must be carried out and submitted to the appropriate decision-making levels, so that necessary steps can be taken to minimize losses.

The general credit policy stipulates that credit commitment limits for each industry group of the private sector must not exceed 15% of the total amount of credit committed to the private sector without the authorization of the Board of Directors. The latter has authorized an excess of limit for the transportation and communications sector, the only sector over the limit at December 31, 1995. This excess originates from a commitment of $50 million granted to a large Canadian public utility corporation which has a very high quality credit rating.

Furthermore, Caisse centrale established operational policies limiting its commitments with respect to highly leveraged transactions and real estate lending. These policies and procedures explain the high quality of the loan portfolio.

Caisse centrale also deals with foreign correspondents. International operations involving credit risk are governed under specific guidelines disclosed in a credit policy-international services. More specifically, this policy ensures sound apportionment of Caisse centrale's foreign risks by setting out eligibility criteria for countries and correspondents, monetary limits by country and by correspondent, and term limits. This policy is also revised annually.

Commercial real estate loans

During the past year, Caisse centrale has reduced substantially its net exposure to this sector. Caisse centrale exercised prudence in paring down its real estate portfolio and insofar as possible, took a cooperative approach with borrowers.

Outstanding loans, net of specific provisions, stood at $85 million at year-end 1995, compared to $103 million in 1994. Since 1993, loans have declined by $88 million or 51% as we directed our efforts to enhance the quality of this portfolio. Net non-accrual loans dropped by 68% from $22.3 million in 1994 to $7.1 million in 1995. The ratio of non-performing loans to members' equity is 1.61% compared to 5.09% in 1994. This ratio compares favourably to that of the major Canadian banks at October 31, 1995 (10%). We expect to abide by the 15% limit of commitment in this sector in 1996, as was done in 1995. This portfolio still requires very careful monitoring and Caisse centrale will wait for appropriate circumstances to sell foreclosed real estate.

Pulp and paper loans

During 1995, commitments in this sector decreased by $59 million or 31%; they were $129 million compared to $188 million in 1994. As shown in Table VI, net outstanding loans were $74 million, down $63 million or 45% from 1994. Since 1993, commitments decreased by $126 million; showing our prudent management towards the pulp and paper industry. At December 31, 1995, only one loan was non-performing for an amount of $117,000 and it was totally reimbursed at the beginning of 1996.

Loans categorized as "highly leveraged transactions"

Caisse centrale has not authorized loans in this category in 1995. With the settlement of many accounts, this portfolio was reduced considerably during the year; from $30 million in 1994 to $7.6 million, a decline of $22.4 million or 75%. Caisse centrale does not expect any new financing in 1996.

Non-accrual loans

A loan is classified as non-accrual when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest or where payment of interest is contractually past due 90 days, unless there is no doubt as to the collectibility of principal and interest. Net non-accrual loans correspond to the gross amount of the non-accrual loans less the cumulative allowance for credit losses. Quality of the loan portfolio was enhanced due to the last years constant efforts. No new non-performing loan was recorded at year-end 1995. Gross non-accrual loans were only $12.1 million, a decrease of $41.9 million or 77.6% over 1994. One commercial real estate loan represented 92% of this amount. At December 31, 1995, the non-performing loans were fully provisioned, compared to a coverage ratio of 88% last year. Gross non-performing loans were only 0.35% of total loans (1994: 1.35%). These two ratios compare very favourably to those of the major Canadian banks at October 31, 1995, which were respectively 54% for the coverage ratio and 2.4% for the ratio of gross non-performing loans to total loans. As evidenced, prudent management of Caisse centrale proved successful; non-accrual loans were at their lowest level since 1990. In 1996, Caisse centrale will continue to closely monitor its loan portfolio.

Provision for credit losses and cumulative allowance for credit losses

Caisse centrale has a policy on credit risk losses and write-offs. Revised annually, this policy sets guidelines related to the creation of specific provisions when collectibility of capital is considered doubtful or uncollectible and a formula to establish and maintain a provision for doubtful accounts.

The provision for credit losses charged to the statement of income was $8 million compared to $20 million last year. Caisse centrale was therefore reducing it for a third consecutive year and losses were at their lowest since 1990.

At current year-end, the cumulative allowance for credit losses was $22.7 million or $25 million less that last year. It is worth mentioning that a prudential amount of $1 million was reallocated for off-balance sheet financial instruments. This provision appears under other liabilities. Specific provisions were at their lowest level since 1990. They stood at $4.2 million, a decline of 86% over 1994. As shown on Table VII, most of this amount was allocated to the commercial real estate portfolio compared to 50% in 1994. Specific provisions on the real estate sector and the financial intermediaries sector have declined by $53.9 million and $3.2 million respectively since 1993.

Table VII
BREAKDOWN OF THE SPECIFIC PROVISIONS
As at December 31

(in thousands of dollars)	1995	1994	1993	1992	1991
Manufacturing Industries					
. Wood and furniture	---	---	936	336	4,000
. Pulp and paper	---	---	7,200	2,000	10,000
. Other	---	---	4,200	3,900	3,900
Real estate	4,000	15,000	7,200	---	---
Financial intermediaries	---	14,000	53,900	39,200	---
Other service corporations	200	200	5,500	5,500	4,400
Total	4,200	29,200	78,936	50,936	22,300

In March 1994, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3025 dealing with impaired loans. These standards will become effective for Canadian financial institutions beginning in 1996. A loan is considered to be impaired when the lender no longer has reasonable assurance that the full amount of principal and interest will be collected in accordance with the terms of the loan. When a loan is impaired, the carrying amount is reduced to its estimated realizable value, as measured by discounting the expected future cash flows, from the loan at the contractual interest rate of the loan. If expected cash flows cannot be measured reliably, the loan may be recorded at the fair value of any security underlying the loan or the observable market price of the loan.

Application of this accounting method has no impact on the financial condition and the results of operations of Caisse centrale and consequently, no adjustment will be required to the retained earnings as at January 1, 1996.

Due to the better quality of the loan portfolio, Caisse centrale expects a lower provision for credit losses in 1996.

LIQUIDITY RISK MANAGEMENT

Liquidity risk arises in the general funding of the firm's activities and in the management of positions. It includes both the risk of financing the assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price. Management of our liquidity profile is designed to ensure that even under adverse conditions, Caisse centrale has access to the funds necessary to cover clients needs and maturing liabilities.

The Management Committee develops policies and procedures to measure the quality and the quantity of liquidities. At all times, Caisse centrale must maintain sufficient liquid assets to realize its business plans. Management must take into account the differences in maturities between assets and liabilities as well as future funding requirements based on various assumptions including adverse conditions.

It is to be noted that as a direct clearer of the Canadian Payments Association, Caisse centrale is entitled, if necessary, to borrow from the Bank of Canada.

In 1995, Caisse centrale complied fully with the liquidity requirements of the Inspector General of financial Institutions. Furthermore, Caisse centrale maintained liquid assets - $873 million on average - over and above those required by law. As indicated earlier this high level of liquidities was maintained throughout 1995 due to economic and political uncertainties. This high level of liquidities allowed Caisse centrale to meet its financial obligations to the Desjardins network, to meet its own financial obligations while providing the flexibility needed to take advantage of opportunities. For 1996, Caisse centrale expects to maintain a liquidity ratio similar to 1995.

At December 31, 1995, liquid assets consisting of cash, deposits with the Bank of Canada, securities and loans to brokers and dealers amounted to $1.8 billion, an increase of $470 million over 1994. They represented 34% of total assets (1994: 25%). As shown in Note 3 to the financial statements the securities portfolio comprised 90% of securities issued or guaranteed by federal and provincial governments, municipal, school or public corporations in Canada as well as Canadian banks. Close to 55%, or $971 million, of these securities mature within one year.

Table VIII
BREAKDOWN OF THE SECURITIES PORTFOLIO
As at December 31

(in millions of dollars)	1995	1994	1993	1992	1991
Canada	880	373	367	392	177
Provinces, municipal, public or school corporations in Canada	703	745	554	365	330
Members and other Desjardins entities	---	25	15	23	41
Other Canadian issuers	79	119	150	297	346
Foreign issuers	108	38	22	12	--
TOTAL	1,770	1,300	1,108	1,089	894
Average securities	1,913	1,414	1,285	899	734

SOURCES OF FUNDS

Sound liquidity management also requires a stable and diversified funding base. Although Caisse centrale maintains a presence on the Canadian and the international markets, sources of funds differ for each one. Caisse centrale's funding policy is to maintain a deposit base diversified with respect to region, currency and maturity date, and designed to ensure safe fund procurement to the Desjardins network at the lowest possible cost. Table IX shows the composition of the funding sources and their geographic distribution.

There were $4.77 billion in outstanding deposits and subordinated debentures at year-end 1995 against $4.83 billion in 1994; down by $61 million or 1.26% from last year. Demand deposits, which stood at $228 million at December 31, 1995, have increased by $18 million or 8.4% from the previous year.

Deposits from banks increased by $249 million or 89% mostly through banks outside of Canada.

Deposits by members represented 18% of deposits and debentures or $840 million in 1995, compared to 10% or $504 million in 1994. Depositing their excess of liquidities at Caisse centrale gives the federations favourable yield while improving internal flows of funds within Desjardins. Other deposits amounted to $3.1 billion (1994: $3.6 billion) a decline of $513 million or 14.2%.

To achieve its funding goals' Caisse centrale may intervene on the financial markets by using the following :

- On the Canadian market : a short and medium-term program.
- On the international market :
  - A short-term European commercial paper program of US $600 million.
  - A short-term American commercial paper program of US $600 million.
  - A European medium-term note program of US $1 billion.

In addition, Caisse centrale can also resort to public and private issues, when appropriate. Moreover, Caisse centrale has US $250 million of stand-by lines of credit.

In 1995, the activities of Caisse centrale on the international markets were principally through the use of its two short-term commercial paper programs in the US and Europe. However, Caisse centrale used its European medium-term program and raised six new issues totalling $232 million, including an issue of DM 150 million. No new public issue was raised.

As outlined in Table IX, funds raised outside Canada amounted to 72% of total deposits and subordinated debentures or $3.4 billion compared to 70% in 1994. At December 31, 1995, through its various fund supply programs, Caisse centrale had issued: $1,362 million from public issues, $168 million from private issues, $723 million through its European medium-term program, $776 million of short-term commercial paper and $407 million of bank deposits. In 1996, three public issues of CAD $310 million, a private issue of US $25 million and fifteen issues of the European medium-term note program of CAD $229 million will come to maturity.

In 1996, Caisse centrale will pursue its goals to diversify its funding sources to meet the needs of the Desjardins network by using all of its available programs. If necessary, Caisse centrale will reactivate its action plan to put in place a US medium-term program. Strategies will consist to favour medium and long-term funds on a floating basis using interest rate contracts.

Tableau IX
DEPOSITS AND SUBORDINATED DEBENTURES
As at December 31

(in millions of dollars)	1995	1994	1993	1992	1991
Canada	29	21	322	231	507
Provinces	42	62	122	166	96
Banks	527	278	249	728	470
Members	841	504	403	370	400
Other Desjardins entities	149	274	203	288	163
Other	3,111	3,624	3,738	4,025	2,914
	4,699	4,763	5,037	5,808	4,550
Subordinated debentures	70	67	56	59	---
TOTAL	4,769	4,830	5,193	4,730	3,863
Average liabilities	4,984	5,040	4,730	3,683	3,563

	1995		1994		1993		1992		1991	
	$	%	$	%	$	%	$	%	$	%
Geographic distribution										
Canada	1,333	28	1,469	30	2,369	47	2,934	50	2,477	54
International	3,436	72	3,361	70	2,724	53	2,933	50	2,073	46
TOTAL	4,769	100	4,830	100	5,093	100	5,867	100	4,550	100

MARKET RISK MANAGEMENT

Market risk is the risk to future earnings that results from changes in the value of financial instruments. The two main components of market risk are interest rate risk and foreign exchange rate risk. The estimation of potential losses is a key element of managing risks.

INTEREST RATE RISK MANAGEMENT

Interest rate risk is the sensitivity of Caisse centrale's financial condition to movements in interest rates. The amount and direction of the effect depend on the amount of assets and liabilities that reprice in the time period during interest rates change.

The measure of interest rate risk is the interest rate sensitivity position or "gap" of Caisse centrale. Gap is the difference in the amount of assets and liabilities that reprice during any given time period. If liabilities repricing in a given time period exceed assets that reprice, the gap is referred to as negative or liability sensitive. Conversely, if more assets than liabilities reprice in a given time period, then Caisse centrale has a positive gap or is asset sensitive. If Caisse centrale is liability sensitive, when interest rates fall, net interest income will increase; when interest rates increase, net interest income will decrease. The reverse is true if Caisse centrale is asset sensitive. The magnitude of the impact on the earnings of such gaps is a function of the frequency and degree of interest rate changes, and the maturity profiles of the assets and liabilities, which depend on customers' varying term preferences for loans and deposits.

Caisse centrale can lower or eliminate this risk by "match funding", which is matching the repricing of assets and liabilities. This can be achieved by a change in the mix of assets and liabilities through pricing initiatives or the use of off-balance sheet financial instruments.

Table X shows Caisse centrale's position with regards to interest rate sensitivity at December 31, 1995. This is the position at that particular date and it could have changed since then taking into account the forecasted interest rates and clients' preferences with respect to the products and terms.

Caisse centrale is very cautious with regards to interest rate sensitivity. Various means are used to monitor and manage interest rate risk. In addition, Caisse centrale established policies which describe principles and mechanisms regarding risk management, and periodic reports are reviewed by the Board of Directors.

Table X
INTEREST RATE SENSITIVITY POSITION
As at December 31, 1995

(in millions of dollars)	Within 3 months	3 to 6 months	6 to 12 months	Total within 12 months	Over 1 year	Non-interest sensitive	Total
Assets							
Cash and deposits with Bank of Canada	---	---	---	---	---	10	10
Securities	507	253	113	873	897	---	1,770
Loans	1,879	197	530	2,606	885	(12)	3,479
Other assets	7	---	---	7	---	69	76
	2,393	450	643	3,486	1,782	67	5,335
Liabilities and members' equity							
Deposits	2,473	386	255	3,114	1,585	---	4,699
Other liabilities	---	---	---	---	39	89	128
Subordinated debentures	---	---	---	---	70	---	70
Members' equity	---	---	---	---	---	438	438
	2,473	386	255	3,114	1,694	527	5,335
On-balance sheet gap	(80)	64	388	372	88	(460)	---
Off-balance sheet gap (1)	50	26	(91)	(15)	15	---	---
Total interest rate sensitivity gap	**(30)**	**90**	**297**	**357**	**103**	**(460)**	**---**
Cumulative interest rate sensitivity gap	**(30)**	**60**	**357**	**357**	**460**	**---**	**---**

(1) The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, such as future rate agreements and interest rate swaps, which are used to manage interest rate risk.

FOREIGN EXCHANGE RATE RISK MANAGEMENT

Caisse centrale has assets and liabilities denominated in several foreign currencies. Foreign exchange risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Caisse centrale has established specific policies relative to management of foreign exchange risk. It does not actively speculate on the foreign exchange market, as transactions are done to satisfy clients needs and for funding purposes. Currency swaps or currency and interest rates swaps are strictly used to manage risks relative to its assets and liabilities.

LEGAL RISK MANAGEMENT

Legal risks exists when there is a possibility that a counterparty does not have the legal capability to carry through a signed agreement or that the legal documentation for such an agreement is deficient. Caisse centrale manages this risk by asking internal or external lawyers to perform the necessary checks and controls.

OPERATIONAL RISK MANAGEMENT

Operational risk is the potential for loss caused by a breakdown in information, communication, processing and settlement systems. It can result from systems or procedural failures, human error, the impact of natural disasters and criminal activity.

While operational risk can never be fully eliminated, Caisse centrale endeavours to minimize it through a system of internal controls. Some of the key policies and procedures employed by Caisse centrale in managing operational risk involve segregation of duties, delegation of authorities, transaction processing, risk monitoring and financial and managerial reporting. Caisse centrale also possesses back-up capabilities and engages in business resumption planning to ensure ongoing service delivery under adverse conditions.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

To help clients meet their liquidity requirements and protect themselves against fluctuations in interest and foreign exchange rates, Caisse centrale offers a number of off-balance sheet instruments. Caisse centrale itself uses some of these instruments to manage its own exposure to interest and exchange rate fluctuations. These off-balance sheet financial instruments can be broadly divided into two categories: financial instruments with contractual amounts representing credit risk and derivatives.

All off-balance instruments are subject to Caisse centrale's normal credit standards, financial controls, risk ceilings and monitoring procedures. Caisse centrale constantly improves its evaluation methods and risk management systems on this subject. In the opinion of management, these transactions do not represent an unusual risk and no material losses are anticipated as a result of these transactions. Note 13 to the financial statements provides further details on these transactions.

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK

Products in this category, which include guarantees, letters of credit and commitments to extend credit, are designed to provide clients with funds for which they anticipate a need. Conditional commitments to extend credit are subject to clients' compliance with particular credit standards. Risk associated with such commitments is therefore reduced considerably. A firm commitment requires a duly signed offer, including confirmation of acceptance by the client. In such cases, Caisse centrale must pay out the amount specified in the commitment when the client is unable to meet its financial or performance contractual obligations.

DERIVATIVES

Derivative financial instruments are financial contracts which derive their value from a primary financial instrument or an underlying index, for example interest or exchange rates. Derivatives include many financial contracts such as over-the-counter contracts or standardized contracts executed on an exchange. A description of derivatives and their use by Caisse centrale is provided in Note 13 to the financial statements.

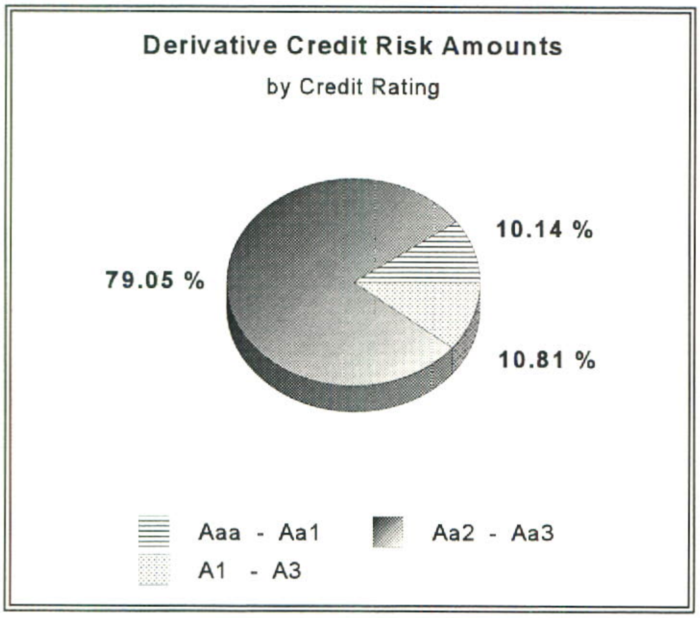
As with balance sheet financial instruments, derivatives are subject to market and credit risk. As outlined in the Risk management section, Caisse centrale evaluates the risk associated with derivatives in much the same way as the risks associated with other financial instruments. However, unlike balance sheet financial instruments where the credit exposure is generally represented by the notional or principal value, the credit exposure associated with derivatives is generally a small fraction of the notional value of the instrument and is represented by the positive market value of the derivative instrument.

Currency and interest rate contracts and foreign exchange contracts allow Caisse centrale and its clients to transfer, modify or reduce the foreign exchange and interest rate risk. Currency and interest rate contracts are transactions in which two parties exchange currencies and/or interest flows on a specified principal amount for a predetermined period. With the exception of hedging contracts, Caisse centrale's commitments to purchase a fixed amount of a foreign currency are generally offset by options to sell an equal amount of the same currency. The majority of currency and interest rate contracts and foreign exchange contracts are transacted with banks, federations and other entities of the Desjardins Group.

Table XI
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS
As at December 31

(in millions of dollars)	1995			1994		
	Members and other Desjardins entities	Other	Total	Members and other Desjardins entities	Other	Total
Financial instruments with contractual amounts representing credit risk						
Guarantees and standby letters of credit	2	151	153	3	290	293
Commitments to extend credit						
- Firm	2,931	2,201	5,132	2,398	2,003	4,401
- Conditional	75	745	820	140	496	636
	3,006	2,946	5,952	2,538	2,499	5,037
	3,008	3,097	6,105	2,541	2,789	5,330
Derivatives						
Interest rate contracts	1,691	2,947	4,638	1,828	3,301	5,129
Foreign exchange contracts	357	5,241	5,598	140	5,803	5,943
Other contracts	21	22	43	21	22	43
	2,069	8,210	10,279	1,989	9,126	11,115
TOTAL	5,077	11,307	16,384	4,530	11,915	16,445

Chart I



Caisse centrale enters into derivative transactions with counterparties having a credit rating similar or higher than its own (Moody's Aa3). Chart I presents the credit risk amount of Caisse centrale's derivative portfolio by credit quality. The chart shows that close to 90% of the current credit exposure is to counterparties which are rated equal of above Caisse centrale's credit rating.

Chart II

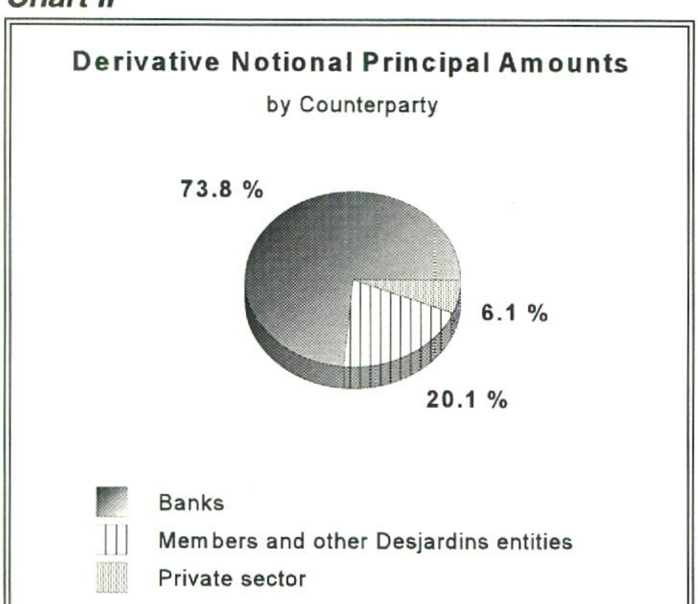


Chart II details the derivative credit exposure broken out by counterparty type. By value of notional principal, 74% of counterparties were banks. Federations and other Desjardins entities accounted for 20%. Transactions with entities of the private sector accounted for only 6%.

Chart III

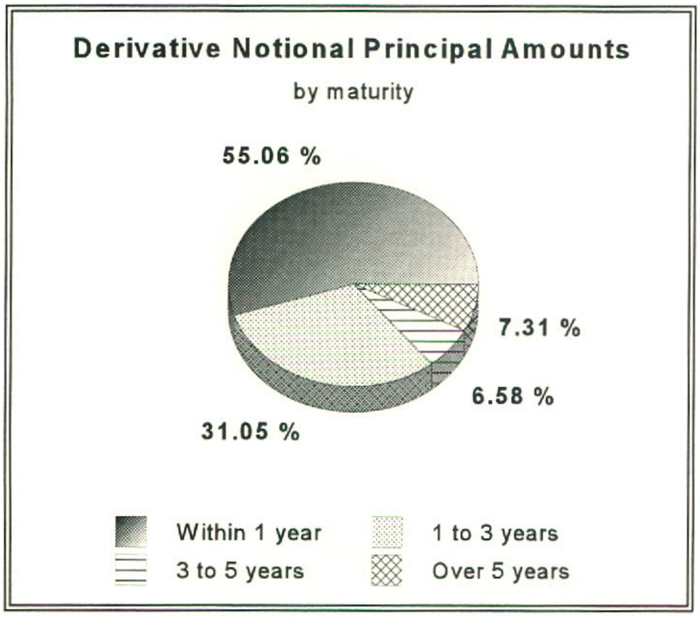


Chart III shows the maturity profile of the derivative portfolio. Generally, there is less market risk associated with short-term instruments. As measured by notional values, more than 86% of these derivatives have remaining terms of less than three years with a majority within a year. It is to be noted that close to 60% of foreign exchange contracts relate to contracts with a remaining term of less than three months.

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CAPITAL MANAGEMENT

Capital consists of members' equity (which includes capital stock, retained earnings and general reserve) and subordinated debentures. Combined with the size and stability of a financial institution's deposit base, capital provides an important source and measure of financial strength. In recent years, regulators and rating agencies have directed a great deal of attention to financial institutions' funding sources, particularly their capital levels.

As shown on the balance sheet, members' equity ($409.4 million) and general reserve ($28.9 million) are identical to last year. All of the retained earnings at year-end 1995 were declared as remuneration on capital stock. Caisse centrale fully satisfies the requirements of the Inspector General of Financial Institutions (Inspector General) as far as capital is concerned. According to the instructions of the Inspector General, which differ from those of the Bank for International Settlements (BIS), the liability ratio was 10.31:1 at December 31, 1995 while the norm was 20:1. Return on members' equity was 7.02% in 1995 (1994: 3.9%). Expressed as a percentage of total assets, members' equity reached 8.2% in 1995, a similar ratio compared to 1994. As shown in Note 11 to the financial statements, under the Incorporating Act, the Board of Directors may not declare or pay interest on shares if it would render Caisse centrale insolvent or decrease the paid-up capital.

RISK-WEIGHTED ASSETS AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Bank for International Settlements (BIS) has established a framework for measuring capital adequacy of banks with substantial international activities. Caisse centrale has no legal obligation to abide by these guidelines but, because of its international presence, wishes to compare itself with other financial institutions active internationally.

The regulatory capital ratio consists of the total amount of capital over assets and off-balance sheet financial instruments weighted for risks.

The BIS framework requires that "risk-weighted balances" be calculated for off-balance sheet financial instruments and asset items and that aggregate values be weighted using a common definition of capital.

Off-balance sheet financial instruments are initially converted to "credit risk equivalents" as shown in Table XII. For financial instruments with contractual amounts representing credit risk such as guarantees, standby letters of credit and commitments to extend credit, the "credit risk equivalent" is determined by multiplying the notional amount by the appropriate "credit conversion factor", which can range from 0% to 100%, depending on the nature of the instrument and the original term to maturity. The "credit risk equivalent" for foreign exchange and for interest and currency contracts comprises the replacement cost of contracts with positive value and the potential credit exposure on the contracts, calculated on the basis of their residual term to maturity.

The "credit equivalent risks" for off-balance sheet financial instruments together with on-balance sheet assets are then multiplied by appropriate "risk weights" to determine risk-weighted balances. The risk weights depend on the relative credit risk of the counterpart and vary from 0% for claims on or guaranteed by the Canadian or provincial governments, to 100% for claims on or guaranteed by the private sector.

As shown in Table XII, Caisse centrale's risk-weighted assets and off-balance sheet financial instruments stood at $2,562 million at December 31, 1995.

Table XII
RISK-WEIGHTED ASSETS AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS
As at December 31, 1995

ASSETS *(in thousands of dollars)*	Balance sheet amount	Principal risk weight	Risk-weighted balance
Cash and deposits with Bank of Canada	10,560	0 %	0
Securities issued or guaranteed by Canada, provinces, municipalities, school boards and public agencies	1,582,929	0-20 %	47,852
Securities issued or guaranteed of US Treasury and other US Agencies	90,596	20 %	18,119
Securities issued by banks	22,247	20 %	4,450
Securities issued by members and other Desjardins entities	50	100 %	50
Other securities	73,997	100 %	73,997
Loans issued or guaranteed by Canada, provinces, municipalities, school boards and public agencies	273,793	0-20 %	52,760
Loans to members	1,567,283	20 %	313,457
Loans to other Desjardins entities	929,374	100 %	929,374
Other loans	708,749	100 %	708,749
Other assets	75,904	100 %	75,904
	5,335,482		2,224,712

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

(in thousands of dollars)	Notional amount	Credit conversion factor	Credit risk equivalent	Principal risk weight	Risk weighted balance
Financial instruments with contractual amounts representing credit risk					
Guarantees and standby letters of credit	153,015	0-100 %	150,555	20-100 %	46,713
Commitments to extend credit:					
Original term to maturity					
Greater than one year	772,307	50 %	386,155	0-100 %	225,164
One year or less and conditional	5,179,773	0-100 %	4,147	0-100 %	4,147
Derivatives					
Interest rate contracts	4,638,074	(1)	57,441	20-50 %	14,819
Foreign exchange contracts	5,597,865	(1)	223,269	20-50 %	45,608
Other contracts	42,890	(1)	1,716	20 %	343
	16,383,921		823,283		336,794

TOTAL RISK-WEIGHTED ASSETS AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS $2,561,506

(1) Foreign exchange and interest rate contracts are converted to "credit risk equivalent" by adding the total replacement cost (obtained by market assessment) of all outstanding contracts with positive value and an amount for potential credit exposure on the basis of the total contract amount split by remaining term to maturity, as follows:

Remaining term to maturity	Foreign exchange contracts	Interest rate contracts	Others Contracts
Less than 1 year	1 %	0 %	6 %
Greater than 1 year and less than 5 years	5 %	0.5 %	8 %
Greater than 5 years	7.5 %	1.5 %	10 %

Capital ratio

Members' equity was $438.3 million at December 31, 1995. In addition, Caisse centrale had outstanding subordinated debentures totalling $70.5 million eligible as Tier 2 capital under BIS guidelines. Total capital stood at $508.8 million at current year-end.

All the member federations have, through an equity maintenance agreement, irrevocably guaranteed to maintain Caisse centrale's capital base at a minimum level equal to at least (i) 5.5% of Caisse centrale's total liabilities determined in accordance with the provisions of sections 54 to 56 of the Incorporating Act or, if higher (ii) 8.5% of Caisse centrale's risk-weighted assets and off-balance financial instruments determined in accordance with the standards set by the BIS.

At December 31, 1995, the liability ratio was 9.70% (1994: 9.48%), and the BIS ratio 19.86% (1994: 19.39%), well above the minimum ratios.

Table XIII
CONSOLIDATED BALANCE SHEETS
As at December 31

(in thousands of dollars)	1995	1994	1993	1992	1991
ASSETS					
Cash and deposits with Bank of Canada	10,560	40,789	10,212	53,517	86,594
Securities	1,769,819	1,300,554	1,108,005	1,088,628	893,536
Loans					
. Members and other Desjardins entities	2,496,657	2,859,636	2,972,917	3,429,331	1,985,888
. Public and parapublic sectors	263,801	294,565	364,107	548,304	529,994
. Other	718,741	854,364	1,119,276	1,220,895	1,502,079
Other assets	75,904	78,571	76,448	99,494	89,005
TOTAL ASSETS	5,335,482	5,428,479	5,650,965	6,440,169	5,087,096
LIABILITIES AND MEMBERS' EQUITY					
Deposits					
Payable on demand	228,339	210,587	236,209	174,681	195,203
Payable on a fixed date	4,470,685	4,552,852	4,801,087	5,633,504	4,354,459
Other Liabilities	127,638	153,988	113,314	135,047	83,337
	4,826,662	4,917,427	5,150,610	5,943,232	4,632,999
Subordinated debentures	70,477	66,991	55,960	58,594	---
Members' equity					
Capital Stock	409,403	409,403	409,403	409,403	409,403
Retained Earnings	---	5,718	6,052	---	---
General Reserve	28,940	28,940	28,940	28,940	44,694
	438,343	444,061	444,395	438,343	454,097
TOTAL LIABILITIES AND MEMBERS' EQUITY	5,335,482	5,428,479	5,650,965	6,440,169	5,087,096

Tableau XIV
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31

(in thousands of dollars)	1995	1994	1993	1992	1991
Interest income					
Loans	284,990	295,984	319,839	344,212	348,768
Securities	147,557	77,763	77,192	67,057	74,216
	432,547	373,747	397,031	411,269	422,984
Interest expense	374,908	322,944	346,494	354,750	356,272
Net interest income	57,639	50,803	50,537	56,519	66,712
Provision for credit losses	7,958	20,067	24,067	49,500	9,000
Net interest income after provision for credit losses	49,681	30,736	26,470	7,019	57,712
Other income	13,225	13,046	13,973	18,402	13,943
Net interest income and other income	62,906	43,782	40,443	25,421	71,655
Non-interest Expenses					
Salaries and benefits	11,258	10,680	10,607	10,003	8,610
Premises, equipment and furniture, including depreciation	5,243	4,972	4,850	4,408	3,568
Other	6,604	5,299	5,021	4,593	3,315
	23,105	20,951	20,478	19,004	15,493
Net Income Before Income Taxes	39,801	22,831	19,965	6,417	56,162
Income taxes	8,617	5,437	4,959	2,158	9,878
NET INCOME	31,184	17,394	15,006	4,259	46,284

Desjardins