CAISSE CENTRALE DESJARDINS

1993 ANNUAL REPORT

	•
	r
	•

TABLE OF CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS	
Management report	4
Auditors' report	5
Consolidated financial statements and notes thereto	6
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL	
CONDITION AND RESULTS OF OPERATIONS	
Financial highlights	18
Review of the economy	19
Total income	22
Net interest income	22
Other income	24
Remuneration of capital stock and other payments to members	25
Non-interest expenses	26
Income and other taxes	28
Comments on the balance sheet	29
Liquidity management	33
Sources of funds	34
Interest rate sensitivity position	36
Risk-based capital	38
Members' equity	42

			,

CONSOLIDATED FINANCIAL STATEMENTS

	*			

AUDITORS' REPORT

To the Members of Caisse centrale Desjardins

We have audited the consolidated balance sheets of Caisse centrale Desigrations as at December 31, 1993 and 1992 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 Desigrations' 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, 1993 and 1992 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.

Raymond Chalot, factin, face

General Partnership Chartered Accountants General Partnership Chartered Accountants

Montreal, February 4, 1994

		•
		•

CONSOLIDATED STATEMENTS OF INCOME for the years ended December 31

in thousands of dollars)	1993	1992
nterest Income		
oans	\$ 320,628	\$ 344,212
Securities	77,192	67,057
Total interest income	397,820	411,269
nterest Expense	346,494	354,750
Net Interest Income	51,326	56,519
Provision for loan losses	24,067	49,500
Net Interest Income After Provision	13/3 × 7 × 1	
for Loan Losses	27,259	7,019
Other income	13,184	18,402
other modific	40,443	25,421
Non-Interest Expenses		
Salaries and benefits	10,607	10,003
Premises, equipment and furniture, including depreciation	4,850	4,408
Other expenses	4,834	4,501
	20,291	18,912
Net Income Before Provision for		
	20,152	6,509
Income Taxes		
Income Taxes Provision for income taxes (note 13)	5,146	2,250
Income Taxes Provision for income taxes (note 13) Net Income	\$\frac{5,146}{15,006}	\$ 4,259
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE	the same of the sa	
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS	the same of the sa	
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE	the same of the sa	
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars)	\$ <u>15,006</u>	\$ <u>4,259</u>
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings	\$ <u>15,006</u>	\$ <u>4,259</u> 1992
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars)	\$ 15,006	\$ <u>4,259</u>
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year	\$ 15,006	\$ <u>4,259</u> 1992 \$ 4,259
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year	\$ 15,006	\$ <u>4,259</u> 1992
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members	\$ <u>15,006</u> \$ 15,006	\$ <u>4,259</u> 1992 \$ 4,259
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the	\$ 15,006 \$ 15,006 (11,026)	\$ 4,259 \$ 4,259 (24,161)
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other	\$ <u>15,006</u> \$ 15,006	\$ <u>4,259</u> 1992 \$ 4,259
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)	\$ 15,006 \$ 15,006 (11,026)	\$ 4,259 \$ 4,259 (24,161)
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other	\$ 15,006 \$ 15,006 (11,026)	\$ 4,259 \$ 4,259 (24,161) 4,148
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) Transfer from general reserve Balance at end of year	\$ 15,006 \$ 15,006 (11,026)	\$ 4,259 \$ 4,259 (24,161) 4,148
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) Transfer from general reserve Balance at end of year General Reserve	\$ 15,006 \$ 15,006 (11,026) - 2,072 \$ 6,052	\$ 4,259 \$ 4,259 (24,161) 4,148 15,754 \$
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) Transfer from general reserve Balance at end of year General Reserve Balance at beginning of year	\$ 15,006 \$ 15,006 (11,026)	\$ 4,259 \$ 4,259 (24,161) 4,148 15,754 \$ \$ 44,694
Provision for income taxes (note 13) Net Income CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) Transfer from general reserve Balance at end of year General Reserve	\$ 15,006 \$ 15,006 (11,026) - 2,072 \$ 6,052	\$ 4,259 \$ 4,259 (24,161) 4,148 15,754 \$

	10 - 0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1993 and 1992
(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 accounting principles generally accepted 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 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 an allowance for credit losses and unamortized discounts, as applicable.

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.

		•

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.

3. SECURITIES

					15	993		1992
			Maturity			Esti-		Esti-
16 a	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Carrying Value	mated Market Value	Carrying Value	Market Value
Issued or guaranteed b				4 4000	4 207 014	A 260 812	\$ 392,431	\$ 390,531
Canada	\$ 225,797	\$ 91,540	\$ 45,595	\$ 4,082	\$ 367,014	\$ 369,812	\$ 332,431	\$ 330,531
Provinces, municipal,								
public or school cor-	E		10.000	101 360	553,787	567,875	364,661	367,645
porations in Canada	270,935	141,464	40,028	101,360	553,767	307,073	304,001	007,043
Other Securities								
Securities of								
Canadian issuers:								
Banks	61,758		5,778		67,536	67,634	172,602	172,688
Members		9,082			9,082	9,305		
Associated corporat	tions 998	5,250		50	6,298	6,465	23,078	23,195
Other issuers	38,100	30,581	10,951	2,286	81,918	79,839	124,190	118,586
Securities of								P District
foreign issuers	17,534	4,755		81	22,370	22,259	11,666	11,669
Total	\$ 615,122	\$ 282,672	\$ 102,352	\$ 107,859	\$1,108,005	\$1,123,189	\$1,088,628	\$1,084,314
			T. P. T. S. S.				A FF 0F1	A FF 0F1
Trading portfolio inclu	ded above				\$ 98,708	\$ 98,708	\$ 55,251	\$ 55,251

Securities held for trading are mostly those issued or guaranteed by Canada and public corporations in Canada.

4. OTHER LOANS

1993	1992
\$ 376,328	\$ 548,304
2,325,267	2,871,219
647,650	558,112
1,196,058	1,293,831
4,545,303	5,271,466
(97,003)	(72,936)
\$ <u>4,448,300</u>	\$ <u>5,198,530</u>
124,425	131,726
(97,003)	(72,936)
\$ 27,422	\$ 58,790
	\$ 376,328 2,325,267 647,650 1,196,058 4,545,303 (97,003) \$4,448,300 124,425 (97,003)

			•

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 \$55,960,000 - and maturing on December 4, 2002, the subordinated debentures are not redeemable and they bear interest at the annual rate of 8.5 %.

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. RETAINED EARNINGS

The Directors of Caisse centrale Desjardins have approved the transfers between the general reserve and the retained earnings as at December 31, 1992. Allocation of the 1993 retained earnings will be decided by the Board of Directors at a later date.

12. 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.

13. PROVISION FOR INCOME TAXES

The provision for income taxes as shown in the financial statements is detailed as follows:

	1993	1992
Statements of income Statements of retained earnings	\$ 5,146	\$ 2,250
Recovery of income taxes related to the remuneration of capital stock and other payments to members Total provision for income taxes	(2,072) \$ <u>3,074</u>	\$ <u>(4,148)</u> \$ <u>(1,898)</u>
The provision for current and deferred income taxes is as follows:		
Current Deferred	\$ 2,154 920	\$ (1,331) (567)
Total provision for income taxes	\$ 3,074	\$ (1,898)

No recovery of income taxes related to the results of the subsidiary was recorded in 1993 and 1992; this explains the difference between the statutory rate as adjusted for the large corporations' tax and the effective rate.

			-

17. 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, 1992, the date of the latest valuation, the pension plan was fully funded.

The total pension expense arising from employer contributions aggregated \$ 765,000 for the year ended December 31, 1993 (1992 - \$ 746,000).

18. SEGMENTED INFORMATION

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

				1. -

MANAGEMENT'S DISCUSSION

AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS

OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This analysis provides a comparison of Caisse centrale's financial condition and of its results of operations for the years ended December 31, 1993 and 1992, as well as an indication for the future. Also provided is a discussion of how Caisse centrale manages credit risks, liquidity and sources of funds.

REVIEW OF THE ECONOMY

1993 ends on a moderately optimistic note. Indicators/barometers confirm the recovery, but at slower rate. Gross domestic product grew by 2% in 1993. This growth was fed mainly by the strength of exports and investment in business equipment. However, this growth was not accompanied by an equivalent increase in employment.

The absence of inflation and the weakness in consumer spending resulted in low interest rates which never occurred the last three decades. In January 1993, the rate of Canadian 90-days Treasury Bills was set at 6.50%, compared to 4.10% last November. This should have provided a solid recovery in consumer spending, but consumers were reluctant to spend and preferred to favour savings instead.

Compared to last year, the Canadian dollar continued to fall; from 0.78 of the U.S. dollar in January 1993 to \$0.75 U.S. at year-end. In addition, exports were encouraged by increased economic vigour in the United States. Business competitivity also improved, thanks to low salary increases, while manpower unit cost increased by only 0.2% this year. From these factors, exports increased by more than 10% and were the driving force behind economic growth in Canada in 1993.

The 1993 recovery was not generalized. For example, the real estate sector still suffers from available spaces and the pulp and paper sector is slow to recovered because of weak demand of the U.S. market.

Furthermore, our businesses are going through a period of material structural changes. The free trade agreement with the United States and, more recently, the North American free trade agreement with Mexico, are forcing businesses to rationalize production. In-so doing, they acquired new equipment to modernize production.

		-
w.		

FINANCIAL HIGHLIGHTS

Caisse centrale's net income increase substantially over 1992; the consolidated net income reached \$15.0 million of dollars, an increase of \$10.7 million. Following our close monitoring of risk assets, the current year provision for loan losses has been \$24.1 million, compared to \$49.5 million last year. With regards to 1992, our net income has been adversely impacted by the drop of the interest rates over assets subject to interest rate fluctuations, permanent devaluations, a reduction of loan commissions and other income. These decreases have been partly offset by lower costs on non performing loans.

As at December 31, 1993, total assets were \$5.7 billion, down \$789 million, or 12.3%, from the previous year. Securities stood at \$1.1 billion, representing 20% of total assets. The loan portfolio was \$4.5 billion, a decrease of \$742 million over last year. Loans to members totalled \$2,325 million, down \$546 million over 1992. At the close of 1993, outstanding deposits and debentures were \$5.1 billion, compared to \$5.9 billion in 1992. International deposits accounted for 53% (1992: 50%).

Including \$56 million of subordinated debentures eligible as Tier 2 capital under the Bank for International Settlements (BIS) guidelines, Caisse centrale's total capital as at December 31, 1993 stood at \$500 million, for a BIS ratio of 17.22% (1992: 16.03%). Caisse centrale's contribution to the network is \$11.0 million as remuneration of capital stock and \$6.0 millions as other payments to members for a total of \$17.0 million. To protect members' equity, the remuneration of capital stock was punctually decided during the year by the Board of Directors.

To better serve Desjardins Group's members in Florida, Caisse centrale established a wholly owned subsidiary, Desjardins Federal Savings Bank (Desjardins FSB) in 1992. The operations of Desjardins FSB are consolidated with those of Caisse centrale.

We have also devaluated some securities for an amount of \$3.2 million (1992: \$0.5 million).

For above mentioned reasons, net interest income in 1993 was limited to \$51.3 million or 0.89% of average assets, compared to 1.06% in 1992.

In 1994, we forecast a decrease in net interest income, mainly due to the expected drop in interest rates, lower loan commissions and a decrease of loans to the private sector.

		•
		-3

Continuing agreements with foreign correspondents place Caisse centrale in a good position on international markets. For example, we have concluded general agreements with US Central Credit Union and the DG Bank, which will permit us to mutually enlarge our banking payment network and/or exchange clients. To serve its own clients and those of the Desjardins Group, Caisse centrale maintains correspondent relationships with more than 450 banks in 70 countries.

Revenues from international services rose by \$105,000 or 13.7% over 1992, reaching \$872,000 in 1993. Service charges were \$4.7 million, an increase of 8.8% over last year. The decrease in administration fees can be mainly attributed to lower float revenues on travellers checks on account of lower interest rates. At \$1.1 million, commissions derived from foreign exchange transactions and loans were lowered than in 1992.

During 1993, Caisse centrale combined financing and banking services in its business proposals. In 1994, Caisse centrale foresees to improve and enlarge its products and services to meet the needs of members of the Desjardins Group and its clients.

Table II
OTHER INCOME
for the years ended December 31

(in thousands of dollars)	1993	1992	Variation %	
International services	872	767	13.7	
Administration fees	6,452	7,103	(9.2)	
Service charges	4,678	4,299	8.8	
Commissions from foreign exchange and loans	1,064	1,264	(15.8)	
Federations' dues		4,800	(100.0)	
Other	118	<u>169</u>	(30.2)	
TOTAL	13,184	<u>18,402</u>	<u>(28.4</u>)	

REMUNERATION OF CAPITAL STOCK AND OTHER PAYMENTS TO MEMBERS

The remuneration of capital stock is to be paid at five basis points above 90-days bankers' acceptances rates. In 1992, in view of the economic situation, the Board of Directors authorized partial payment in the third quarter and waived payment in the fourth quarter. Based on the 1993 results of Caisse centrale, the Board of Directors decided to pay \$11.0 million as remuneration of capital stock.

		*
19		

Other expenses

Caisse centrale incurs fairly substantial expenditures in carrying out its mandate as supplier of funds to the Desjardins Group. Examples of such expenses include financial rating agency fees, fees for short and long-term issues, as well as fees paid to Canadian securities commissions. In 1993, such expenditures were approximately \$300,000.

Other expenses increased by \$333,000, of which \$278,000 are related to membership dues paid to the Confédération and \$102,000 for insurance expenses. These increases have been partly offset by reduction of other expenses.

COMMENTS ON THE BALANCE SHEET

As at December 31, 1993, total assets of Caisse centrale stood at \$5.7 billion, down \$789 million or 12.3% from 1992, primarily due to a decrease of loans to federations.

Average assets reached \$5.8 billion, an increase of \$479 million or 9.0% over 1992, mainly attributable to securities and loans to federations (primarily at the beginning of 1993).

In 1994, we expect a moderate decrease in assets, due to lower loans to federations, partly offset by an increase of loans to the other sectors. This trend is consistent with Caisse centrale's mandate, as well as its business plan which we will discuss in more details later.

Table IV gives details on Caisse centrale's asset mix.

Table IV ASSET MIX as at December 31

(in millions of dollars)	1993	1992	1991	1990	1989
Securities	1,108	1,089	894	688	695
Loans	4,456	5,198	4,018	3,259	3,003
Other assets	_ 87	153	175	126	209
TOTAL	5,651	6,440	5,087	4,073	3,907
Average assets	5,801	5,322	4,227	4,108	3,811

Loans

At year-end 1993, the loan portfolio was down \$742 million and stood at \$4.5 billion, compared to \$5.2 billion. Growth of deposits raised by the network and higher liquid assets caused loans to federations to decrease by \$546 million to reach \$2.3 billion. However, loans to associated corporations increased by \$90 million. Loans to public and parapublic institutions were \$376 millions with regards to \$548 million last year. This decrease is due to a greater usage of the option Publi-privilège by public corporations and to lower participation by Caisse centrale in loans to municipalities. While continuing our development towards mid-size businesses, in conjunction with the caisses, we have rigorously followed our risk management policies. Therefore, loans to the private sector (including day to day loans) have decreased by \$114 million compared to last year and stood at \$1.1 billion as at December 31,1993.

			-

Credit risk management

Caisse centrale managed its loan portfolio carefully, applying a highly selective risk management policy and working toward well-defined risk diversification objectives.

In May 1993, Caisse centrale tightened its credit policies which had already been revised the past years, in order to allow better control and diversification of the loan portfolio and therefore reduce its commitments towards certain borrowers, categories of borrowers and regions, while maintaining its objective to increase loans to medium-size businesses. Caisse centrale is also limiting its commitments with respect to highly leveraged transactions, real estate lending, industry sectors and geographically.

Applications for credit are authorized by senior management and/or members of the Executive Committee in accordance with their respective limits. These authorizations are then submitted to the Executive Committee and subsequently to the Board of Directors for approval. When the borrower is a related party, the credit authorization is also reviewed by the Ethics Committee to ensure that the rules of proper conduct have been followed.

In 1990, Caisse centrale developed and implemented a credit risk management policy to assist in detecting loan-related problems and designing appropriate corrective measures. This policy, under which all loans are measured against eight risk categories, also requires that periodic reviews be carried out and reported systematically to the appropriate decision-making bodies, so that necessary steps can be taken to minimize loss exposure.

Besides conducting these periodic reviews, Caisse centrale reviews all its credit records at least twice a year. These reviews are submitted to the Executive Committee and approved by the Board of Directors. Caisse centrale believes that, despite difficult economic conditions, the portfolio is still of high quality.

Caisse centrale _deals with foreign correspondents. In 1993, we have revised the list of all correspondents as per the guidelines established in 1992, for its international operations involving credit risk. 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.

Finally, the 15% limit on private sector commitments, net of specific provisions, is respected in all sectors of economic activities.

		-
		•
k		

Provision for loan losses and allowance for credit losses

Provision for loan losses charged to the statement of income in 1993 was \$24 million, compared to \$49.5 million last year.

As at December 31, 1993, allowance for credit losses were \$97 million (1992: \$73 million). This amount represented 2.2% of total loans in regards to 1.4% the previous year. Allowance for credit losses as a percentage of gross non-performing loans (the coverage ratio) is 78% at this year end. This ratio compares favourably to that of each major Canadian banks.

Assuming moderate recovery in 1994, Caisse centrale expects provision for loan losses to be slightly less than in 1993.

LIQUIDITY MANAGEMENT

The purpose of liquidity management is to ensure that Caisse centrale has sufficient liquid assets at all times to meet its financial obligations. Stability and diversity of sources of funds, described in the next section, are essential components of sound liquidity management.

Caisse centrale monitors carefully loan and term deposit maturity dates. In addition, as a direct clearer of the Canadian Payments Association, Caisse centrale is also entitled to borrow from the Bank of Canada.

Caisse centrale maintains a highly liquid securities portfolio. At year-end 1993, this portfolio stood at \$1,108 million, with 55.5% of the holdings, or \$615 million, maturing in less than one year. Moreover, close to 90% of the portfolio comprised securities issued or guaranteed by the Government of Canada or the provinces, public and parapublic corporations, as well as major Canadian Banks. As at December 31, 1993, the securities portfolio represented 19.6% of total assets (1992: 16.9%).

Caisse centrale complied fully with the liquidity requirements of the Inspector General of financial Institutions, and, in 1993, maintained sufficient liquid assets to meet its own operating requirements. Furthermore, Caisse centrale maintained liquid assets - \$358 million on average - over and above those required by law, so that it could fully assume its role as prime supplier of funds to the Desjardins Group.

we have used the funding programs available on the international markets, which provided us mid-term funds at a lower cost than the one that prevailed in the Canadian market for similar terms. Caisse centrale has thus raised one Euro Can public issue of \$100 million and used its European multi-currency program for approximately \$300 million; three private issues totalling \$115 million were also concluded. Moreover, Caisse centrale set up stand-by lines of credit totalling \$250 million US.

As at December 31, 1993, through its various fund supply programs, Caisse centrale had issued a total of \$2.7 billion on international markets: \$1,319 million from public issues, \$185 million from private issues, \$525 million through its European mid-term program, \$579 million of commercial paper and \$116 million of bank deposits. Caisse centrale's sound credit ratings have made these issues and commercial paper programs possible. Deposits and subordinated debentures issued on international markets accounted for 53% of the total, compared to 50% in 1992.

Medium-term public issues due to mature in 1994 amount to \$259 million, or 5.1% of total deposits at year-end 1993.

In 1994, Caisse centrale will continue its policy of diversifying its sources of funds. To meet the demand of funds from its members and associated corporations and to replace issues maturing in 1994, Caisse centrale has plans for new public and private issues on international markets, continuing its issues of short-term commercial paper in the United States and Europe and finalizing, if necessary, the medium-term note program in the United States undertaken in 1993.

Caisse centrale foresees no significant changes in its funding capabilities in 1994. Table VIII provides a breakdown of funding sources at year-end 1993.

Caisse centrale can lower or eliminate this risk by "match funding", which is matching the repricing of assets and liabilities. This can be achieve by a change in the mix of assets and liabilities through the use of off-balance sheet financial instruments such as interest rate swaps. The objective of match funding is to achieve an optimum balance between reducing risk and improving net interest income.

Table IX shows Caisse centrale's position with regards to interest rate sensitivity as at December 31,1993. 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 IX
INTEREST RATE SENSITIVITY POSITION
as at December 31,1993

(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						10	10
Bank of Canada	0	0	0	0	0	10	10
Securities	389	139	87	615	490	3	1,108
Loans	2,210	247	334	2,791	1,640	26	4,457
Other assets	2	0	0	2	0	74	76
3	2,601	386	421	3,408	2,130	113	5,651
Liabilities							
Deposits	2,818	357	194	3,369	1,668	0	5,037
Other liabilities	0	0	0	0	23	91	114
Subordinated debentures	0	0	. 0	0	56	,0	. 56
Members' equity	0	0	0	0	0	444	444
Williams oquity	2,818	357	194	3,369	1,747	535	5,651
On-balance sheet gap	(217)	(29)	227	39	383	(422)	0
Off-balance sheet gap (1)		(110)	(85)	266	(266)	0	0
Total interest rate sensitivity gap	244	(81)	142	- 305	117	(422)	0
Cumulative interest rate sensitivity gap	244	163	305	305	422	0	0

⁽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.

Table X
RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET COMMITMENTS
as at December 31, 1993

ASSETS			Balance sheet	Principal risk	Risk- adjusted
(in thousands of dollars)			amount	weight	balance
Cash and deposits with Bank of Canada			10,212	0%	0
Securities issued or guaranteed by Canada, provinces	3				
and municipal, public or school corporations			920,801	0-20%	110,757
Securities issued by banks			67,536	20%	13,507
Securities issued by members and associated					
corporations			15,380	20-100%	8,114
Other securities			104,288	20-100%	86,392
Loans granted or guaranteed by Canada, provinces,					
municipalities, school boards and public agencies			376,328	20%	75,266
Loans to members and associated corporations			2,972,917	20-100%	1,112,703
Other loans			1,107,055	100%	1,107,055
Other assets	1,107,055 10	100%	76,448		
- III.			5,650,965		2,590,242
OFF-BALANCE SHEET COMMITMENTS					
		Credit	Credit	Principal	Risk
	Contract	conversion	equivalent	risk	adjusted
(in thousand of dollars)	amount	factor	amount	weight	balance
Credit instruments	147 405	0-100%	145 015	20-100%	79,990
Guarantees and standby letters of credit	147,425	0-100%	145,215	20-100%	79,990
Commitments to extend credit:					
Original term to maturity	150 505	F00/	000 004	0.1000/	100 000
Greater than one year	452,785	50%	226,394	0-100%	160,600
One year or less and conditional	4,174,623	0%	0	0%	0
Commitments to purchase assets	6,316	100%	6,316	100%	6,316
Foreign exchange and interest rate contracts	0.005.005	(4)	000 000	0.500/	60 447
Currency and interest rate contracts	6,965,889	(1)	290,862 37,656	0-50% 0-50%	60,417
			s/ hhh	()-5(1%	7,373
Foreign exchange contracts	<u>2,571,359</u> 14,318,397	(1)	706,443	0 30 70	314,696

TOTAL RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET COMMITMENTS

\$2,904,938

(1) Foreign exchange and interest rate contracts are converted to "credit equivalent amounts" by adding the total replacement cost (obtained by market assessment) of all outstanding contracts with positive value and an amount for potential future 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
Less than one year	1%	0%
Greater than one year	5%	0.5%

					•
	2				
				E.	
			4		

Foreign exchange and interest rate contracts

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. Most currency and interest rate contracts and foreign exchange contracts are concluded with major Canadian or international banks.

Table XI
OFF-BALANCE SHEET ACTIVITIES
as at December 31

(in millions of dollars)	1993				1992				
	Related	Other	Total	Related Party	Other	Total			
Commitments to extend credit						-			
Guarantees and standby letters of credit	2	145	147	3	172	175			
Commitments to extend credit			0.000	1 212	1.050	2 171			
- Firm	2,068	1,871	3,939	1,312	1,859	3,171			
- Conditional	140	555	695	140_	474	614			
	2,208	2,426	4,634	1,452	2,333	3,785			
	2,210	2,571	4,781	1,455	2,505	3,960			
Foreign exchange and interest rate contracts									
Foreign exchange contracts	37	2,534	2,571	14	1,855	1,869			
Currency and interest rate contracts	2,026	4,940	6,966	1,589	4,389	5,978			
Currency and interest rate contracts	2,063	7,474	9,537	1,603	6,244	7,847			
TOTAL	4,273	10,045	14,318	3,058	8,749	11,807			

				-

Table XIII
CONSOLIDATED STATEMENTS OF INCOME *
for the years ended December 31

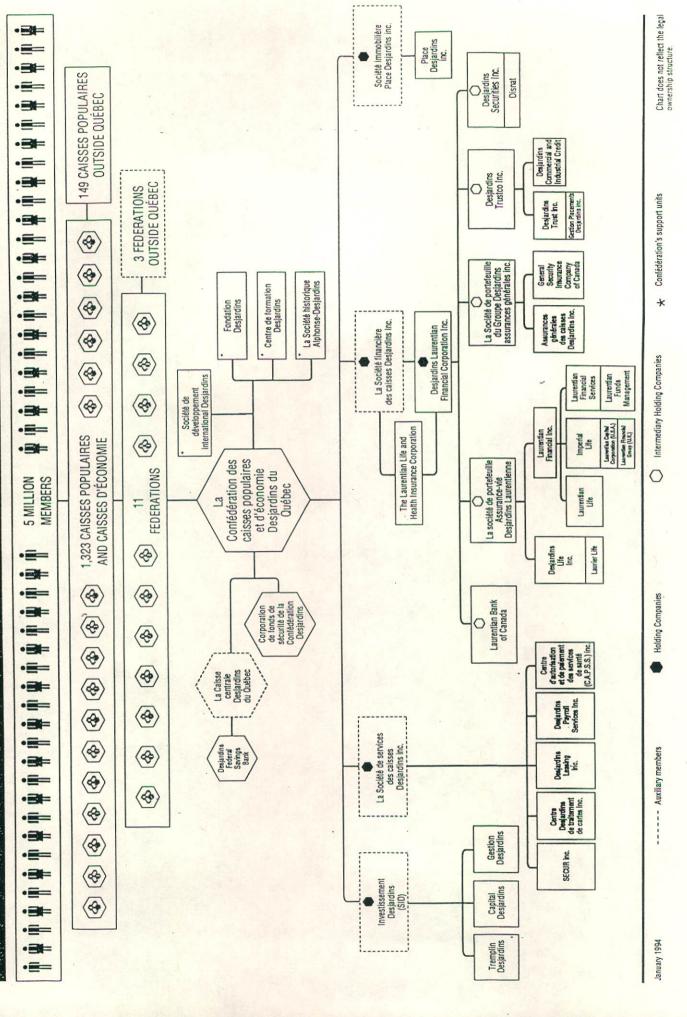
(in thousands of dollars)	1993	1992	1991	1990	1989
Interest income					
Loans	320,628	344,212	348,768	403,112	352,541
Securities	77,192	67,057	74,216	105,788	107,721
	397,820	411,269	422,984	508,900	460,262
nterest expense			3 20 Harr		
Deposits	346,494	354,750	356,272	432,617	387,152
Net interest income	51,326	56,519	66,712	76,283	73,110
Provision for loan losses	24,067	49,500	9,000	10,500	2,500
Net interest income after provision					
for loan losses	27,259	7,019	57,712	65,783	70,610
Other income	13,184	18,402	13,943	14,401	12,979
Net interest income and other income	40,443	25,421	71,655	80,184	_ 83,589
Non-interest expenses					
Salaries and other staff benefits	10,607	10,003	8,610	8,045	7,341
Premises, equipment and furniture,	4,850	4,408	3,568	3,485	3,096
including depreciation	4,834	4,501	3,315	3,536	2,967
Other TOTAL	20,291	18,912	15,493	15,066	13,404
Net income before income taxes	20,152	6,509	56,162	65,118	70,185
Provision for income taxes	5,146	2,250	9,878	11,101	11,387
NET INCOME	15,006	4,259	46,284	54,017	58,798

^{*} Some corresponding data, presented for the previous years, have been reclassified to meet the current year presentation.

		•

MOUVEMENT DES CAISSES DESJARDINS

*



14					,
					*
					,