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Caisse centrale Desjardins

1996 ANNUAL REPORT

Desjardins Helping you do it your way

Annual Report
1996

Caisse centrale Desjardins

La Caisse centrale Desjardins publie son rapport annuel en français et en anglais.

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MANAGEMENT'S MESSAGE

For a second straight year, economic growth in Canada was weaker than expected. The economic slowdown affected most industrialized countries, and especially Quebec. Even though economic conditions were more difficult, Caisse centrale Desjardins consolidated its financial base and improved its profitability.

Consolidated net income reached $29.9 million, up $4.2 million or 16% from 1995. This increase is primarily a result of rigorous surveillance of the loan portfolio and prudent risk management in recent years.

Consequently, Caisse centrale Desjardins was able to pay $37 million as remuneration of capital stock to its members, representing a return on investment of 9.2%, compared with an average rate of 4.5% for 90-day Canadian bankers' acceptances. Based on this reference index, Caisse centrale Desjardins recorded its best performance to date.

As at December 31, 1996, assets totalled $7.4 billion, compared with $5.6 billion at the end of last year. This increase of $1.8 billion or 33% can be explained by the growth of the securities portfolio and all categories of loans.

The securities portfolio totalled $2.5 billion, compared with $1.8 billion in 1995. This portfolio was maintained at a high level throughout the year in order to support the growth of the Mouvement des caisses Desjardins (Mouvement Desjardins). Accordingly, liquidities held by Caisse centrale Desjardins exceeded regulatory requirements by an average of $1.2 billion. Almost 94% of the securities held are issued by Canada, the provinces, municipalities, public and parapublic corporations and major Canadian banks.

Loans as at December 31, 1996 rose by $1.1 billion or 32%, to $4.6 billion, as a result of increases in all sectors. Loans to federations were up $509 million or 32% over last year, to $2.1 billion, due to the growth of caisses' assets and reduced liquidities in the network attributable to the popularity of mutual funds and the stock market.

Loans to other institutions and corporations of the Mouvement Desjardins were up 17%, to $1.1 billion, due to additional loans to finance Visa Desjardins receivables and to finance the strategic initiatives of the Confédération des caisses populaires et d'économie Desjardins, in particular the re-engineering process at the caisse level. Outstanding loans to the public and parapublic sectors increased by $64 million, to $328 million at the end of 1996. The Publi-privilège program, under which Caisse centrale Desjardins offers public organizations access to low-cost financing by providing guarantee, continued to prove popular, with an average volume of $426 million, reflecting an increase of 39.7%. Private sector loans rose by 11.9% during the year, to $759 million, due notably to a 39.3% increase in new business from medium-sized firms. In addition, Caisse centrale Desjardins boosted the profile of the Mouvement Desjardins by acting as agent or joint lead of major loan syndicates.

Caisse centrale Desjardins also pursued its objective of improving loan portfolio quality. To illustrate this point, the gross amount of impaired loans was fully provided for at the end of the year. Consequently, in light of sustained improvement in the loan portfolio and the adequate level of the cumulative allowance for credit losses, Caisse centrale Desjardins determined that no provision for credit losses was required for 1996.

At the end of 1996, deposit liabilities and subordinated debentures totalled $6.6 billion, compared with $4.9 billion last year. Profiting from favourable market conditions, Caisse centrale Desjardins launched several issues, totalling $1.5 billion, to secure funding to help develop the business of the Mouvement Desjardins and extend the average term of deposit liabilities.

As at December 31, 1996, the ratio of capital to risk-weighted assets and off-balance sheet financial instruments was 14.73%, well above the minimum prescribed ratio of 8% set by the Bank for International Settlements. In keeping with its mission, Caisse centrale Desjardins carried out activities on behalf of the Desjardins cooperative network.

First, to ensure more efficient coordination of operations and savings across the Mouvement Desjardins, Caisse centrale Desjardins was assigned responsibility for cash management for the entire Desjardins cooperative network and for overseeing a $1 billion liquidity pool, consolidating the portfolios of seven federations.

To better meet the needs of the federations, Desjardins holding companies and their subsidiaries, governments and institutional customers, Caisse centrale Desjardins introduced an institutional brokerage service. Under agreements concluded with the Investment Dealers Association of Canada, Caisse centrale Desjardins now has access to the intermediation screens needed to trade bonds directly, a privilege previously reserved for banks and investment dealers. Then, the Bank of Canada granted Caisse centrale Desjardins the status of primary distributor of federal government securities, formerly conferred to the chartered banks, thus enabling the brokerage service of Caisse centrale Desjardins to participate directly in Treasury bill and Canada bond auctions. The volume traded in 1996 was $38 billion.

Caisse centrale Desjardins and the Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec integrated their respective treasury operations into one trading room and consolidated their international operations in order to cut costs and pool resources and expertise.

Caisse centrale Desjardins also worked in partnership with the Desjardins caisse network, to develop new business. In 1996, 60% of new business from medium-sized firms was shared with caisses throughout the province.

To better support exporting firms which are members of the network, Caisse centrale Desjardins signed an agreement with the Export Development Corporation. As a consequence, the Mouvement Desjardins can participate in the new foreign receivables financing program for small and medium-sized exporting firms.

Finally, Caisse centrale Desjardins solidified its financial base and enhanced its means of satisfying customers in the markets it serves.

Given the economic outlook for 1997, Caisse centrale Desjardins intends to continue to carefully manage risk while intensifying its efforts not only to cultivate new business among medium-sized firms, but also to target large Quebec firms capable of generating benefits for the Desjardins network.

Jean-Guy Langelier,
President and Chief Executive Officer

Claude Béland,
Chairman of the Board

Montreal,
February 7, 1997

Consolidated Financial Statements

MANAGEMENT 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, safeguard assets against loss or unauthorized use. These procedures include notably 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 1996, the Committee met five 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 resolve conflicts of interests. This Committee met four 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, Caron Bélanger Ernst & Young 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 systems.

Jean -Guy Langelier
President and Chief Executive Officer

Claude Béland
Chairman of the Board

Montreal,
February 7, 1997

AUDITORS' REPORT

To the Members of Caisse centrale Desjardins

We have audited the consolidated balance sheet of Caisse centrale Desjardins as at December 31, 1996 and the consolidated statements of income, retained earnings and general reserve and changes in financial position for the year 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 audit.

We conducted our audit 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, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The consolidated financial statements for the year ended December 31, 1995 were audited by Raymond, Chabot, Martin, Paré and Samson Bélair/Deloitte & Touche who expressed an opinion thereon without reservation in their report dated February 9, 1996.

Samson Bélair
Deloitte + Touche

General Partnership
Chartered Accountants

Caron Bélanger
Ernst & Young

Chartered Accountants

Montreal,
February 7, 1997

CONSOLIDATED BALANCE SHEETS
As at December 31

(in thousands of dollars)	1996	1995
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	$ 18,716	$ 10,560
Securities (note 4)		
Investment account	2,396,874	1,650,733
Trading account	147,364	119,086
	2,544,238	1,769,819
Loans (note 5)	4,605,229	3,479,199
Other		
Fixed assets, less accumulated depreciation	1,750	1,709
Other assets (notes 3 and 6)	274,455	334,360
	276,205	336,069
	$ 7,444,388	$ 5,595,647
LIABILITIES		
Deposits (note 7)		
Payable on demand	$ 390,354	$ 228,339
Payable on a fixed date	6,146,207	4,609,820
	6,536,561	4,838,159
Other liabilities (notes 3 and 8)	403,966	248,668
Subordinated debentures (note 9)	65,518	70,477
MEMBERS' EQUITY		
Capital stock issued and paid (note 10) 409,403 shares	409,403	409,403
Retained earnings	---	---
General reserve	28,940	28,940
	438,343	438,343
	$ 7,444,388	$ 5,595,647

On behalf of the Board,

Director Director

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31

(in thousands of dollars)	**1996**	1995
Interest income		
Loans	**$241,942**	$284,952
Securities	**154,711**	147,557
	396,653	432,509
Interest expense	**341,703**	374,640
Net interest income	**54,950**	57,869
Provision for credit losses	**---**	7,958
Net interest income after provision for credit losses	**54,950**	49,911
Other income		
Service charges on checking and deposit accounts	**8,845**	9,287
Credit fees	**379**	324
Foreign exchange revenue	**1,291**	1,684
Other	**2,447**	1,700
	12,962	12,995
	67,912	62,906
Non-interest expenses		
Salaries and benefits	**11,576**	11,589
Premises, equipment and furniture, including depreciation	**5,462**	5,453
Other	**6,917**	6,063
	23,955	23,105
Net income before other payments to the Desjardins network and income taxes	**43,957**	39,801
Other payments to the Desjardins network (note 3)	**5,904**	6,760
Net income before income taxes	**38,053**	33,041
Income taxes (notes 3 and 12)	**8,109**	7,332
Net income	**$ 29,944**	$ 25,709

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

(in thousands of dollars)	**1996**	1995
Retained earnings		
Balance at beginning of year	**$ ---**	$ 5,718
Net income for the year (note 3)	**29,944**	25,709
Remuneration of capital stock	**(36,972)**	(38,804)
Recovery of income taxes related to the remuneration of capital stock (note 12)	**7,028**	7,377
Balance at end of year	**$ ---**	$ ---
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)	1996	1995
Cash flows from (used in) operating activities		
Net income (note 3)	$ 29,944	$ 25,709
Items not affecting cash resources		
Provision for credit losses	---	7,958
Depreciation of fixed assets	782	679
Deferred income taxes	51	(362)
Other items, net (note 3)	133,226	40,045
	164,003	74,029
Cash flows from (used in) financing activities		
Net increase (decrease) in deposits and subordinated debentures (note 3)	1,693,443	(100,046)
Obligations related to securities sold short	76,364	(33,850)
Remuneration of capital stock, net of related recovery of income taxes	(24,382)	(22,841)
	1,745,425	(156,737)
Cash flows (used in) from investing activities		
Net decrease (increase) in:		
Securities	(774,419)	(469,265)
Loans	(1,002,508)	522,408
Securities purchased under resale agreements	(123,522)	---
Fixed assets	(823)	(664)
	(1,901,272)	52,479
Net increase (decrease) in cash resources	8,156	(30,229)
Cash and deposits with Bank of Canada at beginning of year	10,560	40,789
Cash and deposits with Bank of Canada at end of year	$ 18,716	$ 10,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1996 and 1995

(All tabular figures are in thousands of dollars, unless otherwise indicated)

1. INCORPORATION

Caisse centrale Desjardins was created on June 22, 1979 by an act of the Quebec Legislature (An Act to amend the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec), which was replaced on June 22, 1989 by an Act respecting the Mouvement des caisses Desjardins (1989 S.Q., chap. 113). Caisse centrale Desjardins is a cooperative 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 preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities at the balance sheet date as well as the recorded amounts of revenues and expenses during the reporting period. 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, a wholly-owned subsidiary of Caisse centrale Desjardins, 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 primary intent of holding them until maturity or until more attractive transactions are available. These securities are recorded at unamortized cost and premiums and discounts are amortized over the terms of the related securities on a straight-line basis. Trading account securities are stated at their estimated market value.

All gains and losses on the sale of securities, the amortization of premiums and discounts, the restated market value of trading account securities and adjustments to reflect the permanent impairment of investment account securities are included in interest income on securities in the consolidated statements of income.

LOANS

Loans are stated net of the cumulative allowance for credit losses, unamortized discounts and amortized loan fees. Where deemed appropriate, Caisse centrale Desjardins obtains security in the form of cash, securities, immovable property, accounts receivable, surety, inventories, and other assets.

Interest income is recorded on the accrual basis, except when the loan is considered impaired. A loan is considered impaired when: a) there is reason to believe that a portion of the principal or interest cannot be collected, or b) the interest or principal is 90 days in arrears. The loan is then classified as impaired and the interest, previously accrued but not received on such a loan, is reversed to interest income in the current year. No portion of cash received on a loan subsequent to its classification as impaired is recorded as income before any prior write-off has been recovered or any specific allowance has been reversed and it is deemed that the loan principal is fully collectible.

An impaired loan is recorded at its estimated realizable value, measured by discounting the expected future cash flows at the interest rate inherent in the loan. When the amount and timing of future cash flows cannot be estimated with reasonable reliability, the loan is recorded at either the fair value of the underlying security or the market price for the loan. Any change in the estimated realizable amount is presented as a charge or credit for loan impairment through the cumulative allowance for credit losses. An impaired loan is once again recorded under the accrual method when the principal and interest payments are current and there is no longer any reasonable doubt that the impaired loan will be recovered.

Fees related to loan origination and loan restructuring or renegotiating are considered as adjustments to loan yield and are deferred and amortized to “Interest income” for the estimated term of such loans. In the likelihood that a loan will result, commitment and standby fees are also included in “Interest income” over the expected term. Otherwise, fees are recorded as “Other income” during the commitment or standby period.

CUMULATIVE ALLOWANCE FOR CREDIT LOSSES

The cumulative allowance for credit losses is maintained at an amount considered sufficient to absorb losses and covers possible losses on loans and off-balance sheet items. The cumulative allowance for credit losses comprises specific allowances and a general allowance, which are deducted from the corresponding classes of assets, and allowances for off-balance sheet items, which are included in “Other liabilities”. Management conducts ongoing credit assessments and establishes specific allowances when impaired loans are identified. A general allowance, which is prudential in nature, is created to provide against anticipated credit losses given current economic conditions and trends surrounding certain industries or certain loan concentrations in the portfolio. Loans are written off when all possible restructuring or recovery efforts have been exhausted and it is unlikely that further amounts can be recovered.

The accounting standard in Section 3025 of the Handbook of the Canadian Institute of Chartered Accountants, entitled “Impaired Loans”, was implemented for 1996. These recommendations require impaired loans to be accounted for at their estimated realizable value, defined as the present value of expected future cash flows. Application of this method has no effect on the financial position and results of Caisse centrale Desjardins and, accordingly, no adjustment is required to comparative figures for 1995.

DERIVATIVES

Caisse centrale Desjardins uses derivative instruments primarily to manage interest rate and foreign exchange risk and as intermediary for the Desjardins network. The derivatives most frequently used are forward exchange contracts, cross-currency and interest rate swaps, and forward rate agreements. Income or expenses related to hedging transactions are recorded over the term of the agreement. Transactions related to trading activities are stated at their estimated fair value, and the corresponding gains or losses are recorded immediately in the statement of income. Estimated fair value is determined using pricing models which incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, and yield curves. Unrealized gains and losses resulting from the trading account derivatives portfolio are included in “Other assets” and “Other liabilities”, respectively.

FIXED ASSETS

Fixed assets are recorded at cost, less accumulated depreciation and are 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 which is deductible for income tax purposes. Deferred income taxes resulting from timing differences as well as income taxes recoverable or payable are included in "Other assets" or "Other liabilities", as applicable.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year, including the adoption of the new accounting standards described in note 3.

3. NEW ACCOUNTING STANDARDS

In September 1995, the Canadian Institute of Chartered Accountants published a new accounting standard, Handbook Section 3860 "Financial Instruments - Disclosure and Presentation". This Section prescribes rules for the presentation and disclosure of financial instruments, including those related to risk management. The recommendations in this Section were adopted in 1996 and are reflected in the consolidated financial statements of Caisse centrale Desjardins. Under this standard, unrealized gains and losses may only be set off if the contracts were concluded as part of a legally enforceable master netting agreement and if Caisse centrale Desjardins intends to settle the contracts either on a net basis with the counterparty or by realizing the asset or settling the liability simultaneously. When these conditions are not satisfied, unrealized gains must be recorded as assets while unrealized losses must be reported as liabilities. The coming into force of these recommendations increases the assets and liabilities of Caisse centrale Desjardins by $192.2 million as at December 31, 1996 and $260.2 million at the end of the previous year.

In February 1996, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants also published Abstract of Issue Discussed EIC-68 concerning the accounting treatment of patronage allocations. Under EIC-68, patronage allocations based on volume of business should be reflected in the statement of income, not presented as a distribution paid out of equity. EIC-68 applies to credit unions or other similar co-operatively organized and operated financial institutions. As a co-operatively organized agent of the Desjardins Group, Caisse centrale Desjardins satisfies the definition of "credit union" in EIC-68. Caisse centrale Desjardins has to adopt the Committee's recommendations retroactively. Other payments to the Desjardins network of $5,903,604 (1995: $6,760,057), and related income taxes of $1,122,615 (1995: $1,285,087), which were previously recorded in the consolidated statement of retained earnings, are now applied against net income. The adoption of this new accounting rule has no impact on the capital stock, the balance of retained earnings or the net cash flows of Caisse centrale Desjardins.

4. SECURITIES

	Maturity				1996	1995
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
INVESTMENT ACCOUNT SECURITIES **Issued or guaranteed by**						
Canada	$ 147,110	$ 758,578	$ 201,067	$ 4,027	$1,110,782	$ 795,304
Yield	*5.21%*	*5.39%*	*6.18%*	*8.01%*	*5.52%*	*6.93%*
Provinces, municipal, school or public corporations in Canada	609,811	199,069	85,557	170,927	1,065,364	668,539
Yield	*3.67%*	*7.37%*	*7.11%*	*7.00%*	*5.17%*	*7.25%*
Securities of US public administrations	5,541	---	78,558	21,213	105,312	101,364
Yield	*6.93%*	---	*6.39%*	*6.65%*	*6.47%*	*6.40%*
Other securities						
Securities of Canadian issuers						
Banks	57,301	---	---	---	57,301	5,967
Other Desjardins entities	---	---	---	50	50	50
Other issuers	---	5,497	3,220	37,022	45,739	72,631
Yield	*2.98%*	*6.63%*	*7.11%*	*3.59%*	*3.52%*	*6.44%*
Securities of foreign issuers	12,326	---	---	---	12,326	6,878
Yield	*5.65%*	---	---	---	*5.65%*	*6.42%*
Total investment account securities	$ 832,089	$ 963,144	$ 368,402	$ 233,239	$2,396,874	$1,650,733
TRADING ACCOUNT SECURITIES **Issued or guaranteed by**						
Canada	$ 9,729	$ 30,232	$ 23,305	$ 18,132	$ 81,398	$ 85,112
Provinces, municipal, school or public corporations in Canada	4,124	11,805	7,778	42,259	65,966	33,974
Total trading account securities	$ 13,853	$ 42,037	$ 31,083	$ 60,391	$ 147,364	$ 119,086
TOTAL SECURITIES	$ 845,942	$1,005,181	$ 399,485	$ 293,630	$2,544,238	$1,769,819

Yields are based on book values, adjusted for amortization of premiums and discounts. Term-to-maturity classifications are based on the contractual maturity of the security. Securities with no maturity date are classified in the "Over 5 years" category.

The following table shows unrealized gains and losses on investment account securities.

	1996				1995	
	Book value	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated market value**	Book value	Estimated market value
INVESTMENT ACCOUNT SECURITIES						
Issued or guaranteed by						
Canada	**$ 1,110,782**	**$ 20,899**	**$ (1,018)**	**$ 1,130,663**	$ 795,304	$ 803,451
Provinces, municipal, school or public corporations in Canada	**1,065,364**	**19,568**	**(304)**	**1,084,628**	668,539	680,776
Securities of US public administrations	**105,312**	**210**	**(2,481)**	**103,041**	101,364	99,831
Other securities						
Securities of Canadian issuers						
Banks	**57,301**	**2**	**(5)**	**57,298**	5,967	5,973
Other Desjardins entities	**50**	**---**	**---**	**50**	50	50
Other issuers	**45,739**	**205**	**---**	**45,944**	72,631	73,067
Securities of foreign issuers	**12,326**	**---**	**---**	**12,326**	6,878	6,867
Total investment account securities	**$ 2,396,874**	**$ 40,884**	**$ (3,808)**	**$ 2,433,950**	$1,650,733	$1,670,015

The market value of securities is based on the quoted market price, which may not necessarily be realized on sale. Where a quoted price is not readily available, other valuation techniques may be used to estimate market value.

Interest rate sensitivity is the main cause of changes in the estimated market value of the investment account securities. The carrying value of the securities is not adjusted to reflect increases or decreases in fair value due to interest rate changes, as it is Caisse centrale Desjardins' intention to realize their fair value over time by holding them to maturity.

5. LOANS

	Maturity [1] Within 1 year	1 to 5 years	Over 5 years	1996 Total	1995 Total
Securities purchased under resale agreements	$ 123,522	$ ---	$ ---	$ 123,522	$ ---
Day, call and short loans to investment dealers and brokers	250,000	---	---	250,000	60,000
Public and parapublic institutions	122,768	164,946	40,056	327,770	263,801
Banks	---	---	---	---	3,304
Members	1,919,361	155,987	500	2,075,848	1,567,283
Other Desjardins entities	801,323	247,790	40,143	1,089,256	929,374
Other	182,796	406,040	170,277	759,113	678,146
	$ 3,399,770	$ 974,763	$ 250,976	$4,625,509	$ 3,501,908
Cumulative allowance for credit losses				(20,280)	(22,709)
Total				$4,605,229	$ 3,479,199
Gross impaired loans				$ 14,850	$ 12,076
Cumulative allowance for credit losses				(20,280)	(22,709)
Net impaired loans				$ (5,430)	$ (10,633)

(1) Represents the remaining term to maturity of the loan portfolio, adjusted for scheduled instalments, where appropriate.

The following table shows an analysis of the cumulative allowance for credit losses.

CUMULATIVE ALLOWANCE FOR CREDIT LOSSES	1996	1995
Balance at beginning of year	$ 22,709	$ 47,739
Provision for credit losses	---	7,958
Write-offs	(3,386)	(32,129)
Recoveries	957	141
Allocation to the provision for off-balance sheet items	---	(1,000)
Balance at end of year	$ 20,280	$ 22,709
Consisting of:		
Specific provisions	$ 6,200	$ 4,200
General provision	14,080	18,509
Total	$ 20,280	$ 22,709

6. OTHER ASSETS

	1996	1995
Accrued interest	$ 52,791	$ 50,223
Income taxes recoverable	---	1,831
Deferred income taxes	3,745	3,796
Assets related to derivatives (note 3)	194,369	260,836
Other	23,550	17,674
Total	$ 274,455	$ 334,360

7. DEPOSITS

	1996						1995
		Payable on a fixed date					
	Payable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Total
Canada	$ 132	$ 314,600	$ ---	$ 7,000	$ ---	$ 321,732	$ 28,739
Provinces	26,055	171,774	---	4,000	---	201,829	42,604
Banks	3,187	253,682	40,727	100,000	---	397,596	526,775
Members for clearing purposes	56,185	---	---	---	---	56,185	7,424
for other purposes	119,785	324,241	59,167	232,121	850	736,164	833,661
Other Desjardins entities	76,962	278,178	9,818	24,200	8	389,166	148,786
Other	108,048	1,598,697	720,839	1,538,231	468,074	4,433,889	3,250,170
Total	$ 390,354	$2,941,172	$ 830,551	$1,905,552	$ 468,932	$6,536,561	$4,838,159
Canadian dollars	$ 201,450	$1,799,681	$ 472,369	$ 693,698	$ 101,518	$3,268,716	$2,224,656
Foreign currencies	$ 188,904	$1,141,491	$ 358,182	$1,211,854	$ 367,414	$3,267,845	$2,613,503

8. OTHER LIABILITIES

	1996	1995
Accrued interest	$ 59,130	$ 67,035
Income taxes payable	1,412	---
Obligations related to securities sold short	114,880	38,516
Cheques and other items in transit, net	9,572	5,093
Remuneration of capital stock payable	14,149	8,587
Liabilities related to derivatives (note 3)	183,315	121,701
Other	21,508	7,736
Total	$403,966	$248,668

9. SUBORDINATED DEBENTURES

The debentures are liabilities 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 $65,518,006 - and maturing on December 4, 2002, the subordinated debentures are not redeemable and bear interest at an 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. In accordance with the restrictive provisions of the constituent legislation, the shares are not redeemable at the option of the holder without the consent of the Board of Directors of Caisse centrale Desjardins and the prior approval of the Inspector General of Financial Institutions. Those provisions stipulate, among other things, that Caisse centrale Desjardins cannot redeem more than 10% of its shares during any one fiscal year and that such redemptions must be effected at par value.

11. REMUNERATION OF CAPITAL STOCK

The constituent legislation of 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 where 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 follows:

	1996	1995
Consolidated statements of income	$ 8,109	$ 7,332
Consolidated statements of retained earnings		
Recovery of income taxes related to the remuneration of capital stock	(7,028)	(7,377)
Total income taxes	**$ 1,081**	$ (45)
Current and deferred income taxes are as follows:		
Current	$ 1,030	$ 317
Deferred	51	(362)
Total income taxes	**$ 1,081**	$ (45)

The difference between the effective income tax rate and the statutory rate, adjusted to take into account the large corporations tax, is not significant.

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 regular 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 these 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 is generally the same as for 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).

	1996		1995	
	Contract amount	Risk-weighted balance	Contract amount	Risk-weighted balance
Guarantees and standby letters of credit	$ 553,089	$ 171,145	$ 153,015	$ 46,713
Commitments to extend credit (original term to maturity)				
over one year	1,044,873	274,947	772,307	225,164
one year or less and conditionals	4,580,198	---	5,179,773	---
Total	$ 6,178,160	$ 446,092	$ 6,105,095	$ 271,877

DERIVATIVES

Caisse centrale Desjardins uses interest rate and foreign exchange derivatives primarily 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 effectively 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 contracts include spot and forward contracts and currency swaps. Foreign exchange forward contracts 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.

Currency swaps are transactions in which 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. Caisse centrale Desjardins uses currency swaps and cross-currency interest rate swaps exclusively to manage its own asset/liability exposure. Credit risk is managed within the authorization limits granted to customers.

The following table summarizes the derivatives 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 of 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.

					1996	1995
	Notional amount	**Replace-ment cost**	**Future credit exposure**	**Credit risk equivalent**	**Risk-weighted balance**	Risk-weighted balance
Interest rate contracts						
Swap contracts	$ 5,345,923	$ 78,429	$ 19,868	$ 98,297	$ 25,182	$ 16,464
Forward rate agreements	230,000	111	---	111	22	14
Total interest rate contracts	5,575,923	78,540	19,868	98,408	25,204	16,478
Foreign exchange contracts						
Forward contracts	2,858,663	30,272	29,869	52,177	11,305	8,493
Currency swap contracts	4,220,132	126,047	185,559	311,606	70,763	71,854
Total foreign exchange contracts	7,078,795	156,319	215,428	363,783	82,068	80,347
Other exchange-traded contracts						
Options purchased	21,445	2,165	1,357	3,522	704	477
Options written	21,445	---	---	---	---	---
Total other exchange-traded contracts	42,890	2,165	1,357	3,522	704	477
Total	$ 12,697,608	$ 237,024	$236,653	$465,713	$107,976	$ 97,302

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

	Maturity				1996	1995
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Notional amount	Notional amount
Interest rate contracts						
Swap contracts	$2,139,372	$2,029,482	$ 974,852	$ 202,217	$ 5,345,923	$ 4,576,413
Forward rate agreements	230,000	---	---	---	230,000	61,661
Total interest rate contracts	2,369,372	2,029,482	974,852	202,217	5,575,923	4,638,074
Foreign exchange contracts						
Forward contracts	2,776,618	82,045	---	---	2,858,663	2,611,244
Currency swap contracts	1,322,095	520,395	1,280,186	1,097,456	4,220,132	2,986,618
Total foreign exchange contracts	4,098,713	602,440	1,280,186	1,097,456	7,078,795	5,597,862
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 off-balance sheet derivatives	$6,503,935	$2,638,962	$2,255,038	$1,299,673	$12,697,608	$10,278,826

The following table shows credit risk by geographic area based on notional amounts as at December 31.

	1996	%	1995	%
Canada	$ 9,763,484	77	$ 8,450,277	82
Other countries	2,934,124	23	1,828,549	18
Total	$12,697,608	100	$10,278,826	100

The following table shows credit risk by industry segment based on notional amounts as at December 31.

	1996							1995
	Interest rate contracts	%	Foreign exchange contracts	%	Other exchange-traded contracts	%	Total	Total
Banks	$ 3,325,070	60	$ 6,015,497	85	$ 21,445	50	$ 9,362,012	$ 7,580,339
Member federations and other Desjardins entities	1,596,393	28	422,832	6	21,445	50	2,040,670	2,069,285
Private sector	654,460	12	640,466	9	---	0	1,294,926	629,202
Total	$ 5,575,923	100	$ 7,078,795	100	$ 42,890	100	$12,697,608	$10,278,826

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts are designed to approximate amounts at which these instruments could be exchanged in a current transaction between willing parties; however, many of the financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. The estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments such as "fixed assets". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. Also, due to the use of subjective judgment in applying a large number of acceptable valuation and estimation techniques to calculate fair values, the fair value estimates cannot necessarily be compared to those of other financial institutions. The estimated fair value amounts reflect market conditions at a specific date and, as such, may not be representative of future fair values. They should also not be interpreted as being realizable in an immediate settlement of the instruments.

On-balance sheet financial instruments

		1996			1995	
	Fair value	**Book value**	**Difference**	Fair value	Book value	Difference
Assets						
Cash resources	**$ 18,716**	**$ 18,716**	**$ ---**	$ 10,560	$ 10,560	$ ---
Securities	**2,581,314**	**2,544,238**	**37,076**	1,789,101	1,769,819	19,282
Loans	**4,642,502**	**4,605,229**	**37,273**	3,531,732	3,479,199	52,533
Assets related to derivatives	**194,369**	**194,369**	**---**	260,836	260,836	---
Other	**52,791**	**52,791**	**---**	50,223	50,223	---
Liabilities						
Deposits	**6,603,518**	**6,536,561**	**66,957**	4,901,502	4,838,159	63,343
Subordinated debentures	**74,240**	**65,518**	**8,722**	76,041	70,477	5,564
Obligations related to securities sold short	**114,880**	**114,880**	**---**	38,516	38,516	---
Liabilities related to derivatives	**183,315**	**183,315**	**---**	121,701	121,701	---
Other	**82,851**	**82,851**	**---**	80,715	80,715	---

Derivative financial instruments

	1996			1995		
	Positive value	Negative value	Net fair value	Positive value	Negative value	Net fair value
Interest rate swap contracts	$ 78,429	$ 103,252	$ (24,823)	$ 53,708	$ 68,908	$ (15,200)
Forward rate agreements	111	129	(18)	53	41	12
Foreign exchange forward contracts	30,272	30,594	(322)	23,443	21,948	1,495
Currency swap contracts	126,047	97,432	28,615	224,339	76,924	147,415
Exchange-traded options purchased	2,165	---	2,165	672	---	672
Exchange-traded options written	---	2,165	(2,165)	---	672	(672)
	$ 237,024	$ 233,572	$ 3,452	$ 302,215	$168,493	$ 133,722
Less impact of master netting agreements [1]	63,906	63,906	---	48,164	48,164	---
Total derivative financial instruments	$ 173,118	$ 169,666	$ 3,452	$ 254,051	$120,329	$ 133,722

(1) Without the intent of settling the contracts on a net basis or simultaneously.

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

- **Financial instruments valued at carrying value:** Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments were assumed to approximate their fair values. These financial instruments include “Cash resources”, “Securities purchased under resale agreements”, “Obligations related to securities sold short” and “Accrued interest”.

- **Securities:** The estimated fair values of securities are presented in note 4 to the financial statements. They are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

- **Loans:** For certain floating rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated using a discounted cash flows calculation that uses market interest currently charged for similar new loans as at December 31 to expected maturity amounts.

- **Deposits:** The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

- **Subordinated debentures:** The fair values of debentures are based on current rates offered to Caisse centrale Desjardins for debt of the same remaining maturity.

The following methods and assumptions were used to estimate the fair value of the off-balance sheet financial instruments:

- **Off-balance sheet financial instruments with contractual amounts representing credit risk:** The commitments to extend credit are primarily floating rate and therefore do not expose Caisse centrale Desjardins to interest rate risk.

- **Derivatives:** The fair values of exchange-traded derivatives are based on quoted market prices or dealer quotes. Fair values of non-exchange-traded or over-the-counter derivatives consist of net unrealized gains and losses, accrued interest receivable or payable, and premiums paid or received. These amounts are generally calculated as the net present value of contractual cash flows using prevailing market rates for instruments with similar characteristics and maturities.

15. INTEREST RATE SENSITIVITY

The following table shows Caisse centrale Desjardins' position with regard to interest rate sensitivity as at December 31, 1996. This is the position at that particular date and could have subsequently changed, taking into account forecasted interest rates and customers' preferences for products and terms.

(in millions of dollars)	Floating rate	0 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets								
Cash and deposits with Bank of Canada	$ ---	$ ---	$ ---	$ ---	$ ---	$ ---	$ 19	$ 19
Securities	30	739	149	123	1,395	98	10	2,544
Effective interest rate (1)	---	*3.90%*	*6.06%*	*5.70%*	*5.95%*	*6.18%*	---	
Loans	1,241	1,967	390	366	616	30	(5)	4,605
Effective interest rate (1)	---	*4.33 %*	*7.66 %*	*6.80 %*	*7.54 %*	*9.01 %*	---	
Other assets	---	(594)	22	20	34	585	209	276
Total assets	$1,271	$ 2,112	$ 561	$ 509	$ 2,045	$ 713	$ 233	$ 7,444
Liabilities and members' equity								
Deposits	$ 390	$ 4,008	$ 394	$ 469	$ 828	$ 448	---	$ 6,537
Effective interest rate (1)	---	*4.17%*	*6.88%*	*8.12%*	*6.38%*	*5.76%*	---	
Subordinated debentures	---	---	---	---	---	65	---	65
Effective interest rate (1)						*8.5%*		
Obligations related to securities sold short	---	---	---	---	46	69	---	115
Effective interest rate (1)	---	---	---	---	*4.80%*	*6.64%*		
Other liabilities	---	(138)	71	(24)	(35)	174	241	289
Members' equity	---	---	---	---	---	---	438	438
Total liabilities and members' equity	$ 390	$ 3,870	$ 465	$ 445	$ 839	$ 756	$ 679	$7,444
Balance sheet gap	$ 881	$(1,758)	$ 96	$ 64	$ 1,206	$ (43)	$ (446)	$ ---
Off-balance sheet gap (2)	---	629	75	(614)	(132)	42	---	---
Total interest rate sensitivity gap	$ 881	$(1,129)	$ 171	$ (550)	$ 1,074	$(1)	$(446)	$ ---
Cumulative interest rate sensitivity gap 1996	**$ 881**	**$ (248)**	**$ (77)**	**$ (627)**	**$ 447**	**$ 446**	**$ ---**	**$ ---**
Cumulative interest rate sensitivity gap 1995	$ 178	$ 78	$ 168	$ 465	$ 432	$ 449	$ ---	$ ---

(1) The effective interest rates shown express the historical rates of the fixed rate instruments stated at unamortized cost and the current market rates of the instruments stated at fair value.

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

The on-balance sheet and off-balance sheet assets and liabilities presented in the above table are reported in time frames based on the earlier of their contractual repricing date or maturity date. Certain items on the balance sheet, such as investments in equity securities and members' equity, do not provide interest rate exposure to Caisse centrale Desjardins. These items are reported in the non-interest sensitive column of the table. Derivative instruments are reflected in the table under off-balance sheet gap.

16. CONTRACTUAL COMMITMENTS

Future rental commitments for long-term leases expiring up to 2005 amount to $5,042,942. The annual rental payments for the next five years are $775,827 in 1997, $785,999 in 1998, $784,819 in 1999, $783,747 in 2000 and $779,505 in 2001.

In addition, in the normal course of business, Caisse centrale Desjardins pledges assets as security for liabilities incurred. As at December 31, 1996, Caisse centrale Desjardins pledged certain investment and trading account securities with a total carrying value of $292,410,000 in respect of financing transactions guaranteed by securities. Additionally, Caisse centrale Desjardins deposited assets in the amount of $269,850,000 for the purposes of participation in clearing and payment systems and as security for contract settlements with derivatives exchanges or other derivative counterparties.

17. OTHER TRANSACTIONS WITH THE DESJARDINS GROUP

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

Under the consituent legislation, the member federations are not interested persons in respect of Caisse centrale Desjardins. Consequently, the various transactions with member federations, notably financing transactions, are concluded under more favourable conditions than those granted to unrelated third parties. However, transactions with the other entities of the Desjardins Group are carried out under similar conditions to those negotiated with unrelated third parties.

These transactions occurred in the normal course of business of Caisse centrale Desjardins and are measured at exchange value, which is the amount determined and accepted by the related parties.

	1996		1995	
	Member federations	**Other Desjardins entities**	Member federations	Other Desjardins entities
Other assets	**$ 15,863**	**$ 17,135**	$ 22,357	$ 13,705
Other liabilities	**16,172**	**1,705**	16,563	2,245
Interest income	**121,236**	**63,861**	142,800	69,005
Interest expense	**46,939**	**11,615**	56,577	13,604
Other income	**73**	**1,305**	127	1,080
Non-interest expenses	**100**	**3,738**	96	3,734

18. PENSION PLAN

Caisse centrale Desjardins enrols all its employees 25 years of age or older in the multi-employer pension plan of the Mouvement des caisses populaires et d'économie Desjardins du Québec.

An actuarial valuation of the plan is performed at least once every three years. As at January 1, 1996, the most recent valuation date, this defined benefit pension plan was fully funded.

The Board of Directors of the Confédération des caisses populaires et d'économie Desjardins du Québec agreed, in accordance with the pension plan bylaws, to allow a portion of the stated surplus of $192.1 million as at January 1, 1996, to be used in the form of a contribution holiday for participants and employers for the 17-week period from September 1 to December 27, 1996. This contribution holiday is expected to continue until December 27, 1997.

The amount expensed as employer contributions was $654,800 in 1996 ($915,500 in 1995).

19. SEGMENTED INFORMATION

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

Management's Analysis of Financial Condition and Results of Operations

FINANCIAL HIGHLIGHTS
As at December 31

(in thousands of dollars)	**1996**	1995	1994	1993	1992
Results of operations					
Net interest income	**54,950**	57,869	50,803	50,537	56,519
Other income	**12,962**	12,995	13,046	13,973	18,402
Net income before restatement [1]	**34,725**	31,184	17,394	15,006	4,259
Restated net income [1]	**29,944**	25,709	12,703	10,179	(979)
Return on average assets [1]	***0.45%***	*0.44%*	*0.22%*	*0.17%*	*n.s.* [3]
Financial position					
Total assets [2]	**7,444,388**	5,595,647	5,606,730	5,737,764	6,525,273
Securities	**2,544,238**	1,769,819	1,300,554	1,108,005	1,088,628
Loans	**4,605,229**	3,479,199	4,008,565	4,456,300	5,198,530
Deposits [2]	**6,536,561**	4,838,159	4,941,690	5,124,095	5,893,289
Subordinated debentures	**65,518**	70,477	66,991	55,960	58,594
Members' equity	**438,343**	438,343	444,061	444,395	438,343
Capital ratio - BIS [2]	**14.73%**	*19.63%*	*18.16%*	*16.72%*	*15.55%*
Other information					
Remuneration of capital stock	**36,972**	38,804	16,000	5,000	17,621
Other payments to the Desjardins network	**5,904**	6,760	5,822	6,026	6,540
Percentage of funds raised on international markets [2]	***57%***	*70%*	*67%*	*53%*	*51%*

1 Net income was restated to reflect the application of a new accounting standard on the treatment of patronage allocations. Reference should be made to note 3 to the consolidated financial statements for additional information and to Management's Analysis under the section "Other Payments to the Desjardins Network".

2 The data were restated to reflect the introduction of new accounting standards pertaining to the treatment of unrealized gains or losses on financial instruments. For additional information, reference should be made to note 3 to the consolidated financial statements.

3 Not significant

RATINGS

Despite more rigorous requirements by ratings agencies, the high credit ratings of Caisse centrale Desjardins remained unchanged for the ninth consecutive year. The federations' commitment to maintain minimum capital ratios and the availability of standby lines of credit by Caisse centrale Desjardins 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
DBRS	R-1 M	AA
CBRS	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, 1996 and 1995. It also discusses Caisse centrale Desjardins' forecasts and credit risk management strategy.

For the reader's clarification, a glossary of financial terms and an organizational chart of the Mouvement Desjardins are presented at the conclusion of this report. In addition, note 2 to the consolidated financial statements summarizes the significant accounting policies adhered to in the preparation of the financial statements of Caisse centrale Desjardins.

In February 1996, the Canadian Institute of Chartered Accountants (CICA) issued guidelines for the recognition of patronage allocations paid by credit unions. The CICA now considers the distribution of patronage allocations based on volume of business, in substance, as a premium on transactions between the members and the credit union. Consequently, this distribution must be presented in the statement of income. The other payments to the Desjardins network had been previously deducted from retained earnings.

The consolidated statement of income has been modified to include the other payments to the Desjardins network.

Caisse centrale Desjardins has also adopted the accounting standards of Section 3860 of the CICA Handbook, entitled "Financial Instruments - Disclosure and Presentation". These standards govern the presentation and disclosure of financial instruments, including those related to risk management and the accompanying information to be provided. The standard requiring the presentation of unrealized gains and losses on derivatives on a gross rather than net basis has also been applied.

Additional details are provided in note 3 to the consolidated financial statements.

REVIEW OF THE ECONOMY

This section briefly summarizes the Canadian economic situation in 1996 and includes our forecasts for 1997.

For Quebec and Canada, 1996 was the second consecutive year of an economic slowdown, with their real gross domestic product (GDP) growth falling to 1.2% and 1.5%, respectively, compared with 1.8% and 2.3% in 1995. Faltering growth affected most industrialized nations, with a corresponding drop in inflation worldwide.

In 1996, prices rose by only 1.6% in Canada, well within the 1% to 3% target set by the Bank of Canada. Faced with a sluggish economy and disinflationary pressures, the Bank of Canada adopted an aggressive monetary policy which saw interest rates drop to their lowest level since the 1950s. The rate for 3-month Treasury bills closed out the year at around 2.75%, 450 basis points lower than the October 1995 peak, while 10-year government bond rates for the same period dropped more than 200 basis points to nearly 6.25% at year-end. The sharp drop in

Canadian interest rates in relation to US rates was the highlight of 1996.

Because of structural realignments, particularly in the public finances and the current account, the Canadian dollar held its own. Despite the narrowing spread between Canadian and American interest rates, the Canadian dollar hovered at US¢73.3, compared with US¢72.9 in 1995. Overall, Canadian interest rates were less volatile than in past years; the relative stability of US interest rates was also a boon to Canadian financial markets. Internationally, the decline in interest rates in the face of weak economic conditions and the trend towards less inflation contributed to the sharp rise in equity market indices.

With accelerated economic growth forecast for Canada in 1997, real GDP could be as high as 3.5%, more than double the 1996 level.

American interest rates will be rising in the year ahead as the Federal Reserve tightens up its monetary policy to stem the inflationary pressures contingent to an economy in full swing. The Bank of Canada will only be able to muster a partial defence against the increasing cost of money in the United States. Canadian short-term interest rates will edge up during the year: 3-month Treasury bills could close at around 4%. Interest rates in Canada will remain low in 1997 and lag behind American rates for most of the yield curve. Positive fundamental factors like low inflation, progress in reducing public deficit and surplus in Canada's current account balance will possibly strengthened the value of the canadian dollar.

FINANCIAL HIGHLIGHTS FOR THE YEAR

Despite lacklustre economic growth, Caisse centrale Desjardins responded to market changes while maintaining a sound management approach consistent with its strategies. The following achievements are testimony to the success of this approach.

IMPROVED LOAN PORTFOLIO QUALITY

Efforts were made to enhance the quality of the loan portfolio as borne out by several statistics. For example, 96% of the loan portfolio's credit standing was categorized as "excellent", "very good", and "good" as at December 31, 1996, up from 92% at the end of 1995. "High-risk" loan commitments and those "under surveillance" declined by 16% over the year.

At the end of 1996, impaired loans were fully provided for and represented only 0.32% of total loans. The ratio compares favourably with that of the major Canadian banks as at October 31, 1996 and, consequently, Caisse centrale Desjardins did not record any provision for credit losses in 1996.

INSTITUTIONAL BROKERAGE SERVICE

To better meet the needs of the federations, Desjardins holding companies, the provincial government and institutional customers, Caisse centrale Desjardins introduced an institutional brokerage service. Recognized by the Bank of Canada as an authorized distributor of Government of Canada securities, the brokerage service successfully participated in Treasury bill and Canada bond auctions. The volume of transactions in 1996 was $38 billion.

FUNDING AND LIQUIDITIES

To ensure diversification of the deposit portfolio, the ceiling on the European medium-term note (EMTN) program was increased to US$2 billion to capitalize on possible market opportunities.

As conditions were favourable, Caisse centrale Desjardins floated a total of $1.5 billion in public issues aimed at building up capital to underpin the growth of the Mouvement Desjardins and extending the average term of its deposit liabilities.

Deposits from Canadian institutions amounted to $2.8 billion at the end of 1996, an increase of $1.4 billion over last year, attributable to deposits from the federal government, brokers and other financial institutions.

At the close of 1996, funding from outside Canada totalled $3.8 billion, representing 57% of deposits and debentures.

These strategies allowed Caisse centrale Desjardins to maintain a high level of liquidities throughout the year, exceeding regulatory requirements by $1.2 billion.

Synergy to Benefit the Desjardins Network

Caisse centrale Desjardins pursued its synergy efforts with the network. In order to coordinate operations more efficiently and realize savings across the Mouvement Desjardins, Caisse centrale Desjardins was assigned responsibility for cash management for the entire Desjardins cooperative network. It will also manage a $1-billion liquidity fund, consolidating the portfolios of seven federations. Caisse centrale Desjardins and the Fédération des caisses populaires Desjardins de Montréal et l'Ouest-du-Québec have integrated their respective treasury operations into one trading room and pooled their international activities. In addition to significant savings, the combining of these sectors will provide a source of shared expertise and resources.

Desjardins Federal Savings Bank

The Desjardins Federal Savings Bank (DFSB) was created by Caisse centrale Desjardins on behalf of the Mouvement Desjardins. This wholly-owned subsidiary continues to be popular with Desjardins members travelling or residing in Florida, with assets in excess of US$37 million as at December 31, 1996. The DFSB would have posted profits for the second year running if the US banking industry had not been required by legislation to pay a special contribution to the US deposit insurance plan.

Business Developed in Partnership with the Network

Under its financing program for medium-sized firms, Caisse centrale Desjardins saw a 42% increase in new business, 60% of which was shared with caisses in all regions of the province. The business development programs for each target market were presented network-wide in partnership with the federations. The revenue-sharing program with the caisses, introduced in 1995, led to a near doubling of shared loans with rebates. Finally, at the request of the federations, a permanent presence was established in five regions of Quebec. Furthermore, a credit policy and practice review was conducted to further facilitate the sharing of financing with the caisse network.

In the public and parapublic sectors, Publi-privilège, an off-balance sheet product, was an unprecedented success, with average volume up 40% over 1995. A new revenue-sharing program was introduced so the caisses could offer this product to a broader base of education-sector clients at competitive prices.

In addition, Caisse centrale Desjardins received permission from the Ontario Securities Commission to sell Publi-privilège products to institutional investors in Ontario and succeeded in arranging major financing for Crown corporations.

For the second straight year, Caisse centrale Desjardins managed the performing loan portfolio of Desjardins Commercial and Industrial Credit. The management *agreement*, which has been renewed until January 1, 1999, affords major savings to Desjardins Specialized Financial Services Management, the parent company. The staff from Desjardins Commercial and Industrial Credit declined by approximately 10% in 1996 and 46% since the beginning of the mandate. The work focused on enhancing portfolio quality through pre-payments, reduced repayment periods, the negotiation of additional guarantees, and improved general conditions.

STRONG CREDIT RATINGS
In spite of tighter rating agency requirements, the credit ratings of Caisse centrale Desjardins remained unchanged for the ninth consecutive year. As a result of these excellent ratings, the cost of funds raised by Caisse centrale Desjardins remained unchanged and the Mouvement Desjardins can readily access the Canadian and international debt securities markets.

CAPITAL ADEQUACY
At the end of 1996, Caisse centrale Desjardins' ratio of capital to risk-weighted assets and off-balance sheet financial instruments was 14.73%, well above the minimum prescribed ratio of 8% set by the Bank of International Settlements.

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

NET INTEREST INCOME

Net interest income is the difference between the amount Caisse centrale Desjardins draws 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 strategies and the composition of its financial instruments, whether interest-bearing or not. Capital and interest-exempt liabilities reduce external interest-bearing cash requirements.

Net interest income retreated by $2.9 million or 5% from the previous year. As indicated in Table I, the net interest margin shrank by 16 basis points, to 0.83%. This decrease can be traced primarily to the decline in interest rates and the higher proportion of liquid assets (represented by cash and securities), which represented 40.2% of the balance sheet in 1996, compared with 32.8% in 1995. As previously mentioned, Caisse centrale Desjardins pursued its strategy, launched in 1995, to augment the level of securities in order to create a contingency reserve for the Desjardins network. In 1996, average liquid assets totalled $2.7 billion, a jump in volume of $758 million or 39.6%. Because liquid assets generate a lower return than loans, the high level of liquidities had an adverse effect on net interest margin. The negative impact of the fall in interest rates on net interest income was nonetheless offset by the higher volume of securities.

The increase of $96 million or 2.7% in average loans is primarily due to the higher volume of business from other Desjardins entities. The average volume of loans to the federations inched up by $21 million or 1.3%, to $1.6 billion. It should be noted that short-term loans to the federations are granted at the cost of deposit financing, while medium-term loans have a minimal net spread of 0.05%. Under the constituent legislation of Caisse centrale Desjardins, the federations are not considered interested persons. As a result, various transactions, notably lending operations, are entered into at more favourable terms than those with unrelated parties.

The average volume of loans to other Desjardins entities climbed by $128 million or 15.6%. This increase stems primarily from financing required for the strategic initiatives of the Mouvement Desjardins, including the re-engineering process at the caisse level. Financing transactions with these Desjardins entities are concluded at similar terms to those negotiated with unrelated parties.

Average loans outstanding to the private sector totalled $694 million, down $71 million or 9.3%. The annualized impact of the significant reimbursements of high-risk loans recorded near the end of 1995 affected the average for 1996. Still, outstanding loans to the private sector have increased steadily, closing the year 12% higher than as at December 31, 1995. It is worth noting that a somewhat tighter margin results from repayments of problem loans due to the higher interest rates generally associated with these loans. Moreover, due to a highly liquid market and intense competition, last year saw sustained and widespread tightening of margins for the financing of large business loans. However, Caisse centrale Desjardins, keeping to the approach it adopted a few years ago, managed to limit the effects of this decrease by expanding its share of the medium-sized business market. As at October 31, 1996, the private sector loan portfolio was 71% large business loans and 29% medium-sized business loans.

Over the coming year, Caisse centrale Desjardins, in partnership with the Desjardins network, will continue its efforts to generate new business from medium-sized firms and to target large Quebec businesses capable of generating benefits for the Mouvement Desjardins. In 1997, net interest income is expected to be slightly lower than in 1996 due to relatively low interest rates and a continued high level of liquidities.

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

(in thousands of dollars)	1996			1995		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate
ASSETS						
Cash and securities	$2,671,144	$154,711	5.79%	$1,913,464	$147,557	7.71%
Loans						
Securities purchased under resale agreements	37,231	1,458	3.92	---	---	---
Day to day	58,555	2,632	4.49	98,488	6,944	7.05
Members	1,633,135	110,023	6.74	1,612,421	131,049	8.13
Other Desjardins entities	945,712	62,874	6.65	817,981	67,301	8.23
Public and parapublic institutions	308,205	20,049	6.51	286,084	24,812	8.67
Private sector (1)	693,702	55,719	8.03	765,135	70,882	9.26
Other (2)	---	(10,813)	---	---	(16,036)	---
	3,676,540	241,942	6.58	3,580,109	284,952	7.96
Total interest-bearing assets	6,347,684	396,653	6.25	5,493,573	432,509	7.87
Other assets	297,745	---	---	348,187	---	---
TOTAL ASSETS	$6,645,429	$396,653	5.97%	$5,841,760	$432,509	7.40%
LIABILITIES AND MEMBERS' EQUITY						
Deposits and subordinated debentures						
Demand deposits	$ 358,846	$ 15,468	4.31%	$ 221,538	$ 12,283	5.54%
Fixed-term deposits	5,447,845	320,623	5.89	4,871,800	356,370	7.31
Subordinated debentures	66,026	5,612	8.50	70,436	5,987	8.50
Total interest-bearing liabilities	5,872,717	341,703	5.82	5,163,774	374,640	7.26
Other liabilities	328,781	---	---	229,249	---	---
Members' equity	443,931	---	---	448,737	---	---
TOTAL LIABILITIES AND MEMBERS' EQUITY	$6,645,429	$341,703	5.14%	$5,841,760	$374,640	6.41%
NET INTEREST INCOME		$ 54,950	0.83%		$ 57,869	0.99%

(1) Average non-accrual loans, net of average specific provisions, are included in private sector loans.
(2) Other interest expenses, including hedging transactions.

OTHER INCOME

Caisse centrale Desjardins 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 Desjardins, 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 million, an identical amount to the previous year. Fee-based services slipped by $442,000 or 4.8%, to $8.8 million, due to the trend away from checks and towards electronic payment and direct deposit.

Credit fees, primarily composed of participation fees and revenue derived from letters of credit and guarantee, edged up by $55,000. Foreign exchange revenue fell by $393,000 or 23.4%, to $1.3 million, due largely to one-time events in 1995 such as the turbulent foreign exchange market and to the reversal in favourable terms of forward exchange contracts with certain customers. Rental income earned on a commercial building accounts for the growth of $747,000 or 43.8% in the "Other" category.

In 1997, Caisse centrale Desjardins plans to maintain "Other income" at 1996 levels.

Table II
OTHER INCOME
For the years ended December 31

(in thousands of dollars)	**1996**	1995	*Variation*	
Service charges on checking and deposit accounts	**$ 8,845**	$ 9,287	$ (442)	*(4.8)%*
Credit fees	**379**	324	55	*17.1*
Foreign exchange revenue	**1,291**	1,684	(393)	*(23.4)*
Other	**2,447**	1,700	747	*43.8*
TOTAL	**$ 12,962**	$ 12,995	$ (33)	*(0.3)%*

NON-INTEREST EXPENSES

Non-interest expenses include salaries and benefits, premises, equipment and furniture and other operating expenses. As shown in Table III, these expenses totalled $24 million, up $850,000 or 3.7% over 1995. Expressed as a percentage of average assets, non-interest expenses equalled 0.36%, compared with 0.40% last year.

Close to 64% of the increase, $544,000, was related to a new provincial tax on capital. The balance reflects contributions paid to the Mouvement Desjardins for various sponsorships, advertising costs and an additional insurance premium paid by DFSB to a U.S. regulatory body. In 1997, Caisse centrale Desjardins will continue to closely track operating costs to improve productivity.

SALARIES AND BENEFITS
Human resource costs totalled $11.6 million, matching last year's figure. Staff salaries and benefits accounted for almost half of all non-interest expenses. A surplus declared in 1996 by the pension plan of the Mouvement Desjardins allowed Caisse centrale Desjardins to reduce employee benefits by $197,000; otherwise, salaries and benefits would have risen by only 1.6%. The increase is related to the indexing of salaries and the addition of staff to the institutional brokerage team in 1996.

PREMISES, EQUIPMENT AND FURNITURE INCLUDING DEPRECIATION *(including subcontracting expenses)*
The cost of managing premises, equipment and furniture, including depreciation, totalled $5.5 million in 1996, similar to 1995.

Rental expenses and taxes decreased due to the renewal of leases at competitive prices. Depreciation expense increased by $103,000 or 15.2% due to technological investments in upgrading our information systems, particularly with respect to risk management.

OTHER
Other expenses were up by $854,000 or 14.1% over the year, to $6.9 million, as a result of a new $544,000 provincial tax on capital introduced in May 1996. The $304,000 rise in advertising and sponsorship costs reflects efforts to promote Caisse centrale Desjardins' activities and social involvement in the Quebec community, both directly and through the Mouvement Desjardins. Insurance posted a $228,000 or 59.5% increase, largely due to an unusual expense assumed by the Florida subsidiary, imposed on financial institutions under US federal legislation. It should be emphasized that more than 60% 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, costs of public offerings, and fees paid to Canadian securities commissions). The decrease in the "Other" category essentially reflects the costs of implementing in 1995 an institutional brokerage service.

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

(in thousands of dollars)	1996	1995	Variation	
Salaries and benefits	$ 11,576	$ 11,589	$ (13)	(0.1)%
Premises, equipment and furniture, including depreciation				
Subcontracting expenses	2,404	2,451	(47)	(1.9)
Rental and taxes	1,437	1,654	(217)	(13.1)
Depreciation	782	679	103	15.2
Other	839	669	170	25.4
	5,462	5,453	9	0.2
Other				
Professional fees	1,224	1,189	35	2.9
Telecommunications, postage and courier	925	950	(25)	(2.6)
Advertising and promotion	724	420	304	72.4
Membership dues paid to the Confédération	717	656	61	9.3
Business development	661	741	(80)	(10.8)
Insurance	611	383	228	59.5
Provincial tax on capital	544	---	544	100.0
Supplies, stationery and printing	424	405	19	4.7
Employee training	99	111	(12)	(10.8)
Other	988	1,208	(220)	(18.2)
	6,917	6,063	854	14.1
TOTAL	$ 23,955	$ 23,105	$ 850	3.7%
Non-interest expenses on average assets	0.36%	0.40%	---	---

OTHER PAYMENTS TO THE DESJARDINS NETWORK

In cooperation with the Desjardins network, Caisse centrale Desjardins offers a wide range of banking services to Canadian private and public organizations. Of total service charges collected in 1996, $5.9 million was redistributed to members, compared with $6.8 million in 1995. The $0.9 million or 12.7% decrease was due to lower rebates on shared loans following the repatriation of a certain number of loans to federations with liquidity surpluses.

As a cooperative, Caisse centrale Desjardins must apply the accounting treatment on patronage allocations proposed in the Abstract of Issue Discussed (EIC-68) released by the CICA Emerging Issues Committee.

Under EIC-68, the other payments to the Desjardins network and related income taxes are now recorded on the consolidated statement of income. It should be noted that these rules apply only to the presentation of other payments and in no way affect the amount distributed to the network.

Without this restatement, consolidated net income for 1996 would have stood at $34.7 million, an 11.4% increase over the $31.2 million recorded the previous year. Table IV illustrates the effect of the application of EIC-68.

Additional details are provided in note 3 to the consolidated financial statements.

Table IV
EFFECT OF APPLICATION OF EIC-68
For the years ended December 31

(in thousands of dollars)	**1996**	1995	1994	1993	1992
Net income before restatement	**$ 34,725**	$ 31,184	$ 17,394	$ 15,006	$ 4,259
Other payments to the Desjardins network	**(5,904)**	(6,760)	(5,822)	(6,026)	(6,540)
Recovery of related income taxes	**1,123**	1,285	1,131	1,199	1,302
Restated net income	**$ 29,944**	$ 25,709	$ 12,703	$ 10,179	$ (979)

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 consolidated financial statements.

Income tax expense recorded on the consolidated statement of income amounted to $8.1 million, up $777,000 over 1995 due to the rise in net income. This figure also includes $1 million for the large corporations tax, similar to the amount paid in 1995. The recovery of $1.1 million (1995: $1.3 million) in income tax related to other payments to the Desjardins network, which had previously been recorded on the consolidated statement of retained earnings, is now recorded on the consolidated statement of income. The figures shown have been restated for comparison purposes.

REMUNERATION OF CAPITAL STOCK

The remuneration of capital stock is based on Caisse centrale Desjardins' results. In 1996, Caisse centrale Desjardins paid close to $37 million to the network in the form of remuneration of capital stock, down from $38.8 million in 1995. The $1.8 million difference is due to a change in the method of declaring the remuneration. In October 1995, in order to provide the federations with more timely access to their capital stock remuneration, the Board of Directors of Caisse centrale Desjardins agreed to declare the remuneration of capital stock on a monthly rather than a quarterly basis. This decision resulted in the accounting of remuneration equivalent to 15 months of results (i.e. the 12 months of 1995 and the last quarter of 1994). As a point of comparison, the remuneration for 1995 would have been some $32 million, compared with $37 million for 1996. The increase of almost $5 million or 15.6% reflects the growth in net income recorded in 1996. This remuneration represents a 9.2% return on investment (excluding Desjardins Federal Savings Bank).

Table V
ASSET MIX
As at December 31

(in millions of dollars)	**1996**	1995	1994	1993	1992
Cash resources and securities	**$2,563**	$1,781	$1,341	$1,119	$1,142
Loans	**4,605**	3,479	4,009	4,456	5,198
Other assets	**276**	336	257	163	185
TOTAL	**$7,444**	$5,596	$5,607	$5,738	$6,525
Average assets	**$6,645**	$5,842	$5,824	$5,906	$5,401

COMMENTS ON THE BALANCE SHEET

OVERVIEW

Total assets of Caisse centrale Desjardins as at December 31, 1996 were $7.4 billion, up $1.8 billion or 33% from the previous year. The increase was primarily due to securities and loans which rose 43.8% and 32.4%, respectively. Average assets stood at $6.6 billion in 1996, compared with $5.8 billion in 1995, an increase of $803 million.

CASH RESOURCES AND SECURITIES

Cash resources and securities totalled $2.6 billion as at December 31, 1996, up $782 million from 1995. Investment account securities grew by $746.1 million, accounting for most of the fluctuation.

As well as facilitating asset and liability management programs, investment securities are used as a business strategy. The year-end market value of this portfolio was $2.4 billion, $37 million over its book value. Investment account securities were 94% of the portfolio, 91% of which consists of securities issued or guaranteed by Canada, the provinces, municipalities or public and parapublic corporations.

Trading account securities rose $28.3 million to $147 million, or 23.7% over 1995. This growth is primarily a function of the new volume of business generated by our institutional brokerage service. These securities, which are recorded at market value, are essentially used to manage liquidity risk, to resell to customers or to capitalize on market price fluctuations. The trading portfolio is made up exclusively of governments and public administrations in Canada.

Note 4 to the consolidated financial statements shows a detailed breakdown of the securities portfolio.

LOANS

As shown in Table VI, the loan portfolio primarily consists of loans to members and other Desjardins entities, to the public and parapublic sectors, to the private sector, day, call and short loans as well as securities purchased under resale agreements.

Total loans stood at $4.6 billion by year-end, compared with $3.5 billion as at December 31, 1995, an increase of $1.1 billion or 32.4%. All loan categories recorded growth as at December 31, 1996.

Loans to the federations, totalling $2.1 billion as at December 31, 1996, posted a $509 million or 32.4% increase over last year, due to growth in assets and lower liquidities attributable notably to the popularity of mutual funds.

Loans to other Desjardins entities totalled $1.1 billion in 1996, up $160 million or 17.2%, as a result of additional loans to finance Visa Desjardins receivables and the strategic initiatives of the Confédération des caisses populaires et d'économie Desjardins du Québec, in particular the re-engineering process at the caisse level. Outstanding loans in the public and parapublic sectors also increased by $64 million, to $328 million at the end of 1996.

In addition, the Publi-privilège program, which gives public bodies access to low-cost financing through titles secured by Caisse centrale Desjardins, was as popular as ever, with the average volume of $426 million increasing of 39.7%. Outstanding private sector loans rose to $759 million, up 11.9% from a year earlier, notably because of new business from medium-sized firms.

In 1996, Caisse centrale Desjardins began purchasing securities under resale agreements, which account for less than 3% of the loan portfolio. These transactions are made with a counterparty who pledges to repurchase the securities at a fixed price at a later date. The counterparty is usually a broker, security trader or other entity with an extensive pool of securities who wishes to receive cash and retain the rights to the securities. These loans are adequately secured and considered low risk.

The following pages will explain how steps taken in past years have improved the quality of the loan portfolio. It should be mentioned that the gross amount of impaired loans was fully provided for as at December 31, 1996.

All loan categories should rise by the end of 1997.

Table VI
LOAN PORTFOLIO
After cumulative allowance for credit losses
As at December 31

(in millions of dollars)	**1996**	1995	1994	1993	1992
Composition					
Securities purchased under resale agreements	**$ 123**	$ ---	$ ---	$ ---	$ ---
Day, call and short loans to investment dealers and brokers	**250**	60	---	8	---
Public and parapublic institutions	**328**	264	295	364	548
Banks	**---**	3	---	---	---
Members	**2,076**	1,567	2,060	2,325	2,871
Other Desjardins entities	**1,089**	929	800	648	558
Other - private sector	**739**	656	854	1,111	1,221
TOTAL	**$4,605**	$3,479	$ 4,009	$4,456	$5,198
Geographic distribution					
Quebec	**$4,457**	$3,213	$ 3,604	$3,872	$4,560
Other Canadian provinces	**123**	241	377	560	623
Other countries	**25**	25	28	24	15
TOTAL	**$4,605**	$3,479	$ 4,009	$4,456	$5,198
Average loans	**$3,677**	$3,580	$ 4,176	$4,397	$4,295

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

(in millions of dollars)	1996		1995	
Primary industries	$ 63	8.4%	$107	15.9%
Manufacturing industries				
Food and tobacco	61	8.1	40	5.9
Textiles, rubber and plastics	35	4.7	23	3.4
Wood and furniture	9	1.2	7	1.0
Pulp and paper	83	11.0	74	11.0
Metal products	64	8.6	47	7.0
Other	51	6.7	53	7.9
Real estate	71	9.4	85	12.6
Transportation and warehousing	55	7.3	35	5.2
Communications and public services	90	12.0	59	8.7
Wholesale and retail trade	28	3.7	24	3.6
Financial intermediaries	40	5.3	45	6.7
Other service corporations	103	13.6	75	11.1
Loans to private sector, net of specific provisions	$ 753	100.0%	$674	100.0%
General provision	(14)		(18)	
TOTAL	$ 739		$656	

RISK MANAGEMENT REVIEW

OVERVIEW

The major risks of Caisse centrale Desjardins are credit, liquidity, market (more specifically exchange and interest rate risks), legal and operational. Management policies and practices have been established to facilitate the monitoring of risk-taking. The Management Committee monitors risks based on a set of criteria and ensures that transactions stay within established limits. New transactions and material changes to existing businesses are subjected to 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 determine 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 members of Caisse centrale Desjardins senior management. This committee meets regularly to review and discuss trends in market and liquidity risk profiles. The Credit Committee, composed of members of the Management Committee, meets regularly to review credit risk developments. The Board of Directors periodically reviews risk management policies, practices and trends in 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 Desjardins manages its risks continually evolve as its business activities change in response to market and product developments. Caisse centrale Desjardins is always seeking to strengthen the risk management process through ongoing investments in technology and training. Periodic reviews by regulators, internal and external auditors subject our practices to additional scrutiny.

In 1996, Caisse centrale Desjardins conducted a comprehensive review of risk-management policies for treasury activities. A detailed activity analysis will highlight the risks associated with each activity and explain the activity/risk interrelationship. These policies will provide a detailed list of principles, rules and guidelines. Risk management components for treasury activities will encompass liquidity, exchange rate, securities portfolio and capital management.

CREDIT RISK

Diversification is a key part of risk management. To improve the quality of its credit portfolio, Caisse centrale Desjardins has made a commitment to reduce its exposure by diversifying risk among categories of borrowers, industries and geographic regions.

Credit losses can occur if a borrower or counterparty does not fully honour its contractual obligations to Caisse centrale Desjardins. 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 counterparties. Experienced credit officers evaluate the credit quality of counterparties and assign internal credit ratings based on 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 customers 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 Desjardins' 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 Desjardins 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 of our global credit portfolio across counterparties, industries, and geographic regions.

These elements are subjected to review procedures, as are products and credit risks requiring strict follow-up. These risks are examined regularly by the Credit Committee. This group of senior officers evaluates the pertinence of the provisions for credit losses and informs the Board of Directors of 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 Desjardins has developed and adopted practices and credit policies to detect problem loans and take appropriate measures to rectify the situation. The general credit policy and operational policies are revised annually. During the year, significant effort was made to increasing the quality of the loan portfolio. This monitoring is performed within a rigorous environment by applying a highly selective risk management policy and working towards well-defined risk diversification procedures.

The general credit policy sets forth the principles and limits within which financing operations involving a credit risk must be transacted and the requisite authorizations. The policy enhances control and diversifies the portfolio while favouring orderly business development. It defines borrowers' eligibility criteria and establishes the credit risk 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 qualitative and quantitative risk categories. Periodic reviews must be carried out and submitted to the appropriate decision-making levels, so that the necessary steps can be taken to minimize losses.

The general credit policy stipulates credit commitment limits for each borrower category and industry segment. Borrower limits are based on customers' credit ratings. Credit commitment limits for each private sector industry group must not exceed 15% of the total credit committed to the private sector without the authorization of the Board of Directors. As at year-end, none of the industry groups had exceeded this limit.

Operational policies have been established to limit financing operations such as highly leveraged transactions, real estate lending and project financing.

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

COMMERCIAL REAL ESTATE LOANS

In recent years, Caisse centrale Desjardins has substantially reduced its net exposure to this sector. It has exercised caution in paring down its real estate portfolio and insofar as possible, taken a cooperative approach with borrowers.

Outstanding loans, net of specific provisions, stood at \$71 million as at year-end, down \$14 million from 1995. A combination of loan restructuring, refunds, sales and write-offs has reduced Caisse centrale Desjardins' outstanding real estate loans by \$102 million or 59% since 1993. This is a direct result of our efforts to enhance the quality of this portfolio. Net impaired loans were \$7.1 million in 1996, representing 1.6% of total members' equity. This ratio compares favourably with the 5% posted by the major Canadian banks as at October 31, 1996.

PULP AND PAPER LOANS

Although Caisse centrale Desjardins has been reducing its overall exposure to this sector for some years, it will continue to finance new loans to a limited customer base which meets its loan guidelines. After a \$59 million decline in 1995, loan commitments to this sector were increased by \$25 million or 19.7% in 1996. Table VII shows that the net outstanding amount of these loans, all of which are performing, represented \$83 million or 11% of total private sector loans as at year-end, an increase of \$9 million or 12%.

LOANS CATEGORIZED AS "HIGHLY LEVERAGED TRANSACTIONS"

In recent years, Caisse centrale Desjardins has stopped granting this type of financing. Outstanding loans fell as credit was reduced and loans repaid. Caisse centrale Desjardins authorized no new "highly leveraged transactions" in 1996, and the only remaining loan, which had a balance of \$6.3 million as at year-end, was a performing loan.

IMPAIRED LOANS

Impaired loans are loans where credit quality has deteriorated and when, in the opinion of management, there is reasonable doubt as to the collectibility of the principal and interest on the stipulated date. In general, where repayment of principal or payment of interest is contractually past due 90 days, a loan is included in this category. Further details are provided in note 2 to the consolidated financial statements.

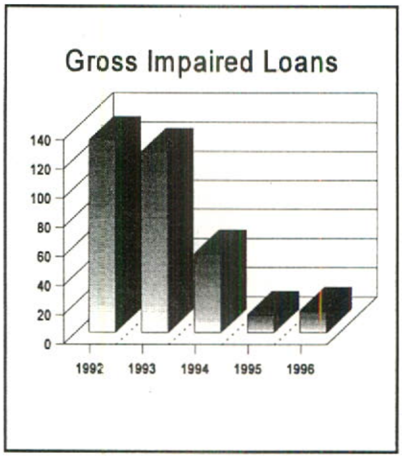
As at December 31, 1996, impaired loans were fully provided for the second year in a row. Impaired loans represented 0.32% of total gross loans in 1996, compared with 0.34% in

1995 and 1.35% in 1994. This ratio compares favourably with the 1.5% recorded by the major Canadian banks as at October 31, 1996. Combined write-offs and settlements have reduced outstanding impaired loans by $116 million over the past five years.

However, in the wake of a 77.6% decline in 1995, gross impaired loans inched up $2.8 to $14.8 million in 1996 due to a new loan in the transportation and warehousing industry.

A single commercial real estate loan accounted for 73% of gross impaired loans.

Chart I



Steps taken in recent years have substantially improved the quality of the loan portfolio. Since December 31, 1993, outstanding loans with a "good" to "excellent" credit rating have risen 22% from 74% to 96% as at December 31, 1996. Recent efforts have proven successful and Caisse centrale Desjardins considers that this asset category has now stabilized. Caisse centrale Desjardins will continue to closely monitor its loan portfolio in years to come, applying a cautious loan policy in order to maintain the asset quality.

CUMULATIVE ALLOWANCE FOR CREDIT LOSSES AND PROVISION FOR CREDIT LOSSES

The policy on credit risk losses and write-offs sets guidelines related to the creation of specific provisions when collectibility of loan principal or interest is considered doubtful or uncollectible. It also defines a formula to establish and maintain a cumulative allowance for credit losses high enough to absorb losses.

Pursuant to a new standard issued by the CICA in 1995, impaired loans must be measured at their estimated realizable value by discounting expected future cash flows at the effective rate of interest inherent in the loan. The application of this method has not affected Caisse centrale Desjardins' financial position or results and did not require a restatement of the corresponding 1995 figures.

As shown in note 5 to the consolidated financial statements, the cumulative allowance for credit losses amounted to $20.3 million, down $2.4 million from 1995. This decrease is due to the write-off of loans classified as uncollectible, which fell by $29 million compared with 1995. As shown in Table VIII, specific provisions increased by $2 million in 1996 due to a new problem loan, while the general provision stood at $14 million as at year-end, a $4.4 million decrease.

With the credit portfolio constantly improving and the cumulative allowance for credit losses at a good level, Caisse centrale Desjardins considered further provisions for credit losses unnecessary. Caisse centrale Desjardins thus decreased credit losses charged to income for the fourth year in a row.

Guided by prudent management practices, however, management is considering increasing these provisions in 1997.

Table VIII
BREAKDOWN OF SPECIFIC PROVISIONS
As at December 31

(in thousands of dollars)	**1996**	1995	1994	1993	1992
Manufacturing industries					
Wood and furniture	**$ ---**	$ ---	$ ---	$ 936	$ 336
Pulp and paper	**---**	---	---	7,200	2,000
Other	**---**	---	---	4,200	3,900
Real estate	**4,000**	4,000	15,000	7,200	---
Financial intermediaries	**---**	---	14,000	53,900	39,200
Transportation and warehousing	**2,000**	---	---	---	---
Other service corporations	**200**	200	200	5,500	5 ,500
TOTAL	**$ 6,200**	$ 4,200	$29,200	$78,936	$50,936

Table IX
LIQUIDITY
As at December 31

(in millions of dollars)	**1996**	1995	1994	1993	1992
Cash and deposits with Bank of Canada	**$ 19**	$ 11	$ 41	$ 11	$ 54
Securities	**2,544**	1,770	1,300	1,108	1,088
Total liquid assets	**$ 2,563**	$ 1,781	$ 1,341	$ 1,119	$ 1,142
Liquid assets as a % of total assets	**34.4%**	31.8%	23.9%	19.5%	17.5%

LIQUIDITY RISK MANAGEMENT

By managing its liquidity in a sound and prudent manner, Caisse centrale Desjardins ensures that it always has the funds available to honour its obligations. Liquidity risk is part and parcel of asset and liability management and, as such, is incorporated into treasury strategies. It expresses the possibility that Caisse centrale Desjardins may be unable to fulfil its obligations in a timely manner without offering excessive rates on deposits or liquidating assets at unfavourable prices because of poor market conditions. Caisse centrale Desjardins must manage its liquidity in such a way that, even in adverse conditions, it can secure the funds needed to meet the requirements of its customers and settle matured liabilities. Caisse centrale Desjardins also ensures that direct access to various sources of funding at competitive prices is available.

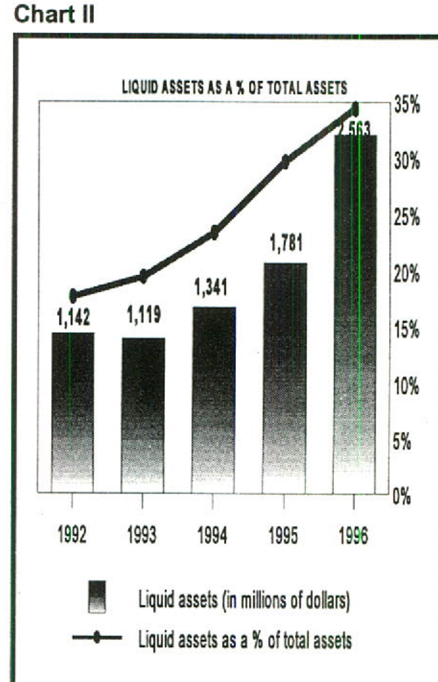
The Management Committee develops principles and practices to ensure that liquid assets and sources of funds are available in sufficient quantity. Caisse centrale Desjardins must maintain sufficient liquid assets at all times to attain its business plan. Liquidity management must factor in differences between the expected maturities of assets, liabilities and off-balance sheet financial instruments as well as future requirements, taking into account multiple scenarios including the least favourable conditions.

As a direct clearer of the Canadian Payments Association, Caisse centrale Desjardins can, if necessary, borrow from the Bank of Canada.

Caisse centrale Desjardins also maintains an adequate level of securities to ensure compliance with liquidity regulatory requirements established by the Inspector General of Financial Institutions. In 1996, securities maintained in accordance with these rules averaged $1.7 billion, $1.2 billion above statutory requirements.

Over the course of 1996, Caisse centrale Desjardins gradually increased the level of liquidity in order to extend the average term of its deposit liabilities and stabilize and secure its sources of funds.

Chart II



This strategy reflects the intention of the Mouvement Desjardins to create a contingency liquidity reserve to underpin its business development efforts. In keeping with this objective, Caisse centrale Desjardins plans to continue in the same direction in 1997, and expects its liquidity ratio to be the same as in 1996.

As illustrated in Table IX, Caisse centrale Desjardins had liquid assets of $2.6 billion, or 34.4% of total assets, at the end of the year, compared with $1.8 billion or 31.8% in 1995.

Note 4 to the consolidated financial statements shows that 94% of the securities portfolio is securities issued or guaranteed by the federal and provincial governments, municipal, school or public corporations in Canada, and Canadian banks. More than 33% of these high-quality securities will mature within one year.

Table X
BREAKDOWN OF THE SECURITIES PORTFOLIO
As at December 31

(in millions of dollars)	**1996**	1995	1994	1993	1992
Canada	**$ 1,192**	$ 880	$ 373	$ 367	$ 392
Provinces, municipal, school or public corporations in Canada	**1,131**	703	745	554	365
Members and other Desjardins entities	**---**	---	25	15	23
Other Canadian issuers	**103**	79	119	150	297
Foreign issuers	**118**	108	38	22	12
TOTAL	**$ 2,544**	$ 1,770	$ 1,300	$ 1,108	$ 1,089
Average securities	**$ 2,650**	$ 1,909	$ 1,388	$ 1,253	$ 829

SOURCES OF FUNDS

As part of its mission, Caisse centrale Desjardins assumes the strategic role of supplier of funds to the Desjardins network. It favours a stable and diversified funding base, prerequisites to sound liquidity management.

Over the years, Caisse centrale Desjardins has built national- and international-scale funding sources by varying the markets, financial instruments, maturity dates and currencies of deposits.

To achieve its funding objectives, Caisse centrale Desjardins solicits investments on all markets. The high ratings assigned to Caisse centrale Desjardins by credit agencies provide it with access to international financing at favourable terms. Caisse centrale Desjardins may intervene on the financial markets using the following instruments:

On the Canadian market:

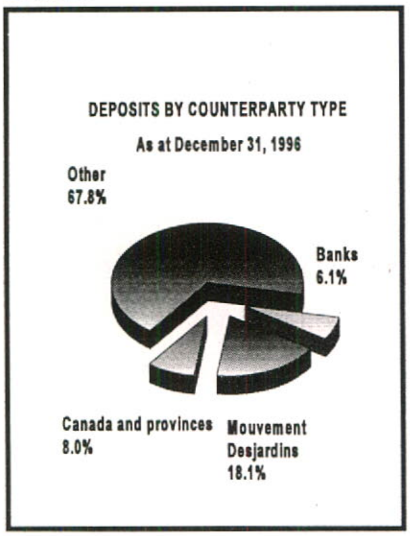
- a short- and medium-term commercial paper program.

- **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$2 billion. The maximum limit of this borrowing program, launched in 1992, was increased by US$1 billion in 1996.

Depending on prevailing market conditions, Caisse centrale Desjardins can also use public issues of securities and private placements. In addition, it has US$250 million of standby lines of credit to meet a temporary funding squeeze.

Chart III

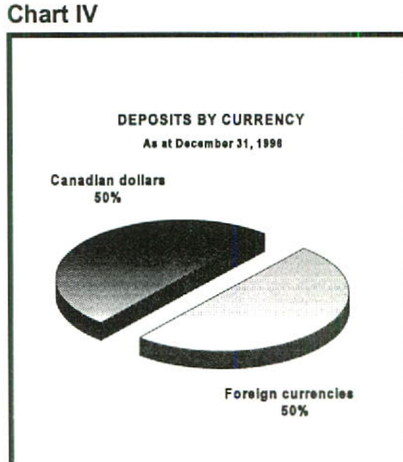


As at December 31, 1996, deposits and subordinated debentures totalled $6.6 billion, up $1.7 billion or 34% from 1995. Deposits originating from Canada rose by $1.4 billion, representing 43% of total deposits and subordinated debentures, compared with 30% last year. Deposits from Canadian and provincial governments surged to $524 million, an increase of $452 million, while deposits from other Desjardins entities were up $240 million. Other deposits rose by $1.2 billion, or 36%, to $4.4 billion at year-end.

As indicated in note 7 to the consolidated financial statements, deposits in foreign currencies totalled $3.3 billion, up $654 million or 25% from the previous year. This increase was largely due to the European multi-currency note program and European public issues, resulting in borrowings of over CA$1.5 billion with a term of more than two years. Of this amount, 11 issues totalling CA$803 million were carried out under the European multi-currency note program and through four public issues totalling CA$700 million. The public issues were as follows: one billion French francs, equivalent to CA$261 million, two issues totalling 350 million Deutsche marks, equivalent to CA$322 million, and one Euro Can issue for CA$100 million.

Amounts outside Canada increased by $323 million to

Chart IV



$3.8 billion and were comprised of public issues ($1,695 million), private placements ($181 million), European and American short-term commercial paper ($500 million), interbank deposits ($118 million) and European medium-term commercial paper ($1,265 million).

In 1997, Caisse centrale Desjardins will pursue its funding diversification objectives in order to meet the needs of the Desjardins network by using all of the previously cited programs. Medium-term borrowings on international markets totalling $920 million will mature. Caisse centrale Desjardins will rely on various financing sources to maintain its market presence. The strategy will consist in favouring medium- and long-term borrowings to be converted to a variable-rate basis by means of interest rate swaps. In addition, Caisse centrale Desjardins will implement, if necessary, an asset securitization program.

Table XI
DEPOSITS AND SUBORDINATED DEBENTURES
As at December 31

(in millions of dollars)	**1996**	1995	1994	1993	1992
Canada	**$ 322**	$ 29	$ 21	$ 322	$ 231
Provinces	**202**	42	62	122	166
Banks	**398**	527	278	249	728
Members	**792**	841	504	403	370
Other Desjardins entities	**389**	149	274	203	288
Other	**4,434**	3,251	3,803	3,825	4,110
	6,537	4,839	4,942	5,124	5,893
Subordinated debentures	**65**	70	67	56	59
TOTAL	**$ 6,602**	$ 4,909	$ 5,009	$ 5,180	$ 5,952
Average liabilities	**$ 5,873**	$ 5,164	$ 5,129	$ 5,298	$ 4,809

Geographic distribution	**1996**		1995		1994		1993		1992	
Canada	**$2,843**	**43%**	$1,473	30%	$1,648	33%	$2,456	47%	$2,933	49%
International	**3,759**	**57**	3,436	70	3,361	67	2,724	53	3,019	51
TOTAL	**$6,602**	**100%**	$4,909	100%	$5,009	100%	$5,180	100%	$5,952	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 risk.

Interest Rate Risk Management

Interest rate risk is the sensitivity of Caisse centrale Desjardins' 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.

A primary measure of interest rate risk is the interest rate sensitivity position or "gap" of Caisse centrale Desjardins. Gap is the difference in the amount of assets and liabilities that reprice during any given period. If liabilities repricing in a given period exceed assets that reprice in the same given period, the gap is referred to as "negative" or is liability sensitive. Conversely, if more assets than liabilities reprice in a given period, then Caisse centrale Desjardins has a positive gap or is asset sensitive. If Caisse centrale Desjardins is liability sensitive, when interest rates rise, net interest income will decrease; when interest fall rise, net interest income will increase. The reverse is true if Caisse centrale Desjardins 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 Desjardins 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.

Note 15 to the consolidated financial statements shows Caisse centrale Desjardins' position with regard to interest rate sensitivity as at December 31, 1996. This is the position at that particular date, but could have since changed, taking into account forecasted interest rates and customers' preferences for products and terms.

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

Foreign Exchange Rate Risk Management

Caisse centrale Desjardins 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 Desjardins has established specific foreign exchange risk management policies. It does not actively speculate on the foreign exchange market, as transactions are concluded to satisfy customer needs and for funding purposes.

Legal Risk Management

Legal risk 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 Desjardins manages this risk by asking internal or external lawyers to perform the necessary checks and controls.

OPERATIONAL RISK MANAGEMENT

Operational risk is the potential that Caisse centrale Desjardins may incur losses caused by faulty or ineffective processes, a breakdown in information, communication, settlement and infrastructure systems, an interruption in business, or non-compliance with laws and regulations. It can result from systems or procedural failures, human error, the impact of natural disasters and criminal activity.

Operational risk is inherent to all of Caisse centrale Desjardins' business activities and can never be completely eliminated. However, Caisse centrale Desjardins endeavours to minimize operational risk through its systems of internal controls which provide for segregation of duties, a disciplined approach to decision-making, delegation of authorities, and appropriate confirmation of transaction-related information. Internal controls also involve risk monitoring, financial reporting and insurance coverage. Caisse centrale Desjardins also possesses back-up capabilities and engages in business resumption planning to ensure ongoing service delivery under adverse conditions.

Operational risk is managed in the same manner as credit risk and market risk, and relies on the development of appropriate policies, methods and infrastructures. Effective management of operational risk is also dependent on the commitment, competence and ability of Caisse centrale Desjardins staff.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

To help customers meet their liquidity requirements and protect themselves against fluctuations in interest and foreign exchange rates, Caisse centrale Desjardins offers a number of off-balance sheet financial instruments. Caisse centrale Desjardins 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 sheet financial instruments are subject to Caisse centrale Desjardins' normal credit standards, financial controls, risk ceilings and monitoring procedures. Caisse centrale Desjardins constantly improves its evaluation methods and risk management systems for these products. 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 consolidated financial statements provides further details on these transactions.

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK

Products in this category, which include guarantees, standby letters of credit and commitments to extend credit, are designed to provide customers with funds for anticipated needs. Since conditional commitments to extend credit are subject to customers' compliance with particular credit standards, the risk associated with such commitments is reduced considerably. A firm commitment requires a duly signed offer, including confirmation of acceptance by the customer. In such cases, Caisse centrale Desjardins must pay out the amount specified in the commitment when the customer is unable to meet its financial or 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 Desjardins is provided in note 13 to the consolidated financial statements.

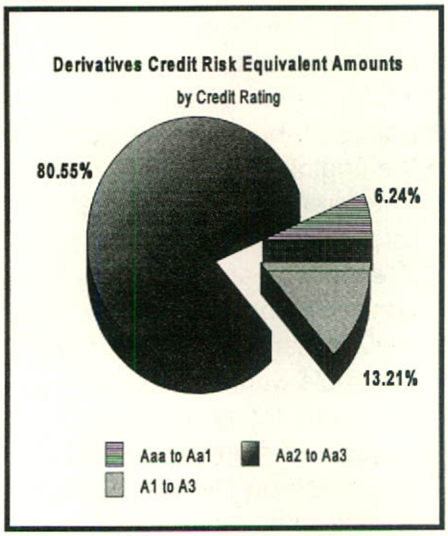
Derivatives, like balance sheet financial instruments, are subject to market and credit risk. As outlined in the Risk Management section, Caisse centrale Desjardins evaluates the risk associated with derivatives in much the same way as the risks associated with other financial instruments. However, unlike balance sheet financial instruments, where 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.

Currency and interest rate contracts and foreign exchange contracts allow Caisse centrale Desjardins and its customers to transfer, modify or reduce foreign exchange and interest rate risks. 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 Desjardins' commitments to purchase a fixed amount of a foreign currency are generally offset by commitments 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, the federations and other Desjardins entities.

Table XII
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS
Notional amounts
As at December 31

(in millions of dollars)	**1996**			1995		
	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**	**$ 551**	**$ 553**	$ 2	$ 151	$ 153
Commitments to extend credit						
Firm	**2,358**	**2,628**	**4,986**	2,931	2,201	5,132
Conditional	**40**	**599**	**639**	75	745	820
	2,400	**3,778**	**6,178**	3,008	3,097	6,105
Derivatives						
Interest rate contracts	**1,596**	**3,980**	**5,576**	1,691	2,947	4,638
Foreign exchange contracts	**423**	**6,656**	**7,079**	357	5,241	5,598
Other exchange-traded contracts	**21**	**22**	**43**	21	22	43
	2,040	**10,658**	**12,698**	2,069	8,210	10,279
TOTAL	**$ 4,440**	**$ 14,436**	**$ 18,876**	$ 5,077	$ 11,307	$ 16,384

Chart V



Caisse centrale Desjardins enters into derivative transactions with counterparties whose credit rating is similar to or higher than its own (Moody's Aa3). Chart V presents the credit risk equivalent amounts of Caisse centrale Desjardins' derivative portfolio by credit quality. The chart shows that close to 87% of the current credit exposure is to counterparties which are rated equal to or above Caisse centrale Desjardins' credit rating.

Chart VI details the derivative credit exposure broken out by counterparty type. By value of notional, 74% of counterparties were banks. Members and other Desjardins entities accounted for 16%, while transactions with private sector entities accounted for only 10%.

Chart VI

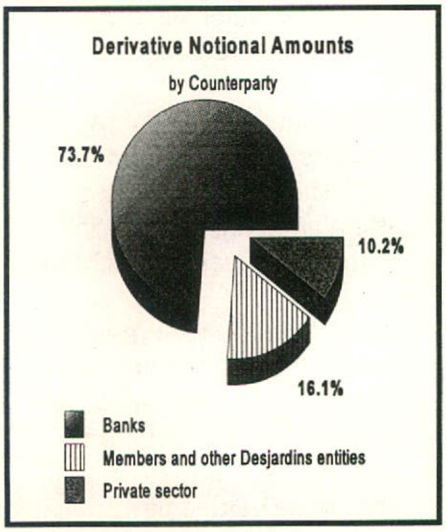
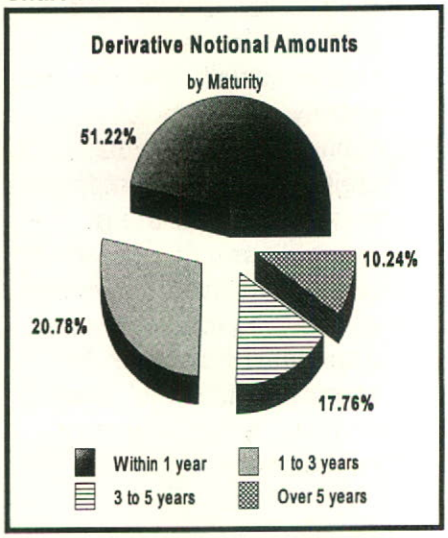


Chart VII shows the maturity profile of the derivative portfolio.

Chart VII



Generally, there is less market risk associated with short-term instruments. As measured by notional amounts, 72% of these derivatives have remaining terms of less than three years and most are within one year. Of note is that close to 69% of the foreign exchange contracts have a remaining term of less than three months.

CAPITAL MANAGEMENT

Capital consists of members' equity (which includes capital stock, retained earnings and the 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 consolidated balance sheet, members' equity ($409.4 million) and the general reserve ($28.9 million) are identical to last year. All of the retained earnings at year-end 1996 were declared as remuneration of capital stock. Return on members' equity was 6.83% in 1996, compared with 5.79% in 1995. As shown in note 11 to the consolidated financial statements, under the constituent legislation, the Board of Directors may not declare or pay interest on shares if it would render Caisse centrale Desjardins insolvent or decrease paid-up capital stock.

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 Desjardins has no legal obligation to abide by these guidelines but, because of its international presence, wishes to compare itself with other internationally active financial institutions.

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

The BIS framework requires that "risk-weighted balances" be calculated for off-balance sheet financial instruments and assets 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 XIII. 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, interest rate and currency contracts comprises the replacement cost of contracts with a positive value and the potential credit exposure on the contracts, calculated on their residual term to maturity.

The "credit risk equivalents" 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 counterparty 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 XIII, Caisse centrale Desjardins' risk-weighted assets and off-balance sheet financial instruments stood at $3,420 million as at December 31, 1996.

Table XIII
RISK-WEIGHTED ASSETS AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS
As at December 31, 1996

ASSETS *(in thousands of dollars)*	**Balance sheet amount**	**Principal risk weight**	**Risk-weighted balance**
Cash and deposits with Bank of Canada	$ 18,716	0%	$ 0
Securities issued or guaranteed by Canada, provinces, municipal, school or public corporations in Canada	2,323,510	0-20%	126,089
Securities issued or guaranteed by US public administrations	105,312	20%	21,062
Securities issued by banks	57,301	20%	11,460
Securities issued by members and other Desjardins entities	50	100%	50
Other securities	58,065	20-100%	48,204
Loans issued or guaranteed by Canada, provinces, municipalities, school boards and public agencies	332,770	0-20%	63,825
Loans to members	2,075,848	20%	415,170
Loans to other Desjardins entities	1,089,256	100%	1,089,256
Securities purchased under resale agreements	123,522	20%	24,704
Other loans	983,833	100%	983,833
Other assets	276,205	0-100%	81,837
	$ 7,444,388		$ 2,865,490

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	$ 553,089	0-100%	$ 551,378	20-100%	$ 171,145
Commitments to extend credit:					
Original term to maturity					
Over one year	1,044,873	50%	522,438	0-100%	274,947
One year or less and conditional	4,580,198	0-100%	39,502	0%	---
Derivatives					
Interest rate contracts	5,575,923	(1)	98,408	20-50%	25,204
Foreign exchange contracts	7,078,795	(1)	363,783	20-50%	82,068
Other exchange-traded contracts	42,890	(1)	3,522	20%	704
	$18,875,768		$ 1,579,031		$ 554,068
TOTAL RISK-WEIGHTED ASSETS AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS					**$ 3,419,558**

(1) Derivatives are converted to their "credit risk equivalent" by adding the total replacement cost (i.e. mark-to-market) of all outstanding contracts with a positive value and an amount for potential credit exposure based on the total contract amount broken out by remaining term to maturity, as follows:

Remaining term to maturity	Foreign exchange contracts	Interest rate contracts	Other contracts
Within 1 year	1%	0%	6%
Over 1 year to 5 years	5%	0.5%	8%
Over 5 years	7.5%	1.5%	10%

CAPITAL RATIO

Members' equity was $438.3 million as at December 31, 1996. In addition, Caisse centrale Desjardins had outstanding subordinated debentures totalling $65.5 million eligible as Tier 2 capital under BIS guidelines. Total capital stood at $503.8 million at current year-end.

All member federations have committed to maintain Caisse centrale Desjardins' capital base at a minimum level equal to at least (i) 5.5% of Caisse centrale Desjardins' total liabilities determined in accordance with the provisions of sections 54 to 56 of the constituent legislation or, if higher, (ii) 8.5% of Caisse centrale Desjardins' risk-weighted assets and off-balance financial instruments determined in accordance with the standards set by the BIS.

As at December 31, 1996, these ratios were well above the established minimum, at 14.73% for risk-weighted assets and off-balance sheet financial instruments and 6.75% for liabilities as determined in accordance with the constituent legislation.

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Table XIV
CONSOLIDATED BALANCE SHEETS
As at December 31

(in thousands of dollars)	**1996**	1995	1994	1993	1992
ASSETS					
Cash and deposits with Bank of Canada	**$ 18,716**	$ 10,560	$ 40,789	$ 10,212	$ 53,517
Securities	**2,544,238**	1,769,819	1,300,554	1,108,005	1,088,628
Loans					
Members and other Desjardins entities	**3,165,104**	2,496,657	2,859,636	2,972,917	3,429,331
Public and parapublic sectors	**327,770**	263,801	294,565	364,107	548,304
Other	**1,112,355**	718,741	854,364	1,119,276	1,220,895
Other assets	**276,205**	336,069	256,822	163,247	184,598
TOTAL ASSETS	**$ 7,444,388**	$ 5,595,647	$ 5,606,730	$ 5,737,764	$ 6,525,273
LIABILITIES AND MEMBERS' EQUITY					
Deposits					
Payable on demand	**$ 390,354**	$ 228,339	$ 210,587	$ 236,209	$ 174,681
Payable on a fixed date	**6,146,207**	4,609,820	4,731,103	4,887,886	5,718,608
Other liabilities	**403,966**	248,668	153,988	113,314	135,047
	6,940,527	5,086,827	5,095,678	5,237,409	6,028,336
Subordinated debentures	**65,518**	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	28,940
	438,343	438,343	444,061	444,395	438,343
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 7,444,388**	$ 5,595,647	$ 5,606,730	$ 5,737,764	$ 6,525,273

Table XV
CONSOLIDATED STATEMENTS OF INCOME [1]
For the years ended December 31

(in thousands of dollars)	**1996**	1995	1994	1993	1992
Interest income					
Loans	**$241,942**	$ 284,952	$295,984	$319,839	$ 344,212
Securities	**154,711**	147,557	77,763	77,192	67,057
	396,653	432,509	373,747	397,031	411,269
Interest expense	**341,703**	374,640	322,944	346,494	354,750
Net interest income	**54,950**	57,879	50,803	50,537	56,519
Provision for credit losses	**---**	7,958	20,067	24,067	49,500
Net interest income after provision for credit losses	**54,950**	49,911	30,736	26,470	7,019
Other income	**12,962**	12,995	13,046	13,973	18,402
Net interest income and other income	**67,912**	62,906	43,782	40,443	25,421
Non-interest expenses					
Salaries and benefits	**11,576**	11,589	10,680	10,607	10,003
Premises, equipment and furniture, including depreciation	**5,462**	5,453	4,972	4,850	4,408
Other	**6,917**	6,063	5,299	5,021	4,593
	23,955	23,105	20,951	20,478	19,004
Net income before other payments to the Desjardins network and income taxes	**43,957**	39,801	22,831	19,965	6,417
Other payments to the Desjardins network [1]	**5,904**	6,760	5,822	6,026	6,540
Net income before income taxes	**38,053**	33,041	17,009	13,939	(123)
Income taxes	**8,109**	7,332	4,306	3,760	856
NET INCOME	**$ 29,944**	$ 25,709	$ 12,703	$ 10,179	$ (979)

[1] The consolidated statements of income were restated to reflect the application of a new accounting standard on the treatment of patronage allocations. Reference should be made to note 3 to the consolidated financial statements for additional information and to Management's Analysis under the section "Other Payments to the Desjardins Network".

Basis Point
Unit of measure defined as one one-hundredth of a percentage point.

Commitments to Extend Credit
Credit facilities available to customers either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Currency and Interest Rate Swaps
Transaction where two parties agree to exchange, over a specified period, currencies and interest flows, generally at a fixed rate and a floating rate on the other, based on a notional amount.

Derivatives
A derivative is a contract whose value is derived from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification, or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

Foreign Exchange Forward Contracts
A commitment to buy or sell a specified amount of foreign currency on or before the maturity date at a specified exchange rate.

Forward Rate Agreements
A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. When used as a hedge, a forward rate agreement protects against future movements in market interest rates.

Guarantees and Standby Letters of Credit
Irrevocable insurance that payments will be made in the event a customer cannot meet its obligations to third parties.

Hedge
A risk management technique used to insulate financial results from market, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions.

For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

Interest Rate Sensitivity
Earning assets and interest-bearing liabilities which mature or are subject to interest rate adjustments within a specified term or have a floating rather than a base interest rate.

Liquidities
Generally, assets in cash or in securities easily convertible to cash, such as Bank of Canada deposits and securities.

Mark-to-Market
Valuation at market rates, as at the balance sheet date, of securities, loans, deposits, subordinated debentures and derivatives.

Net Interest Income
The difference between interest income earned on assets and the interest expenses related to liabilities. The ratio of net interest income to average assets is called the "net interest margin".

Notional Amount
The amount used as a reference point to calculate payments for financial instruments such as forward rate agreements or interest rate swaps. The amount is said to be notional since it is not exchanged.

Obligations Related to Securities Sold Short
Transactions in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Off-Balance Sheet Financial Instruments
A variety of products offered to customers which fall into two broad categories: (i) credit-related arrangements which provide customers with liquidity protection, and (ii) derivatives, which are defined above.

Return on Average Assets
The ratio of net income to average total assets during a year.

Risk Weighting
The process by which weighting factors are applied to the face value of certain assets in order to reflect a comparable risk level. Off-balance sheet instruments are also converted by adjusting the notional amounts to balance sheet (or credit) equivalents and by applying appropriate risk weighting factors. Total risk-weighted assets constitute the denominator of the various capital ratios as prescribed by the Bank for International Settlements (BIS).

Securities Purchased under Resale Agreements
Securities purchased under resale agreements from a counterparty who pledges to redeem them at a fixed price at a subsequent date. These loans are hedged by an appropriate security and are considered low risk.

Stock Index Option
The right (as opposed to obligation) to sell (put option) or buy (call option) at or by a maturity date a specified amount of a stock index at a set price (exercise price).

Subordinated Debentures
Unsecured liabilities issued by Caisse centrale Desjardins whose repayment, in the event of liquidation, is subordinated to the claims of depositors and certain other creditors.

Trading Account
Liquidities used for arbitrage transactions on financial markets. The account is presented at market value on the balance sheet.

BOARD OF DIRECTORS [1]

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President,
Confédération des caisses populaires et d'économie Desjardins du Québec

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Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec

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Senior Vice President and General Manager,
Fédération des caisses populaires Desjardins de Québec

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Fédération des caisses populaires Desjardins de Québec

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Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec

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Fédération des caisses populaires Desjardins de Lanaudière

Gilles Lafleur
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Fédération des caisses d'économie Desjardins du Québec

Camil Laforge
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Fédération des caisses populaires Desjardins du Saguenay-Lac St-Jean

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Caisse centrale Desjardins

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André Talbot
Senior Vice President and General Manager,
Fédération des caisses populaires Desjardins de l'Abitibi

* Member of the Executive Committee
**Member of the Audit Committee

[1] As at December 31, 1996

OFFICERS [1]

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President and Chief Executive Officer

André Bellefeuille *
Senior Vice President, Financing and Banking Services

Michel Jourdain *
Senior Vice President, Finances and Federations Services

Alfred Pfeiffer *
Senior Vice President, Treasury and International international

Huu Trung Nguyen *
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Gilles Lapierre *
Vice Président, Legal Affairs

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Vice President, Financing and Banking Services

Christian St-Arnaud
Vice President, Financing and Banking Services

Bernard Venne
Vice-President, Treasury and Investment

Jacques Luys
Vice-President, Institutional Affairs

[1] As at December 31, 1996

MEMBERS

- Eleven Fédérations des caisses populaires et d'économie du Québec, members of Confédération,
- La Fédération des caisses populaires de l'Ontario Inc.
- La Fédération des caisses populaires du Manitoba Inc.
- La Fédération des caisses populaires acadiennes Ltd
- Desjardins-Laurentian Life Assurance Company Inc.
- La société de portefeuille du Groupe Desjardins, assurances générales Inc.
- Desjardins Trust Inc.

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- Caron Bélanger Ernst & Young Montreal (Quebec)

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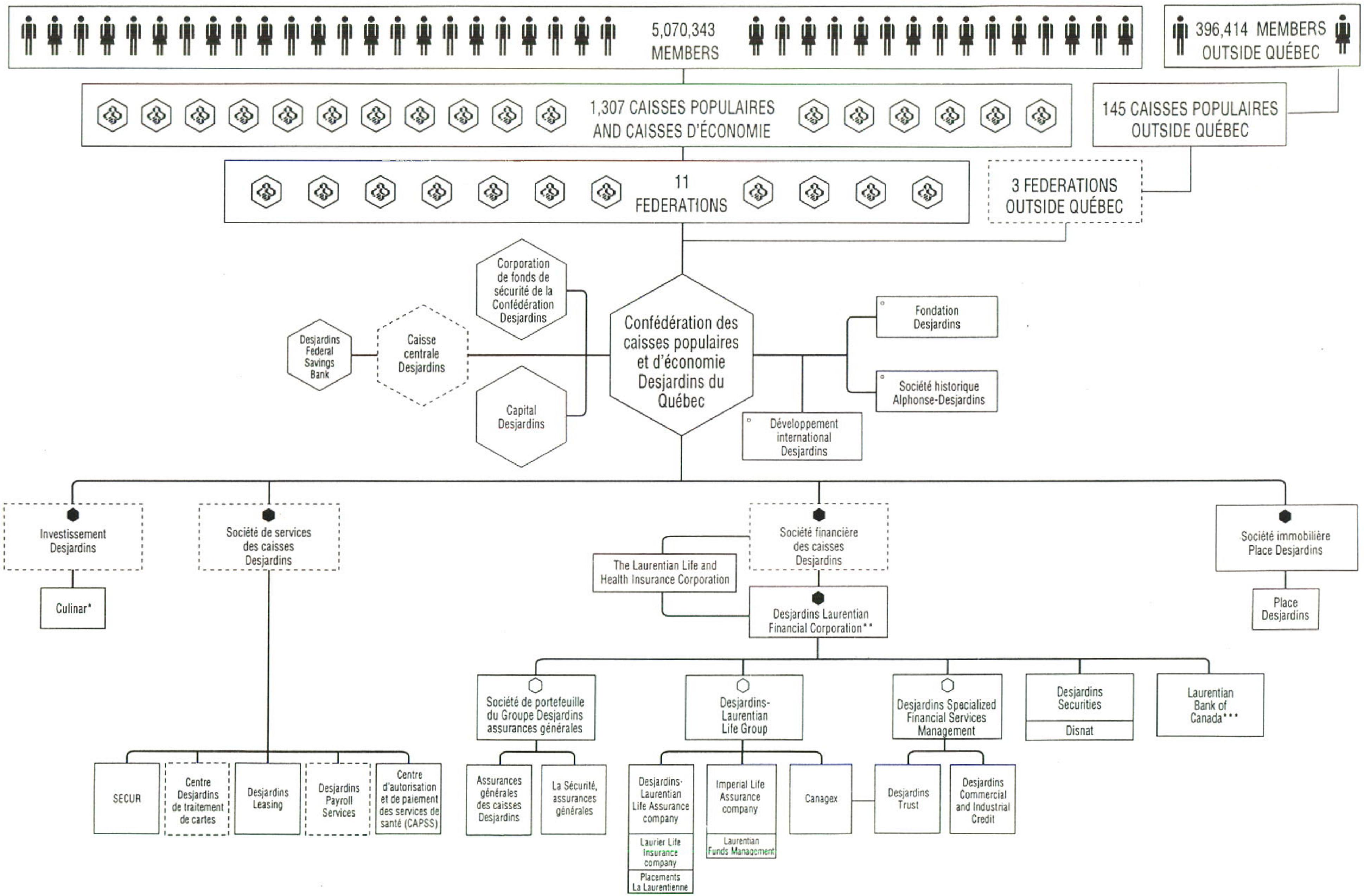
MOUVEMENT DES CAISSES DESJARDINS



December 1996

- - - - - Auxiliary members

○ Corporations linked to the Confédération

⬢ Holding Companies

⬡ Intermediary Holding Companies

* 58 %-owned by Investissement Desjardins

** 78,5 %-owned by Mouvement Desjardins

*** 57.5 %-owned by the Desjardins Laurentian Financial Corporation

Chart does not reflect the legal ownership structure

Rapid-paced changes and advances in communications give rise to new requirements every day. Far from being weary of this, consumers are constantly on the look-out for something new.

The Mouvement des caisses Desjardins is committed to operating in this context. The challenges are immense, but we have what it takes to meet them. Thanks to its caisses and affiliates, Desjardins is Québec's largest financial services network as well as one of Canada's premier financial groups.

From among all the figures that testify to our success, there is one which we are extremely proud of: our five million members. Thank you to members of Desjardins caisses, to our many other clients, and to all the partners who support us!

PHOTOS : ROGER CÔTÉ / MARC ROBITAILLE