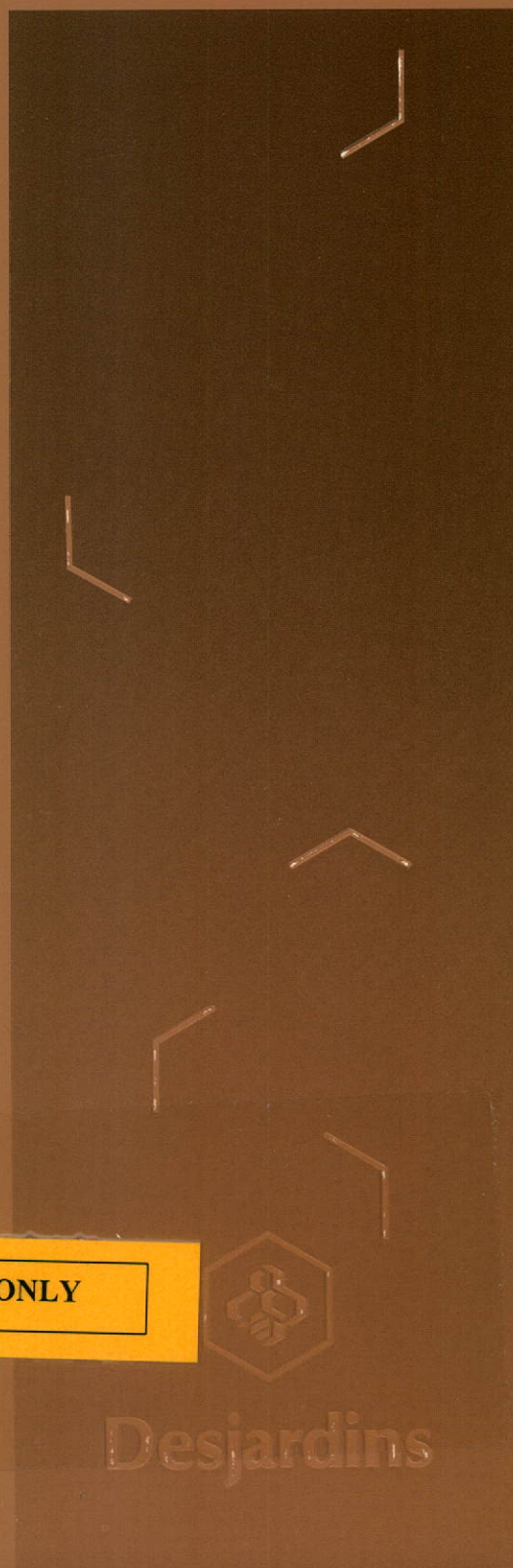




La Caisse centrale  
Desjardins du Québec



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Desjardins







**E**ighty-five years ago, on January 23, 1901, Alphonse Desjardins began financial operations for the first savings and loans cooperative in North America. Over the years, the Desjardins Group evolved into a network of institutions offering a complete range of financial services.

As early as 1918, Commander Desjardins felt concern over the lack of coordination between the various Caisses. From the perceived need to unify this emerging network was born the concept of federation and of a Caisse Centrale.

Although the network was unified, each local entity maintained its autonomy, which remains to this day a major characteristic of the Desjardins Group.

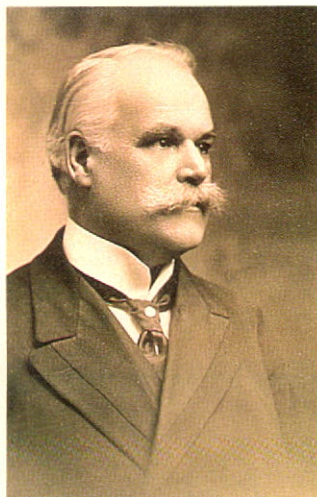
A man of vision, Alphonse Desjardins would surely be proud of the direction which his idea of a Caisse Centrale has taken, thanks to the economic progress of the Desjardins Group.

By sharing its resources and assuming full-fledged membership in a complex and dynamic financial market, our cooperative Group has taken a major, and necessary, step in its development.

No doubt about it: Alphonse Desjardins would approve.



The first Caisse Populaire was located in Alphonse Desjardins' house.



Alphonse Desjardins  
(1854-1920)

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In 1985, the Caisse Centrale completed its fifth full year of operation. Results for the year ending December 31 confirms the outstanding success of this institution of the Desjardins Group. With assets in excess of \$2.246 billion, capital stock of \$409 million and accumulated reserves of more than \$6 million, the Caisse Centrale has carved out an ideal position for itself among the leading financial institutions in Canada.

## Our Objectives

At the end of this fifth year of operations, we feel it would be interesting to look at the objectives that we initially set.

Our first objective was to represent the Desjardins Group in the Canadian clearing and payment system by guaranteeing and assuming the responsibility for settling instruments drawn on all the Desjardins Caisses. In February 1982, the Caisse Centrale became a direct clearing member of the Canadian Payments Association and since September 1983, has guaranteed and settled the clearing operations of the Desjardins Caisses on a daily basis directly with the Bank of Canada. It has also taken on, together with a small group of banks responsibility for managing the accounts of the Receiver General of Canada on behalf of the Desjardins Group.

Our second objective was to ensure the financial security of the Desjardins Group by managing sufficient liquid reserve funds. The necessary steps were taken in the first year of operation and as at December 31, 1985, the Caisse Centrale was managing more than \$1.254 billion in liquid assets consisting mainly of primary reserves including its cash and deposits with the Bank of Canada and secondary reserves in the form of high quality liquid Canadian money market instruments.

Historically, the Desjardins Group's main source of deposits has come from individual depositors and its share of this market now exceeds 38%. However, the Desjardins Group has become so large that it was necessary to diversify its source of funds by seeking institutional deposits at the national and international levels. We also wanted to diversify our asset and income base by granting loans to large companies, governments and Crown corporations throughout Canada. The Caisse Centrale's deposit liabilities as at December 31 were \$1,807 million, of which \$363 million came from governments and more than \$1,185 million from financial institutions and large corporations. In 1985, the Caisse Centrale started up treasury operations on international markets by issuing a total of \$100 million in deposit instruments in Europe and Japan. Loans made directly to governments, financial institutions and large corporations amounted to \$967 million for the year. The Caisse Centrale has extended a large number of loans to the public sector jointly with the Desjardins Group.

Another main objective was to broaden the range and improve the marketing of the Desjardins Group's financial and banking services. The vast Desjardins network provides governments, institutions and large corporations with direct access to individuals in all areas of the Province of Quebec. In more than 550 municipalities in Quebec, the Desjardins Group is the only financial institution to offer banking services. Specialized cash management services are available to members and clients. Computerized account collection systems and direct deposit services already represent a large part of the market for these specialized banking services.

Through the Caisse Centrale, we were able to take part in underwriting and distributing government and other securities.



## **The Challenges**

The Caisse Centrale was able to ensure the implementation of long-time projects. We have taken all the major steps in order to attain our objectives. However, there are still many challenges to be met. Because of its growing involvement in national and international markets, the Caisse Centrale is influenced not only by changes in the economic climate in Quebec and Canada but also abroad. Since our members, financial partners and clients all work in these markets, we must closely monitor trends in deregulating certain financial and industrial sectors and assess their impact on our clients and our operations. We must also pay close attention to the question of free trade between Canada and United States, which, it is to be hoped, will be implemented gradually and carefully.

The number and the diversity of institutions competing on financial markets in Canada has increased considerably in recent years. Very special attention must be paid to analyzing clients' needs and to the quality of services offered since these needs are increasing constantly. The climate of stiff competition that exists means the restructuring of financial services in Canada, changes in legislation and regulations will have a significant impact on our operations and require considerable ability to adapt to the changes as well as sophisticated strategic planning.

Last year I emphasized that the integration of the Caisse Centrale into the Desjardins Group was without doubt the most significant and stimulating aspect of its activities. This integration also represents one of its greatest challenges. The Desjardins Caisses' traditional markets as well as new market sectors that it has developed—small and medium size businesses and government agencies at the provincial and municipal levels—have experienced sustained growth in recent years. The Caisse Centrale must be able to develop and launch new, high quality products and services rapidly in order to enable them to deal effectively with competitors. In addition, other institutions in

the Desjardins Group offer complementary financial services to those of the Desjardins Caisses and the Caisse Centrale. With regard to the restructuring of financial services and the growing competition among financial and parafinancial institutions, the Caisse Centrale intends to play an increasingly larger role as a catalyst.

## **Our Priorities**

The Caisse Centrale must also adopt as its own the priorities that are those of all the financial institutions today: quality of assets, personnel training and productivity, control of non-interest expenses and service to its customers and members.

The success of a company is measured mainly by whether it attains its financial objectives, but it must also be measured according to the satisfaction the employees take in their work. The outstanding success of the Caisse Centrale is above all the result of the skills, the imagination and the enthusiasm of its employees.

In conclusion, I would like to emphasize the devotion of the members of the Board of Directors of the Caisse Centrale and the sustained cooperation of the federations and institutions of the Desjardins Group. Their open-mindedness and vision have allowed the cooperative movement in Quebec to participate in the world of high finance in Canada and abroad.



**Raymond Blais, C.A.**  
Chairman of the Board  
and Chief Executive Officer





The Caisse Centrale's operations continued to grow and diversify in 1985. Total assets for the year grew by more than 26.6%, to \$2.2 billion. Securities increased by 30.9% to \$1.1 billion, while loans grew by 12.7% to \$967 million. The components of these two major assets are analyzed in detail in the financial review that follows.

Diversification continued and is reflected mainly in the sources of income and deposit mix. Although loans represent the main source of the Caisse Centrale's income, other income grew by more than 57%. As the traditional loan market evolves, the importance of fee-based services and other income is on the increase. During 1985, the Caisse Centrale paid specific attention to increasing income from operations not directly related to its assets.

### The Economic Situation

Economic conditions in Canada were characterized by an increase of more than 4% in real Gross National Product in 1985, compared to 5% in 1984. Interest rates declined significantly in 1985 to their lowest level ever in the past 5 years. The prime rate stood at 10% on December 31, a level unheard of since August 1978.

In addition, spreads between short, medium and long term interest rates narrowed, which encouraged investors to look favourably at long term opportunities. This led to a sharp increase in the supply and demand of funds at fixed rates for 5 to 10 year terms.

For the first time in decades, and during a period of otherwise favourable economic conditions, financial institutions were the hardest hit in 1985. This caused investors to become critical in choosing institutions for the purposes of buying debt securities or depositing money.

Because of its superior credit rating and the high level of confidence the Desjardins Group enjoys in the market, the Caisse Centrale was granted the same status as that of the most secure financial institutions in the country and deposits from outside the Desjardins Group increased considerably.

Financial institutions continued their intense competition particularly in the area of financing services to corporations with better quality risks. Pressures remained strong on the spreads between the rates paid on deposit funds and the rates charged on loans. Close coordination of treasury and corporate financing operations enabled us to maintain acceptable spreads and to offer our members and customers high quality services at competitive rates.

### Diversification of Sources of Funds

Through innovation and diversification of its methods and sources of funding, and by managing closely the terms of its assets and liabilities, the Caisse Centrale was able to make its average return on assets less interest-rate sensitive.

The Caisse Centrale has adopted strict policy guidelines with respect to the management of liquid assets and interest rate related risks. It uses the most modern interest rate conversion techniques to minimize risks caused by sudden changes and improve profitability. These techniques also allow for better management of its liquid assets in order to meet the credit needs of its members and clients.

### Corporate Financing

During the year, the Caisse Centrale assumed a larger role in the financing of medium and large Canadian businesses and public sector institutions. This was accomplished by stressing participation in banking syndicates by which it not only shares credit risks with other financial institutions but also has access to their expertise.

The Caisse Centrale has adopted very strict policies with respect to credit



management and control. It should be pointed out that for the fifth consecutive year, the Caisse Centrale has recorded zero loan losses, nor has it to date made any loans to foreign countries that involve risks related to political or economic upheavals in those countries.

#### **Network Services**

Fully aware of its complementary role within the Desjardins Group, the Caisse Centrale launched a financing program at the beginning of 1985 that was specifically directed at small and medium size municipalities in Quebec. This program, which involves the various Desjardins caisses and federations, allows municipalities to borrow money at fixed rates for a maximum of 5 years. These loans are granted directly by the Caisse Centrale or through a local Caisse. A large number of municipalities have taken advantage of this program over the past year.

Services offered through the Desjardins network continued as usual during 1985. In addition to the major services of account collection and direct deposit, the development of international services was emphasized, in particular assuming responsibility for U.S. dollars clearing operations for the Desjardins Group, membership in SWIFT (Society for Worldwide Interbank Financial Telecommunication), international financial telecommunications system, the marketing of money orders in Canadian and American dollars and bank drafts and letters of credit throughout the network of local Caisses. The latter services also entailed setting up a network of correspondents in more than twenty countries around the world.

Expenses associated with issuing securities, the increase in development and the establishment of international services were the main causes of the sharp increase in non-interest expenses in 1985. Cost containment remains, however, one of the Caisse Centrale's major concerns.

#### **Representation in Toronto**

The Caisse Centrale opened an office in Toronto in December 1985 and permanently assigned a senior representative there. The size of our operations on financial markets led to this decision which will have major positive repercussions on the Desjardins Group in the coming years. During 1986, steps will be taken to penetrate the American market. Our aim is to diversify our sources of funds in foreign currencies in order to better meet the needs of our members and customers in Canada. Certain legislative and regulatory changes will, however, be required. Federal and provincial governments are aware of these specific needs and to date have reacted favourably. Quick action on their part will nonetheless be necessary in 1986.

In conclusion, the Caisse Centrale came into being because of the Desjardins Group's desire to set up a strong development unit capable of dealing with the financial giants that dominate the world of finance in Canada and elsewhere. But, over and above the financial strength of the Desjardins Group, what made this desire a reality is to be found in the original manner in which the Caisse Centrale operates, the outstanding skills of its people and the strong backing of its members and customers. A tradition of excellence has been established.



**Bruno Riverin**  
President and  
Chief Operating Officer





*The Caisse Centrale prides itself on providing its clients with direct access to its treasury group. Suzanne Geoffrion, Bernard Leclair and Alfred Pfeiffer are three of our traders.*

Like all major financial institutions, the Caisse Centrale plays a twofold role on money markets. It is active as a borrower, issuing securities, discount notes and deposit certificates on Canadian and international markets. These funds are used to meet the specific requirements of its members and customers, maintain sufficient liquid reserves and generate additional earnings. It is also a very large investor. It invests its liquid assets in high quality Canadian money market instruments.

The interest rate sensitivity of various assets and liabilities is monitored constantly. Matching schedules of loans and deposits are also closely monitored. To the extent that the maturities of interest rates on loans and deposits are matched, the exposure of net interest income to interest rate fluctuations is reduced.

The Treasury and Investment Department thus plays a major role in managing the assets and liabilities of the

Caisse Centrale. It uses every possible technique, including swap operations and foreign exchange operations. The competence of its managers and the size of its operations allow the Caisse Centrale to offer its customers all-inclusive foreign exchange and money market services.

A permanent representative of the Caisse Centrale has been located in Toronto since December 1985, thus ensuring customer services to this market and those in Western Canada.





From left to right, Messrs. Yoshiro Niïro, Hirotsuke Sato, Jean Laflamme and Daniel Leclair. Messrs. Niïro and Sato represent the New York agency of the Norinchukin Bank, Japan's largest cooperative financial institution.

Canterra Energy Ltd. acted as contract operator for a two-well drilling program in the Hudson Bay. The two wells were drilled using the ice-classed drillship Neddrill 2.





The Caisse Centrale is recognized in the world of corporate financing in Canada as a flexible institution capable of innovation to meet the specific needs of customers while reducing formalities and delays to a minimum. The ability and aggressiveness of our Account Managers enable us to offer top quality services. Top priority is given to evaluating the specific needs of each customer accurately. As well, closely coordinated treasury and corporate

financing operations allow us to offer our customers competitive money market services. One of the distinctive characteristics of the Caisse Centrale's treasury services is that customers have direct access to our traders, from whom they can obtain advice and accurate, instantaneous information on market conditions.

The quality and diversification of its loan portfolio are key factors in a financial institution's success and stability. As a result, its customers are certain they will obtain the services that have been promised. The Caisse Centrale has set up very strict rules with respect to risk sharing and amount of loans it grants.

We try to carry out loan operations with at least one other bank or financial institution. The Caisse Centrale is therefore in favour of participating in syndicates made up of several institutions in which the abilities of each contribute to evaluating the risk and setting up the terms and conditions of transactions. The Caisse Centrale limits its loans to individual customers to a maximum of 10% of its capital and reserves.



*The Caisse Centrale plays a complementary role in the Desjardins Group, and is quite proud of it. Here are Messrs. Hubert Lavigueur, Account Manager of the Caisse*

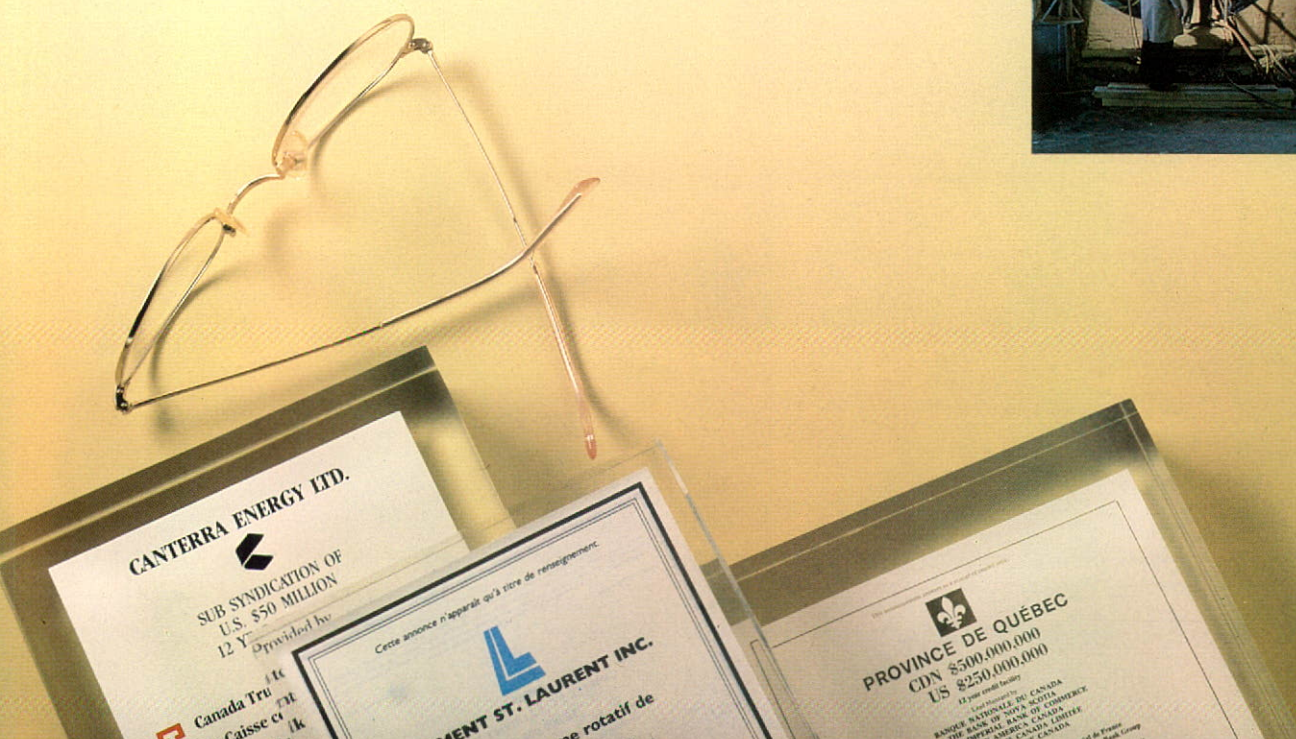
*Centrale, Guy Bernier, President of the Fédération des caisses populaires de Montréal et de l'Ouest-du-Québec, Bruno Riverin, President and Chief Operating Officer of the Caisse Centrale, Guy Dupré, Secretary-Treasurer of the Régie d'assainissement des eaux du bassin de Laprairie, Denis Lavallée, Manager of the Laprairie Caisse. Seated Mrs. Rachel Chartier, Receptionist at the Caisse Centrale.*



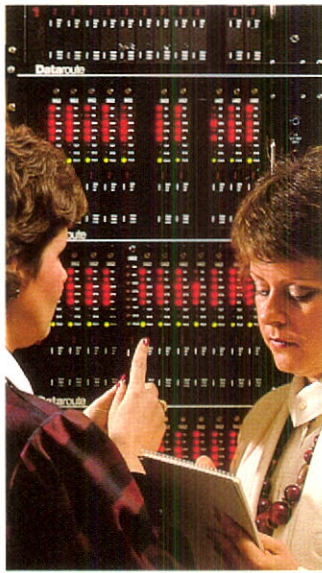


*From left to right, Fernand Lafleur and Josée Larocque in conversation with Guy Turgeon, Vice-President, Finance, Ciment St-Laurent Inc.*

*Ciment St-Laurent Inc. is one of the most dynamic businesses in its field, both in Canada and the United States. Exterior view of an oven at the Beauport cement plant.*







*Network operations require support at the leading edge of technology. Hélène Gaudreau and Sylvie Ouellette use the modem linking the Desjardins Caisses.*

The Desjardins Group represents the largest network of financial institutions in Quebec. This network has extended from New Brunswick to Manitoba since 1984, at which time the Fédération des caisses populaires du Manitoba, the Fédération des caisses populaires de l'Ontario and the Fédération des caisses populaires du Nouveau-Brunswick joined the Caisse Centrale. Computer systems linking the Desjardins Caisses to one another enable each Caisse to operate within the network and ensure the distribution of financial services over a vast area. In the Province of Quebec, the Caisses affiliated with the Desjardins Group have 1,700 service outlets for approximately 4 million members.

The Caisse Centrale offers its customers some of the Desjardins Group's services, specifically the automatic transfer of deposits and computerized account collection. The Operations Department oversees centralized operations ensuring that services function throughout the system. Government bodies and utility companies that have accounts with the Caisse Centrale can thus consolidate a large part of payments made or monies collected by them in the area served by the

Desjardins network. The elimination of transit delays and the accuracy of information made available to them by the Caisse Centrale ensure better cash management.

These two services have resulted in a huge increase in the volume and value of transactions.

In 1985, the Caisse Centrale implemented a certain number of international services for the Desjardins Caisses whereby they can now offer their customers bank drafts, money orders, letters of credit and foreign currency accounts. These services have also enabled us to develop a network of foreign correspondents in more than twenty countries, which adds a new and important dimension to the international profile of the Desjardins network.





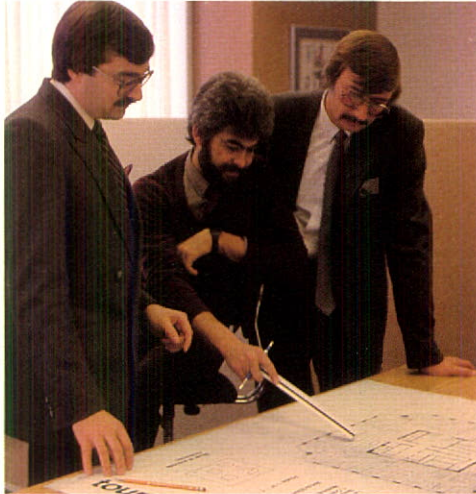
*From left to right, Huu Trung Nguyen and Jean-Guy Langelier of the Caisse Centrale with Messrs. Claude Germain and André Rozon of Hydro-Québec.*

*Natural gas is becoming increasingly important in Quebec's energy equation. The photo shows Gaz Métropolitain's liquefaction plant in Montreal.*





Our operations have grown quite rapidly over the past five years. Heavy demands have been made by the treasury, corporate financing and commercial services on our support services, which must ensure optimum use of resources to help reach corporate objectives.



*From left to right, Raymond Laurin, Henri Royer and René Gouin are studying the improvements planned for the Caisse Centrale's premises in Montreal.*

Recruitment, integration and personnel training are of prime importance. Establishing and maintaining a pleasant working environment in a constantly changing context where customer service is the first priority represent a constant challenge. The Caisse Centrale is making every effort and devoting the financial resources necessary to attain these objectives.

In an industry where regulation abounds in order to protect the interests of shareholders and investors, we must implement administrative systems that ensure the protection as well as the safety, reliability and confidentiality of information. Our computerized systems have been developed to meet these requirements and appropriate controls are in place.

At the Caisse Centrale, management information, control and quality of life within the company are corporate objectives that each and every one must adopt as his own in order that they may be achieved.





*Michel Thérien and Jean-François Couture welcome Yves Grimard, who recently joined the Caisse Centrale.*

*In its forest operations, Domtar uses track-driven tree-fellers. The modernization of its Windsor plant is one of the major investments in Quebec's forest industry. The Caisse Centrale is taking part in the financing.*

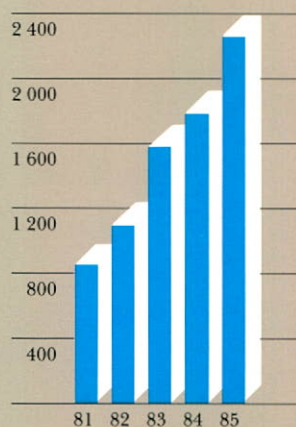




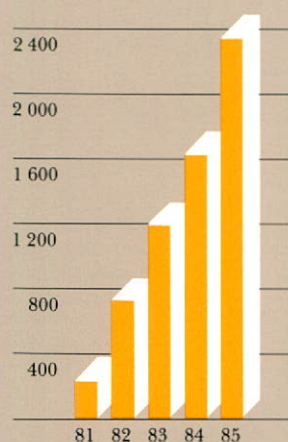
(in thousands of \$)

As at December 31	1981	1982	1983	1984	1985
Total assets	\$ 829,403	\$ 1,074,832	\$ 1,563,457	\$ 1,774,334	\$ 2,246,997
Loans	133,171	218,955	539,150	858,335	967,296
Securities	514,248	830,259	943,347	871,252	1,140,647
Deposits	401,011	634,622	1,088,079	1,336,572	1,807,774
Capital and reserves	316,420	410,373	411,559	413,169	415,530
Total income	24,073	141,265	115,994	170,811	187,700
Income before remuneration of capital stock and other payments to members	12,270	60,597	48,014	49,291	47,154
Net income	220	753	1,184	1,610	2,361

**Total Assets**  
(in millions of \$)



**Net Income**  
(in thousands of \$)





For fiscal 1985, the assets of the Caisse Centrale increased by 26.6% to \$2.2 billion. The major part of this increase was in the securities portfolio—30.9% and the loan portfolio—12.7%. The securities portfolio reached \$1,140.6 million, compared with \$871.2 million at the end of 1984. It consists mainly of high quality money market securities and its size confirms to the Caisse Centrale's role in managing part of the primary liquidities of the Desjardins Caisses and maintaining liquid reserves for its own operations.

The loan portfolio totalled \$967.3 million for the year, compared to \$858.3 million for the previous year. Overall, loans to the public sector showed a slight increase of 4.7% while loans to members and affiliated companies decreased by 1.6%; the bulk of the growth is attributable to loans to companies in the private sector and to banks, which increased from \$355.3 million at the end of 1984 to \$434.2 million as at December 31, 1985, an increase of 22.2%. Growth in the loan portfolio was tightly controlled by a highly selective risk policy in line with specific objectives for risk diversification on a sector and geographic basis.

A more accurate idea of the growth of the Caisse Centrale's operations can be obtained by examining the changes in the average annual volume of assets and its components.

Average annual assets rose from \$1.2 billion in 1983 to \$1.5 billion in 1984 and \$1.9 billion in 1985. The average annual volume of securities increased by only 5.7% in 1985, from \$817 million to \$864 million. Loans recorded a more significant average annual growth of 33.6%, increasing from \$669 million in 1984 to \$894 million in 1985.

Deposit liabilities exceeded \$1.8 billion at year-end compared to \$1.3 billion in 1984, an increase of 35%. Figure 2 shows the breakdown of deposits at year-end. Demand deposits increased significantly from \$220.8 million as at December 31, 1984 to \$430.8 million in 1985. This change is due mainly to Government of Canada deposits, which increased from \$186.7 million in 1984 to \$347.7 million in 1985. Deposits by members and affiliated companies also increased in 1985 from \$230.1 million to \$259.3 million—an increase of 12.6%. The increase in the volume of business was, however, financed mainly by other deposits obtained on financial markets, which increased from \$885.8 million as at December 31, 1984 to \$1,185 million in fiscal 1985, an increase of 33.8%.

The average volume of deposits for fiscal 1985 was \$1.4 billion compared to \$1.1 billion in 1984, an increase of 29.3%.



### Total Assets (in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Average assets	567	997	1,171	1,548	1,873
Securities	514	830	943	871	1,141
Loans	133	219	539	858	967
Subscriptions receivable	93	—	—	—	—
Other assets	89	26	81	45	139
Total	829	1,075	1,563	1,774	2,247

### Deposits at Year End (in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Deposits by Government of Canada	—	131	457	187	348
Deposits by other public organizations	—	25	16	34	16
Deposits by members and Desjardins Group affiliates	264	272	240	230	259
Other deposits	137	207	375	886	1,185
Total	401	635	1,088	1,337	1,808

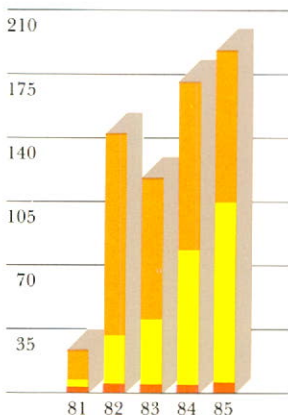
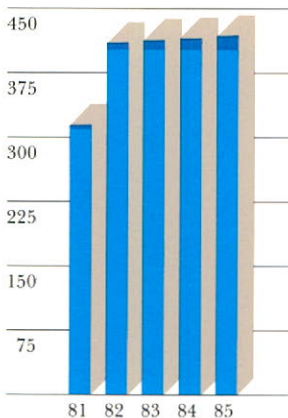
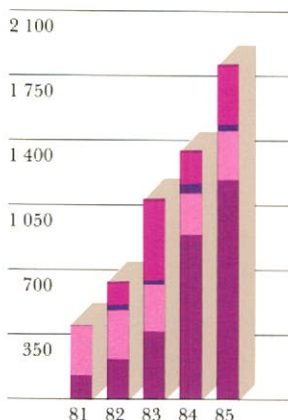
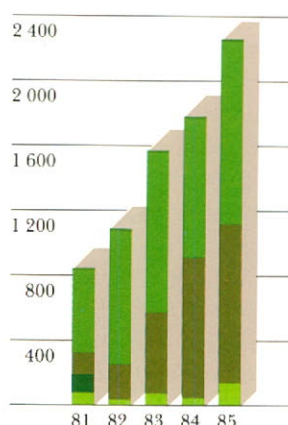
### Capital and Reserve (in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Financial Leverage*	2.03:1	2.62:1	3.80:1	4.29:1	5.40:1
Retained earnings and reserve	0.2	1.0	2.2	3.8	6.1
Paid-up capital	316.2	409.4	409.4	409.4	409.4
Total	316.4	410.4	411.6	413.2	415.5

\* total assets/members' equity

### Total Income (in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Income from securities	21	110	76	93	83
Income from loans	2	29	38	76	102
Other income	1	2	2	2	3
Total	24	141	116	171	188



## Results of Operations

Total income for the year reached a record \$187.7 million, compared to \$170.8 million in 1984. This increase of 9.9% was due mainly to income from loans which increased by 34.1%, from \$75.6 million to \$101.4 million. Income from securities was \$83.0 million, a slight decline compared to the previous year, which is mainly a result of the decrease in interest rates on financial markets in Canada. Other income increased by 57.1%, reaching a healthy \$3.2 million. In interpreting these results, it should be mentioned that income from loan operations is based on the spread between the rates at which the Caisse Centrale obtains funds from its depositors and those at which it lends these funds, as well as on its volume of operations. Income from investment activities depends largely on the extent of changes in interest rates throughout the year. Consequently, a decrease in income from securities can be evidenced by the decline in the rate of 90-day Canadian Treasury Bills, from an average rate of 11.12% in 1984 to 9.49% in 1985.

Loan operations generated 54.0% of total income in 1985, compared to 44.3% in 1984 and 32.8% in 1983. Securities transactions accounted for 44.3% of total income in 1985, compared to 54.5% in 1984 and 65.7% in 1983, while other income increased, in relative terms, each year.

Total income from operations for the year reached \$47.1 million before the remuneration of capital stock, compared to \$49.3 million in 1984. A total of \$44.3 million was allocated to the remuneration of capital stock and other payments to members; this represents an annualized return on investment of 10.9% compared to 11.7% in 1984. Other payments to members include fees paid to members for their joint participation with local Caisses in the services administered by the Caisse Centrale on behalf of the Desjardins Group. These payments amounted to \$1.7 million, compared to \$1.5 million in 1984.

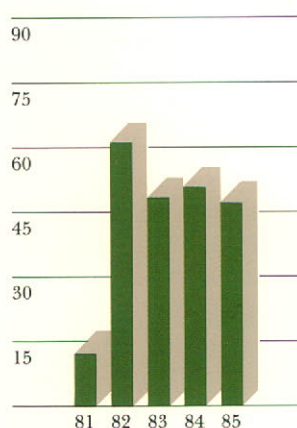


Non-interest expenses were \$9.4 million in 1985, or 0.50% of average assets for the year, compared to 0.51% for 1984. Relatively speaking, therefore, these expenses increased at a lesser rate than assets.

In spite of the high quality of the loan portfolio, we thought it wise to set aside \$1.75 million as provision for loan losses already shown, thus reducing the loan portfolio. To date, no assets have been written off against this provision, which has now reached a cumulative amount of \$3.45 million.

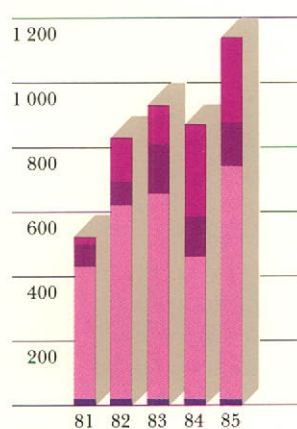
After remuneration of capital stock and other payments to members, net income for the Caisse Centrale was \$2.4 million, an increase of 46.6% over the \$1.6 million earned in 1984. This amount was transferred in its entirety to the general reserve as a provision for contingencies.

Capital stock remained at \$409.4 million while the general reserve rose to \$6.1 million, following a complete transfer from retained earnings for the year. Financial leverage increased to 5.4 as at December 31, 1985, compared to 4.3 in 1984. This ratio is still very low compared to others in the banking industry in Canada and to the maximum ratio of 20 stipulated in the Caisse Centrale's constituting act.



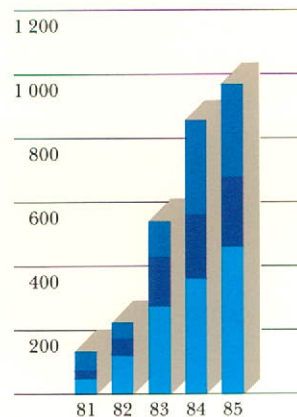
**Income before Remuneration of Capital Stock**  
(in millions of \$)

As at December 31	1981	1982	1983	1984	1985
	12	61	48	49	47



**Composition of the Securities Portfolio**  
(in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Canada	11	135	134	283	260
Provinces	69	73	154	127	137
Other Canadian issuers	433	621	654	460	743
Foreign issuers	1	1	1	1	1
Total	514	830	943	871	1,141



**Breakdown of Loan Portfolio**  
(in millions of \$)

As at December 31	1981	1982	1983	1984	1985
Loans to members and Desjardins Group affiliates	61	41	114	293	288
Loans to public organizations	27	59	146	210	220
Loans to private corporations	45	119	279	355	459
Total	133	219	539	858	967



## Management's Report

Management is responsible for the preparation of the financial statements and related information appearing in this annual report and for ensuring their reliability and accuracy. The statements have been prepared in accordance with generally accepted accounting principles in Canada, and include estimates based on the best judgment of management. Financial information included elsewhere in this annual report is consistent with these financial statements.

The accounting system of the Caisse Centrale and the related internal controls and procedures are designed to ensure the reliability of financial information and, to a reasonable degree, the safeguard of assets against loss or unauthorized use. These procedures include quality standards in hiring and training of employees, an organizational structure with clearly defined lines of responsibility, written policies and procedures, planning and follow-up of projects, budget controls by allocation centers and divisional performance accountability.

The Inspector General of Financial Institutions annually makes an examination of the affairs of Caisse Centrale for the purpose of satisfying himself that the

provisions of the Constituting Act, having reference to the safety of the interests of the depositors, are being duly observed and that the Caisse Centrale is in a sound financial condition.

The Board of Directors has formed an Audit Committee composed solely of non-management directors to review the responsibilities of management with respect to the financial statements and internal controls. The Board of Directors has approved all of the information contained in this annual report.

The external auditors appointed by the general meeting of members, the firms Raymond, Chabot, Martin, Paré et Associés and Touche Ross and Co., have the responsibility of auditing the financial statements in accordance with generally accepted auditing standards and giving an opinion on them. They have prepared a report thereon, which appears herein-after.

### Raymond Blais

Chairman of the Board  
and Chief Executive Officer

### Bruno Riverin

President and  
Chief Operating Officer

## Auditors' Report

To the Members of  
La Caisse centrale Desjardins  
du Québec

We have examined the statement of assets and liabilities of La Caisse centrale Desjardins du Québec as at December 31, 1985 and the statements of income, retained earnings and general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of La Caisse centrale Desjardins du Québec as at December 31, 1985 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 applied on a basis consistent with that of the preceding year.

**Raymond, Chabot, Martin,  
Paré & Associés**  
Chartered Accountants

**Touche Ross & Co.**  
Chartered Accountants

Montreal  
January 20, 1986



# STATEMENT OF ASSETS AND LIABILITIES

As at December 31

	1985	1984
<b>Assets</b>		
<b>Cash Resources</b>		
Cash and deposits with Bank of Canada	\$ 56,737,016	\$ 1,999,016
Cheques and other items in transit, net	58,190,570	22,338,075
	<u>114,927,586</u>	<u>24,337,091</u>
<b>Securities</b> (Note 3)		
Issued or guaranteed by Canada	259,454,836	282,607,899
Issued or guaranteed by provinces and municipal or school corporations	137,318,806	126,853,862
Other securities	743,872,987	461,790,178
	<u>1,140,646,629</u>	<u>871,251,939</u>
<b>Loans</b>		
Day, call and short loans to investment dealers and brokers, secured	25,000,000	—
Other loans (Note 4)	942,296,454	858,335,079
	<u>967,296,454</u>	<u>858,335,079</u>
<b>Other Assets</b>		
Fixed assets, less accumulated depreciation	1,041,285	798,147
Other assets (Note 5)	23,085,074	19,612,232
	<u>24,126,359</u>	<u>20,410,379</u>
	<u>\$ 2,246,997,028</u>	<u>\$ 1,774,334,488</u>
<b>Liabilities</b>		
<b>Deposits</b> (Note 6)		
Payable on demand	\$ 430,822,533	\$ 220,841,739
Payable on a fixed date	1,376,951,221	1,115,729,937
	<u>1,807,773,754</u>	<u>1,336,571,676</u>
<b>Other Liabilities</b>		
Other liabilities (Note 7)	23,692,858	24,593,382
	<u>23,692,858</u>	<u>24,593,382</u>
<b>Capital and reserves</b>		
<b>General Reserve</b>	6,127,416	3,766,430
<b>Capital Stock</b> (Note 8)		
Issued and fully paid: 409,403 shares	409,403,000	409,403,000
<b>Retained Earnings</b> (Note 9)	—	—
	<u>415,530,416</u>	<u>413,169,430</u>
	<u>\$ 2,246,997,028</u>	<u>\$ 1,774,334,488</u>

On behalf of the Board,

**Raymond Blais**  
Director

**Guy Bernier**  
Director



# S STATEMENT OF INCOME

Year Ended December 31

	1985	1984
<b>Interest Income</b>		
Loans	\$ 101,432,272	\$ 75,642,566
Securities	83,039,931	93,114,228
Total interest income	184,472,203	168,756,794
<b>Interest Expense</b>	129,393,442	112,054,098
<b>Net Interest Income</b>	55,078,761	56,702,696
Provision for loan losses	1,750,000	1,500,000
<b>Net Interest Income after Provision for Loan Losses</b>	53,328,761	55,202,696
Other income	3,227,410	2,053,952
<b>Total Interest and Other Income</b>	56,556,171	57,256,648
<b>Non-Interest Expenses</b>		
Salaries	3,444,809	3,046,669
Pension and other staff benefits	578,913	462,193
Premises, equipment and furniture, including amortization of deferred charges	1,913,890	1,881,312
Other expenses	3,464,640	2,575,916
Total non-interest expenses	9,402,252	7,966,090
<b>Income Before Remuneration of Capital Stock</b>	47,153,919	49,290,558
Remuneration of capital stock and other payments to members (Note 10)	44,274,933	47,327,021
<b>Income Before Provision for Deferred Income Taxes</b>	2,878,986	1,963,537
Provision for deferred income taxes	518,000	353,400
<b>Net Income</b>	\$ 2,360,986	\$ 1,610,137

# S STATEMENT OF RETAINED EARNINGS AND GENERAL RESERVE

Year Ended December 31

	1985	1984
<b>Retained Earnings</b>		
Balance at beginning of year	\$ —	\$ —
Net income for the year	2,360,986	1,610,137
Transfer to general reserve	2,360,986	1,610,137
Balance at end of year	\$ —	\$ —
<b>General Reserve</b>		
Balance at beginning of year	\$ 3,766,430	\$ 2,156,293
Transfer from retained earnings	2,360,986	1,610,137
Balance at end of year	\$ 6,127,416	\$ 3,766,430



# S STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31

	1985	1984
<b>Sources of Funds</b>		
Net income	\$ 2,360,986	\$ 1,610,137
Items not affecting funds:		
Provision for loan losses	1,750,000	1,500,000
Depreciation expense	254,361	138,338
Amortization of preliminary expenses	345,996	345,993
Amortization of integrated computer system development costs	178,005	543,137
Deferred income taxes	518,000	353,400
Funds provided from operations	5,407,348	4,491,005
Increase in deposits	471,202,078	248,492,894
Decrease in securities	—	72,095,261
Increase in other liabilities	—	2,625,907
Total Sources of Funds	476,609,426	327,705,067
<b>Applications of Funds</b>		
Increase in securities	269,394,690	—
Increase in loans	110,711,375	320,685,094
Purchase of fixed assets	497,499	438,017
Increase in other assets	3,996,843	1,206,417
Decrease in other liabilities	1,418,524	—
Total Applications of Funds	386,018,931	322,329,528
Cash resources at beginning of year	24,337,091	18,961,552
Increase	90,590,495	5,375,539
Cash resources at end of year	\$ 114,927,586	\$ 24,337,091



## 1. Incorporation

La Caisse centrale Desjardins du Québec was established 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 (S.Q. 1971 c. 80 –

S.Q. 1979 c. 46 and amendments)]. La Caisse centrale Desjardins du Québec is a cooperative institution that is also governed by the Savings and Credit Unions Act of Quebec. Operations began on October 14, 1981.

## 2. Significant Accounting Policies and Principles

### a) Securities

Securities other than those of a foreign issuer are shown at amortized cost. Premiums and discounts are amortized over the terms of the related securities under the straight-line basis. Any permanent impairment in the value of securities is charged to income. Gains and losses on the disposal of securities are included in income when incurred.

Amortization of premiums and discounts, gains or losses incurred on the disposal of securities and adjustments in the value of securities are included in "Interest income from securities" in the statement of income.

Investments in securities of a foreign issuer are shown at cost.

### b) Loans

Loans are stated at their principal value, net of unamortized discounts and less specific and general provisions for estimated losses, as applicable. Accrued interest on loans is included in "Other assets" in the statement of assets and liabilities.

Interest income is recorded on the accrual basis. Loans are placed on a nonaccrual basis whenever (a) there is a doubt regarding the collectibility of principal or interest or (b) when payment of interest is ninety days past due unless management determines that the collectibility of principal and interest is not reasonably

in doubt. Upon classification of a loan to a nonaccrual basis any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, amounts received on nonaccrual loans are recorded as interest income on the date of receipt.

The provision for loan losses for the year is charged to the statement of income. The provision for loan losses is determined as a result of an evaluation of each outstanding loan. La Caisse centrale Desjardins du Québec also provides for a general provision on outstanding loans.

### c) Fixed Assets

Fixed assets are recorded at historical cost and depreciated over their estimated

useful lives in accordance with the following methods and annual rates:

Classes of Fixed Assets	Depreciation Methods	Rates
Office furniture and equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Computer software	Straight-line	20%
Leasehold improvements	Straight-line	4% to 35%

### d) Deferred Charges

The integrated computer system development costs are amortized under the straight-line basis over a ten-year period from the beginning of operations of the various applications.

Preliminary expenses represent operating expenses incurred during the

period of establishment of La Caisse centrale Desjardins du Québec. They are amortized under the straight-line basis over a five-year period beginning October 14, 1981.



e) *Foreign Currency Translation*

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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 monthly at prevailing market rates and the resulting gains and losses are included in "Other Income".

f) *Income Taxes*

La Caisse centrale Desjardins du Québec provides for income taxes using the tax allocation method. Deferred income taxes arise from claiming preliminary expenses and integrated computer system development costs for tax purposes whereas they

are amortized for book purposes over periods of five and ten years respectively. In addition, the tax allowable loan loss provision differs from the amount recorded in the financial statements.

### 3. Securities

	Maturity				1985		1984	
	Within 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Carrying Amount	Market Value	Carrying Amount	Market Value
<b>Securities issued or guaranteed by Canada</b>	\$ 198,515,864	\$56,910,097	\$ 3,533,782	\$ 495,093	\$ 259,454,836	\$ 259,828,437	\$282,607,899	\$283,989,491
Provinces, municipal or school corporations in Canada	136,522,371	650,649	131,034	14,752	137,318,806	137,313,800	126,853,862	127,103,337
<b>Other Securities</b>								
Securities of Canadian issuers								
Banks*	639,827,069	8,063,950	—	—	647,891,019	647,691,523	363,696,298	364,265,223
Associated Corporations	24,969,682	—	—	—	24,969,682	24,965,000	5,012,647	5,013,120
Other issuers**	50,026,570	2,450,008	15,267,927	1,963,455	69,707,960	69,911,066	91,843,897	91,846,736
Shares of a Canadian and a foreign issuer***	—	—	—	1,304,326	1,304,326	1,304,326	1,237,336	1,237,336
<b>Total</b>	<b>\$1,049,861,556</b>	<b>\$68,074,704</b>	<b>\$18,932,743</b>	<b>\$3,777,626</b>	<b>\$1,140,646,629</b>	<b>\$1,141,014,152</b>	<b>\$871,251,939</b>	<b>\$873,455,243</b>

\* Includes all deposits with banks.

\*\* Includes deposits with financial institutions allowed to raise deposits for an amount of \$36,710,830 (1984 – \$42,384,137).

\*\*\* These securities have no stated maturity and include \$200,046 of an associated corporation (1984 – \$200,046).

### 4. Other Loans

	1985	1984
Public and parapublic institutions	\$ 220,152,833	\$ 210,278,860
Banks	8,031,240	500,650
Members	128,582,683	172,281,195
Other associated corporations	159,335,884	120,418,801
Other – private sector	426,193,814	354,855,573
	<b>\$ 942,296,454</b>	<b>\$ 858,335,079</b>

### 5. Other Assets

	1985	1984
Accrued interest	\$ 20,082,690	\$ 16,607,937
Integrated computer system development costs, less amortization	985,876	1,647,744
Preliminary expenses, less amortization	274,623	620,619
Other assets	1,741,885	735,932
	<b>\$ 23,085,074</b>	<b>\$ 19,612,232</b>



## 6. Deposits

	1985	1984
Canada	\$ 347,693,000	\$ 186,713,312
Provinces	16,096,171	34,010,493
Banks	159,216,420	97,960,696
Members – for clearing purposes	60,903,753	22,955,510
– for other purposes	160,943,712	192,534,439
Other associated corporations	37,481,848	14,571,124
Other deposits	1,025,438,850	787,826,102
	<u>\$ 1,807,773,754</u>	<u>\$ 1,336,571,676</u>

## 7. Other Liabilities

	1985	1984
Remuneration of capital stock payable	\$ 7,959,306	\$ 11,539,258
Accrued interest	12,113,794	10,549,008
Other liabilities	2,248,358	1,651,716
Deferred income taxes	1,371,400	853,400
	<u>\$ 23,692,858</u>	<u>\$ 24,593,382</u>

## 8. Capital Stock

The capital stock of La Caisse centrale Desjardins du Québec is composed of the shares subscribed for by its members. The value of each share is \$1,000 and no share can be issued without having been fully paid for.

La Caisse centrale Desjardins du Québec may redeem the shares held by a member applying therefor. Such a redemp-

tion shall be made at par value but must not leave La Caisse centrale Desjardins du Québec with insufficient capital stock to meet its requirements. La Caisse centrale Desjardins du Québec cannot redeem more than 10% of its capital stock during the same financial year. No redemption can be made if it would result in reducing the capital stock to less than \$25,000,000.

## 9. Retained Earnings

The directors of La Caisse centrale Desjardins du Québec have approved the transfer of the full amount of retained

earnings as at December 31, 1985 to the general reserve as a provision for contingencies.

## 10. Remuneration of Capital Stock

The act incorporating La Caisse centrale Desjardins du Québec stipulates that the Board of Directors can declare interest on the capital stock; it then fixes the date of payment. It cannot declare or

pay interest on capital stock if this would render La Caisse centrale Desjardins du Québec insolvent or decrease the paid-up capital stock.

## 11. Commitments and Letters of Guarantee

La Caisse centrale Desjardins du Québec guarantees the payment of the debts of clients. Such amounts, not

reflected in the statement of assets and liabilities, are as follows:

	1985	1984
Commitments	\$ 50,000	\$ 7,000,000
Letters of guarantee for members	192,177	—
	<u>\$ 242,177</u>	<u>\$ 7,000,000</u>



## 12. Other Related Party Transactions

Transactions with members and other associated corporations of the Desjardins Group are concluded on terms similar to

those with unrelated parties. Loans to members are fully guaranteed.

	1985	1984
Cheques and other items in transit, debit balance	\$ 1,950,616	\$ 6,933,033
Other assets	7,143,458	8,280,957
Other liabilities	9,819,469	14,701,614
Interest income	33,072,627	24,649,570
Interest expense	12,698,799	21,935,012
Remuneration of capital stock and other payments to members	44,274,933	47,327,021
Other income	665,891	874,757

## 13. Long-Term Leases

La Caisse centrale Desjardins du Québec is committed under long-term leases expiring up to April 30, 2005 to pay total basic rent of \$5,779,683 for office space. The annual rental payments for the

next five years are as follows:

1986 – \$313,226;	1989 – \$333,948;
1987 – \$338,108;	1990 – \$333,948.
1988 – \$334,988;	

## 14. Pension Plan

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

An actuarial valuation of the pension plan is performed at least every three

years. As at January 1, 1985, the date of the latest valuation, the pension plan was fully funded.

The total pension expense, arising from employer contributions, aggregated \$268,093 for the year ended December 31, 1985 (1984 – \$240,923).

## 15. Contingency

In 1981, La Caisse centrale Desjardins du Québec acquired 1.5% of the capital stock of a foreign bank. At the time of this acquisition, La Caisse centrale Desjardins du Québec agreed by way of a support

letter to assume, in proportion to its equity, certain obligations in accordance with the Bank of England's requirements for foreign-owned banks in Great Britain.

## 16. Segmented Information

La Caisse centrale Desjardins du Québec has a dominant industry segment consisting of deriving income from

interest on loans and securities and other related activities in Canada.

## 17. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.





**Chairman of the Board**  
**Raymond Blais**  
(1986) President, La Confédération des caisses populaires et d'économie Desjardins du Québec



**Vice-Chairman of the Board**  
**Guy Bernier**  
(1988) President, Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec



**Secretary of the Board**  
**Jean-Marie Ouellet**  
(1988) President, Fédération des caisses populaires Desjardins de Québec



**Claude Béland**  
(1986) Senior Vice-President and General Manager, Fédération des caisses d'économie Desjardins du Québec



**Jean-Eudes Bergeron**  
(1986) Senior Vice-President and General Manager, Fédération des caisses populaires Desjardins du Saguenay-Lac Saint-Jean



**Jacques Bertrand**  
(1988) Senior Vice-President and General Manager, Fédération des caisses populaires Desjardins de Québec



**Paul-R. Charbonneau**  
(1986) General Manager, Fédération des caisses populaires Desjardins de Lanaudière



**Raymond Comtois**  
(1987) Senior Vice-President and General Manager, Fédération des caisses populaires Desjardins de l'Estrie



**Denis Frenière**  
(1987) President and General Manager, Fédération des caisses populaires Desjardins de Richelieu-Yamaska



**A. Hervé Hébert**  
(1988) President, Quebec Trust



**Wesley Hogg**  
(1987) Senior Vice-President and General Manager, Fédération des caisses populaires Desjardins du Bas Saint-Laurent



**François Richard**  
(1987) Senior Vice-President and General Manager, Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec



**Henri-Paul Trudel**  
(1988) President, Fédération des caisses populaires Desjardins du centre du Québec



**Associate Director**  
**René Croteau**  
Assistant to the President, Affiliate Relations, La Confédération des caisses populaires et d'économie Desjardins du Québec

## Committees of the Board of Directors

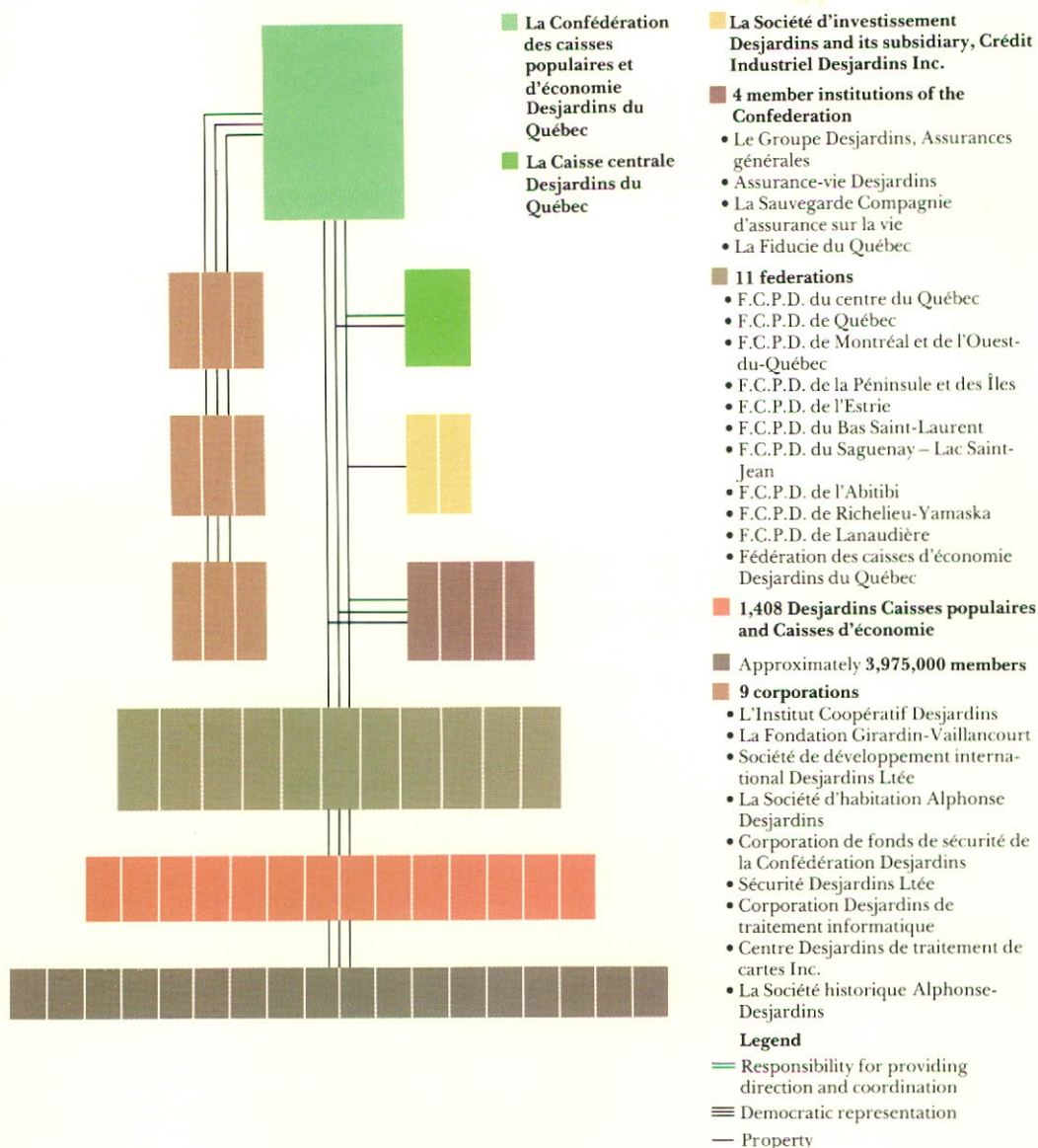
An executive committee and an audit committee assist the Board of Directors in discharging its responsibilities.

The *Executive Committee* may act on behalf of the Board, except for matters reserved to the Board under the constituting act and major corporate matters such as general policies, planning and budget. It authorizes loans and reviews various operational matters. All actions taken by the Committee must be reported at the Board's next meeting. The members of the Executive Committee are: Messrs. Raymond Blais, Chairman, Claude Béland, Guy Bernier, Jacques Bertrand and Denis Frenière.

The *Audit Committee* assists the Board in discharging its responsibilities concerning the financial information released by the Caisse Centrale, the results of the audit of the external auditors, and compliance with legal and regulatory requirements. The Committee reports its findings and conclusions to the Board. The members of the Audit Committee are: Messrs. François Richard, Chairman, Paul-R. Charbonneau and Raymond Comtois.

Note: at of December 31, 1985, two seats on the Board of Directors were vacant.





## GROWTH OF THE CAISSES, THE FEDERATIONS AND THE CAISSE CENTRALE

### Combined position (in millions of dollars)

As at December 31	1981	1982	1983	1984	1985
Total assets	\$13,264	\$15,772	\$17,658	\$19,877	\$22,532
Deposits	11,941	14,306	16,179	18,204	20,647
Loans	9,405	10,780	13,266	15,546	17,780
Securities	2,823	3,909	3,199	3,176	3,504
Caisse membership (in thousands)*	4,500	4,800	4,950	5,014	5,142
Number of service outlets	1,673	1,735	1,743	1,761	1,766

\* A person may be a member of more than one Caisse; it is estimated that the actual number of persons with at least one Caisse membership is about 4 million.  
Source: La Confédération des caisses populaires et d'économie Desjardins du Québec.



Executive Officers	Officers	General information
Chairman of the Board and Chief Executive Officer <b>Raymond Blais</b>	Assistant Vice-Presidents <b>Jean Longpré</b> <b>Jacques Luys</b> <b>Kenneth G. Spurling</b> (Toronto)	<b>Head Office</b> 100, avenue des Commandeurs Lévis, Quebec G6V 7N5
President and Chief Operating Officer <b>Bruno Riverin</b>	Managers <b>Guy Choinière</b> <b>Jean-François Couture</b> <b>Robert S. Filion</b> <b>Jean Héon</b> <b>J. Michel Lanouette</b> <b>Mario Lavoie</b> <b>Huu Trung Nguyen</b> <b>Alfred Pfeiffer</b>	<b>Executive Offices</b> 1, Complexe Desjardins South Tower – Suite 2822 Montreal, Quebec H5B 1B3 Telephone: (514) 281-7070 Telex: 055-61688
Senior Vice-President Finance and Systems <b>Jean Laflamme</b>		150 King Street West Suite 1502 Toronto, Canada M5H 1J9 Telephone: (416) 599-9301
Senior Vice-President Planning, Development and Administration <b>Michel Thérien</b>		
Vice-President Corporate Financing and Marketing <b>Fernand Lafleur</b>	Controller <b>René Gouin</b>	<b>Auditors</b> Raymond, Chabot, Martin, Paré & Associés Montreal, Quebec
Vice-President Operations and Banking Services <b>Jean-Guy Langelier</b>		Touche Ross & Co Montreal, Quebec
Vice-President Control and Administration <b>Raymond Laurin</b>		<b>Registrar</b> Quebec Trust Montreal, Quebec
Vice-President Treasury and Investment <b>Daniel Leclair</b>		<b>Issuing and Paying Agent, Transfer Agent</b> The Royal Bank of Canada: Quebec City, Vancouver, Calgary, Edmonton, Winnipeg, Toronto and Halifax
		<b>Securities Brokers</b> Merrill Lynch Canada Incorporated Wood Gundy Ltd. Burns Fry Ltd. Dominion Securities Pitfield Ltd. Lévesque, Beaubien Inc. McLeod Young Weir Ltd.
		<b>Prospectus</b> A copy of the Canadian Prospectus of the Caisse Centrale may be obtained through the Caisse Centrale or its brokers.

La Caisse centrale Desjardins du Québec is a direct clearing member of the Canadian Payments Association.  
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