





# Serving the COMMUNITY

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# CAISSE CENTRALE DESJARDINS

1994 ANNUAL REPORT





# MANAGEMENT'S MESSAGE

Business conditions in Canada improved significantly in 1994. Led by exports and business investments, the economy expanded at a healthy rate with very little inflation and reduced government spending. Employment increased at a robust pace. However, household debt levels remained high.

Net consolidated income was \$17.4 million, an increase of \$2.4 million or 16% over last year. With considerable efforts dedicated to manage the non-performing and high risk loans, we reduced costs of non-performing assets and lowered the provision for loan losses. However, the 1994 results were negatively impacted by the replacement of certain derivatives instruments caused by the bankruptcy of Confederation Treasury Services Ltd, the decrease in value of certain securities and a decline of average outstanding loans to the private sector.

Loan loss provision charged to the income statement was \$20 million compared to \$24 million last year. Throughout the year, we minimized losses through sound management of non-performing loans. Non-performing loans, net of provisions, were \$6.3 million at year-end 1994 compared to \$27.4 million in 1993 down \$21.1 million or 77%. The coverage ratio was 88% compared to 78% last year. Finally, net non-performing loans as a percentage of members' equity is only 1.4% (1993: 6.2%). These two ratios are better than those of the major banks in Canada which were respectively 50% and 26% as at October 31, 1994.

As at December 31, 1994, total assets stood at \$5.4 billion (1993: \$5.7 billion). The decrease is mainly due to loans to the federations and to the private sector.

At year-end 1994, the securities portfolio stood at \$1,300 million compared to \$1,108 million last year and represented 24% of total assets (1993: 20%). It is to be noted that close to 91% of the portfolio comprised securities issued or guaranteed by the Government of Canada or the provinces, public and parapublic corporations, as well as Canadian banks. Furthermore Caisse centrale maintained liquidities, \$541 million on average, in excess of regulatory requirements. This high level of liquidities was maintained to face potential cash requirements and allows Caisse centrale to honour its financial obligations while providing the flexibility needed to take advantage of available opportunities.

At year-end 1994, the loan portfolio stood at \$4 billion (1993: \$4.5 billion). Growth of deposits raised by the network and higher liquid assets caused loans to federations to decrease by \$265 million to reach \$2 billion (1993: \$2.3 billion). However, loans to associated corporations in the amount of \$800 million increased by \$152 million. Loans to public and parapublic institutions were \$295 million compared to \$364 million last year. This decrease is due to a greater usage of the option Publi-privilège by public corporations, average use of which reached \$205 million in 1994, up 73% from 1993 and from the fierce competition of financial institutions.

While continuing our development towards mid-sized businesses, in conjunction with the caisses, we have strictly followed our credit risk management policies and reduced our level of participation in banking syndicates. Therefore, loans to the private sector have decreased by \$257 million compared to last year and stood at \$854 million as at December 31, 1994.

Caisse centrale is currently managing the productive loan portfolio of Credit Industriel Desjardins. This allows Caisse centrale to consolidate its offering of services answering the specific needs of the medium-sized corporations.

At the end of 1994, outstanding deposits and subordinated debenture totalled \$4.8 billion (1993: \$5.1 billion). Deposits and subordinated debentures issued on the international markets accounted for 70% (1993: 50%) or \$3,361 million of which \$1,346 million from public issues, \$297 million from private issues, \$819 million through European mid-term program, \$737 million of short-term commercial paper and \$162 million of bank deposits. In 1994, we raised the limits of our European medium-term note program and of the two short-term programs in Europe and United States.

This diversification of sources of funds was realized at favourable conditions thanks to the high credit ratings attributed to Caisse centrale by the Canadian and American rating agencies. Despite the additional requirements of the agencies the credit ratings of Caisse centrale remained unchanged for a seventh consecutive year thereby proving the quality of assets and results of the Desjardins Group. Moreover, the ratings are complemented by the equity maintenance agreement agreed upon by the federations and available stand-by lines of credit in the amount of US\$250 million.

On the international front, Desjardins Federal Savings Bank (DFSB), the first financial institution of the Desjardins Group outside Canada maintained its popularity with Desjardins' members residing or vacationning in Florida. This subsidiary, wholly owned by Caisse centrale, offers a full range of services and products.

Caisse centrale continued to expand its network of correspondents with over 475 banks in 76 countries. Through the years, Caisse centrale concluded agreements with major international banks such as US Central Credit Union and DG Bank. In 1994, Caisse centrale concluded two additional agreements with Banco popular Espanol of Spain and Nacional Financiera of Mexico which will permit to extend our partnerships around the world and to mutually enlarge our banking payment network and/or exchange clients.

Caisse centrale pursued the development of a computerized international payment transfer system in collaboration with ten european bank partners. The system allows federations, caisses or corporations members of the network to initiate direct international transfer of funds at a better cost than the present ones.

Considering the 1995 economical and political situations, our strategies will be to cautiously manage our risks while continuing to develop the market of the medium-sized corporations and enhance our services.

Jean-Guy Langelier

President and Chief Executive Officer

Claude Béland

Chairman of the Board

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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, the safeguard of assets against loss or unauthorized use. These procedures include quality standards in hiring and training employees, an organizational structure with clearly defined lines of responsibility, written and updated policies and procedures, planning and follow-up of projects, budget controls by cost centres and divisional performance accountability. The internal control procedures are supplemented by regular independent reviews of Caisse centrale Desjardins' major areas of operations. In addition, in the course of his duties, the Internal Auditor may confer at any time with the Board of Directors' Audit Committee. Composed entirely of Directors who are neither officers nor employees of Caisse centrale Desjardins, this Committee ensures that management has fulfilled its responsibilities with respect to financial information and the application of internal controls. During 1994, the Committee met five times.

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

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

President and Chief Executive Officer

Jean-Guy Langelier

Montreal, February 8, 1995 Chairman of the Board

Claude Béland

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# **AUDITORS' REPORT**

To the Members of Caisse centrale Desjardins

We have audited the consolidated balance sheets of Caisse centrale Desjardins as at December 31, 1994 and 1993 and the consolidated statements of income, retained earnings and general reserve and changes in financial position for the years then ended. These financial statements are the responsibility of Caisse centrale Desjardins' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Caisse centrale Desjardins as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

General Partnership
Chartered Accountants

General Partnership Chartered Accountants

Montreal, February 8, 1995

# CONSOLIDATED BALANCE SHEETS as at December 31

(in thousands of dollars)	1994	1993		
ASSETS				
Cash Resources				
Cash and deposits with Bank of Canada	\$40,789	\$ 10,212		
Securities (note 3)				
Issued or guaranteed by Canada Issued or guaranteed by provinces and	373,105	367,014		
municipal, public or school corporations	745,443	553,787		
Other securities	182,006	187,204		
1 acceptance	1,300,554	1,108,005		
Loans				
Day, call and short loans to investment dealers and brokers, secured		22.2.2		
Other loans (notes 4 and 5)	4 000 505	8,000		
Other loans (notes 4 and 5)	4,008,565	4,448,300		
Other	<u>4,008,565</u>	4,456,300		
Fixed assets, less accumulated depreciation	1,723	2,081		
Other assets (note 6)	76,848	74,367		
	78,571	76,448		
	\$5,428,479	\$5,650,965		
LIABILITIES  Deposits (note 7) Payable on demand Payable on a fixed date  Other Liabilities	\$ 210,587 <u>4,552,852</u> <u>4,763,439</u>	\$ 236,209 4,801,087 5,037,296		
Cheques and other items in transit, net	8,236	10,499		
Other liabilities (note 8)	<u>145,752</u>	102,815		
	<u> 153,988</u>	113,314		
Subordinated Debentures (note 9)	66,991	55,960		
MEMBERS' EQUITY Capital Stock Issued (note 10)				
409,403 shares	409,403	409,403		
Retained Earnings (note 11)	5,718	6,052		
General Reserve	28,940	28,940		
	<u>444,061</u> \$ <u>5,428,479</u>	444,395		
On behalf of the Board,	\$ <u>0,420,479</u>	\$ <u>5,650,965</u>		
[lunde Betann)				
Director				

Director

Director



# CONSOLIDATED STATEMENTS OF INCOME for the years ended December 31

Service charges on checking and deposit accounts			
Securities   \$295,984   \$319,835   \$319,835   \$319,835   \$319,835   \$77,763   \$77,192   \$77,763   \$77,192   \$373,747   \$397,031   \$373,747   \$397,031   \$322,944   \$346,494	(in thousands of dollars)	1994	1993
Securities   \$295,984   \$319,835   \$319,835   \$319,835   \$319,835   \$77,763   \$77,192   \$77,763   \$77,192   \$373,747   \$397,031   \$373,747   \$397,031   \$322,944   \$346,494	Interest Income		
Securities		\$295,984	\$319,839
Interest Expense 322,944 346,494 Net Interest Income 50,803 50,537 Provision for loan losses 20,067 24,067 Net Interest Income After Provision for Loan Losses 30,736 26,470 Other income After Provision for Loan Losses 30,736 26,470 Other income Service charges on checking and deposit accounts 10,223 10,437 Credit fees 469 926 Foreign exchange revenue 866 1,029 Other 1,488 1,581 13,046 13,973 43,782 40,443 Non-Interest Expenses Salaries and benefits 10,680 10,667 Premises, equipment and furniture, including depreciation Other 5,107 4,834 70,291 Not Income Before Income Taxes 23,023 20,152 Income taxes (note 13) 5,629 5,146 Net Income STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31 (in thousands of dollars) 1994 1993  Retained Earnings Balance at beginning of year \$6,052 \$		77,763	77,192
Net Interest Income   50,803   50,537			397,031
Net Interest Income   50,803   50,537	Interest Expense	322,944	346,494
Provision for loan losses   20,067   24,067     Net Interest Income After Provision for Loan Losses   30,736   26,470     Other income   Service charges on checking and deposit accounts   10,223   10,437     Credit fees   469   926     Foreign exchange revenue   866   1,029     Other   1,488   1,581     13,046   13,973     43,782   40,443     Non-Interest Expenses   31,046     Salaries and benefits   10,680   10,607     Premises, equipment and furniture, including depreciation   4,972   4,850     Other   20,759   20,291     Net Income Before Income Taxes   23,023   20,152     Income taxes (note 13)   5,629   5,146     Net Income Statements OF RETAINED EARNINGS     AND Income taxes (note 13)   1994   1993     CONSOLIDATED STATEMENTS OF RETAINED EARNINGS   AND GENERAL RESERVE     For the years ended December 31     (in thousands of dollars)   1994   1993     Retained Earnings   8   1994   15,006     Remuneration of capital stock and other payments to members   (21,822)   (11,026)     Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)   4,094   2,072     Balance at end of year (note 11)   5,718   6,052     General Reserve   17,738   5,718   6,052     General Reserve		50,803	50,537
Net Interest Income After Provision for Loan Losses   30,736   26,470		20,067	24,067
Other income         30,736         26,470           Other income         Service charges on checking and deposit accounts         10,223         10,437           Credit fees         469         926           Foreign exchange revenue         866         1,029           Other         1,488         1,581           13,046         13,973         40,443           Non-Interest Expenses         30,607         40,443           Non-Interest Expenses         10,680         10,607           Salaries and benefits         10,680         10,607           Premises, equipment and furniture, including depreciation         4,972         4,850           Other         5,107         4,834           20,759         20,291           Net Income Before Income Taxes         23,023         20,152           Income taxes (note 13)         5,629         5,146           Net Income         \$ 17,394         \$ 15,006           CONSOLIDATED STATEMENTS OF RETAINED EARNINGS         AND GENERAL RESERVE for the years ended December 31         1994         1993           Retained Earnings         8alance at beginning of year         \$ 6,052         \$           Net income for the year         17,394         15,006           Remuner		ALC: ALC: A	
Service charges on checking and deposit accounts		30,736	26,470
Credit fees         469         926           Foreign exchange revenue         866         1,029           Other         1,488         1,581           13,046         13,973         43,782         40,443           Non-Interest Expenses         3         43,782         40,443           Non-Interest Expenses         10,680         10,607           Salaries and benefits         10,680         10,607           Premises, equipment and furniture, including depreciation         4,972         4,850           Other         5,107         4,834           20,759         20,291           Net Income Before Income Taxes         23,023         20,152           Income taxes (note 13)         5,629         5,146           Net Income         \$ 17,394         \$ 15,006           CONSOLIDATED STATEMENTS OF RETAINED EARNINGS         3         15,006           CONSOLIDATED STATEMENTS OF RETAINED EARNINGS         3         1994         1993           Retained Earnings         8         17,394         1993           Retained Earnings         8         17,394         15,006           Remuneration of capital stock and other payments to members         (21,822)         (11,026)           Recovery of income	Other income		
Foreign exchange revenue 866 1,029 Other 1,488 1,581 13,046 13,973 43,782 40,443  Non-Interest Expenses Salaries and benefits 10,680 10,607 Premises, equipment and furniture, including depreciation 4,972 4,850 Other 5,107 4,834 20,759 20,291  Net Income Before Income Taxes 23,023 20,152 Income taxes (note 13) 5,629 5,146 Net Income  * 17,394 \$ 15,006  CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31  (in thousands of dollars) 1994 1993  Retained Earnings Balance at beginning of year \$6,052 \$ Net income for the year \$7,394 15,006  Remuneration of capital stock and other payments to members (21,822) (11,026) Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) 4,094 2,072 Balance at end of year (note 11) \$ 5,718 \$ 6,052  General Reserve	Service charges on checking and deposit accounts		
Other	Credit fees		
Other         1,488   1,581   13,046   13,973   40,443         13,046   13,973   40,443           Non-Interest Expenses         343,782   40,443         40,443           Salaries and benefits         10,680   10,607   4,850   5,107   4,834   20,759   20,291         4,834   20,759   20,291           Net Income Before Income Taxes         23,023   20,152   10,006         20,759   5,629   5,146   10,006           Net Income taxes (note 13)         5,629   5,146   15,006           CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31         1994   1993           Retained Earnings         17,394   15,006           Retained Earnings         \$ 6,052   \$	Foreign exchange revenue		
Non-Interest Expenses   Salaries and benefits   10,680   10,607	Other		
Non-Interest Expenses   Salaries and benefits   10,680   10,607			
Salaries and benefits       10,680       10,607         Premises, equipment and furniture, including depreciation       4,972       4,850         Other       5,107       4,834         20,759       20,291         Net Income Before Income Taxes       23,023       20,152         Income taxes (note 13)       5,629       5,146         Net Income       \$ 17,394       \$ 15,006         CONSOLIDATED STATEMENTS OF RETAINED EARNINGS       AND GENERAL RESERVE         for the years ended December 31       1994       1993         Retained Earnings       Balance at beginning of year       \$ 6,052       \$         Net income for the year       17,394       15,006         Remuneration of capital stock and other payments to members       (21,822)       (11,026)         Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)       4,094       2,072         Balance at end of year (note 11)       \$ 5,718       \$ 6,052         General Reserve		43,782	40,443
Premises, equipment and furniture, including depreciation Other  Premises, equipment and furniture, including depreciation Other  Premises, equipment and furniture, including depreciation  \$	Non-Interest Expenses		
Other         5,107 (20,759)         4,834 (20,759)           Net Income Before Income Taxes         23,023 (20,152)         20,152 (5,629)         5,146 (5,629)         5,146 (5,146)           Net Income         \$ 17,394 (5,150)         \$ 15,006           CONSOLIDATED STATEMENTS OF RETAINED EARNINGS         AND GENERAL RESERVE for the years ended December 31         1994 (1993)           Retained Earnings         Balance at beginning of year (17,394)         \$ 6,052 (17,394)         \$	Salaries and benefits		
Net Income Before Income Taxes   23,023   20,152	Premises, equipment and furniture, including depreciation		
Net Income Before Income Taxes   23,023   20,152     Income taxes (note 13)   5,629   5,146     Net Income   \$ 17,394   \$ 15,006     CONSOLIDATED STATEMENTS OF RETAINED EARNINGS     AND GENERAL RESERVE     for the years ended December 31     (in thousands of dollars)   1994   1993     Retained Earnings     Balance at beginning of year   \$ 6,052   \$	Other		
Income taxes (note 13)  Net Income  \$ 5,629		20,759	20,291
Income taxes (note 13)  Net Income  \$ 5,629	Net Income Before Income Taxes	23,023	20,152
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND GENERAL RESERVE for the years ended December 31  (in thousands of dollars)  Retained Earnings Balance at beginning of year Net income for the year Remuneration of capital stock and other payments to members Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) Balance at end of year (note 11)  Seneral Reserve		5,629	5,146
AND GENERAL RESERVE for the years ended December 31  (in thousands of dollars)  Retained Earnings  Balance at beginning of year  Net income for the year  Remuneration of capital stock and other payments to members  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  General Reserve		\$ 17,394	\$ <u>15,006</u>
for the years ended December 31  (in thousands of dollars)  Retained Earnings  Balance at beginning of year  Net income for the year  Net income for the year  Remuneration of capital stock and other payments to members  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  General Reserve	CONSOLIDATED STATEMENTS OF RETAINED EARNINGS		
Retained Earnings  Balance at beginning of year \$ 6,052 \$  Net income for the year 17,394 15,006  Remuneration of capital stock and other payments to members (21,822) (11,026)  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) 4,094 2,072  Balance at end of year (note 11) \$ 5,718 \$ 6,052	AND GENERAL RESERVE for the years ended December 31		
Balance at beginning of year \$ 6,052 \$ Net income for the year 17,394 15,006 Remuneration of capital stock and other payments to members (21,822) (11,026) Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) 4,094 2,072 Balance at end of year (note 11) \$ 5,718 \$ 6,052	(in thousands of dollars)	1994	1993
Balance at beginning of year \$ 6,052 \$ Net income for the year 17,394 15,006 Remuneration of capital stock and other payments to members (21,822) (11,026) Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) 4,094 2,072 Balance at end of year (note 11) \$ 5,718 \$ 6,052	Retained Farnings		
Net income for the year  Remuneration of capital stock and other payments to members  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  17,394  (21,822)  (11,026)  4,094  2,072  \$ 5,718  \$ 6,052	700	\$ 6,052	\$
Remuneration of capital stock and other payments to members  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  General Reserve  (21,822)  (11,026)  4,094  2,072  \$ 5,718  \$ 6,052			15,006
other payments to members (21,822) (11,026)  Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13) 4,094 2,072  Balance at end of year (note 11) \$ 5,718 \$ 6,052			
Recovery of income taxes related to the remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  \$\frac{4,094}{5,718} \div \frac{2,072}{6,052}\$  General Reserve		(21,822)	(11,026)
remuneration of capital stock and other payments to members (note 13)  Balance at end of year (note 11)  \$\frac{4,094}{5,718} \\$ \frac{2,072}{6,052}\$  General Reserve		,	
payments to members (note 13)	Control of the Contro		
Balance at end of year (note 11) \$\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\		4.094	2.072
General Reserve	1 /	100 Table 100 Ta	Value of the second
	Editino de ona or your those . 17		
Balance at beginning and end of year \$\frac{28,940}{28,940}\$		A 20 040	6 20 040
	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)	1994	1993
Cash flows from operating activities		_
Net income	\$ 17,394	\$ 15,006
Items not affecting cash resources	,	10,000
Provision for loan losses	20,067	24,067
Depreciation of fixed assets	610	504
Deferred income taxes	(4,109)	920
Net change in other assets	953	22,914
Net change in other liabilities	<u>(8,410</u> )	(25,683)
	26,505	37,728
Cash flows used in financing activities		
Decrease in deposits	(262,826)	(773, 523)
Remuneration of capital stock and other payments to members, net		
of related recovery of income taxes	(17,730)	(8,961)
Obligations related to securities sold short	49,761	3,282
	(230,795)	(779,202)
Cash flows from investing activities		
Net decrease (increase) in :		
Securities	(192,549)	(19,377)
Loans	427,668	718,163
Fixed assets	(252)	(617)
	234,867	698,169
Net increase (decrease) in cash resources	30,577	(43,305)
Cash and deposits with Bank of Canada at beginning of year	10,212	53,517
Cash and deposits with Bank of Canada at end of year	\$ <u>40,789</u>	\$ 10,212



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1994 and 1993
(All tabular figures are in thousands of dollars)

#### 1. INCORPORATION

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

# 2. SIGNIFICANT ACCOUNTING POLICIES

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

## Consolidation:

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

#### Securities:

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

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

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

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

# Loans:

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

Interest income is recorded on the accrual basis. Loans are placed on a non-accrual basis whenever: a) there is doubt regarding the collectibility of principal or interest or, b) when payment of interest is ninety days past due. Upon classification of a loan to a non-accrual basis, any previously accrued but unpaid interest thereon is reversed against interest income of the current period. Subsequently, amounts received on non-accrual loans are recorded as interest income only if

management has determined that the loan does not require a specific provision for loss; otherwise, interest received is credited to capital.

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

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

#### Cumulative allowance for credit losses:

A cumulative allowance for credit losses is maintained at a level which is considered adequate to absorb losses. The cumulative allowance for credit losses is increased by the provisions charged to the statement of income and reduced by the write-offs net of recoveries. Specific provisions are established as a result of an evaluation of each outstanding loans. Caisse centrale Desjardins also maintains a provision for doubtful accounts for anticipated credit losses.

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

#### Derivatives:

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

## Fixed assets:

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

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

# Foreign Currency Translation:

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

#### Income taxes:

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

# 3. SECURITIES

					1:	994	1	993
			Maturity			Esti-		Esti-
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Carrying Value	mated Market Value	Carrying Value	mated Market Value
Issued or guaranteed I	ру							
Canada	\$ 234,732	\$ 39,045	\$ 72,323	\$ 27,005	\$ 373,105	\$ 369,156	\$ 367,014	\$ 369,812
Provinces, municipal, public or school cor-								
porations in Canada	600,531	62,540	56,705	25,667	745,443	738,768	553,787	567,875
Other Securities								
Securities of								
Canadian issuers:								
Banks	64,243				64,243	64,244	67,536	67,634
Members	9,024				9,024	8,971	9,082	9,305
Associated corporat	ions 15,974			50	16,024	16,020	6,298	6,465
Other issuers	11,828	25,560	5,495	12,321	55,204	54,740	81,918	79,839
Securities of								
foreign issuers	15,450	20,090	710	1,261	37,511	30,768	22,370	22,259
Total	\$ 951,782	\$ 147,235	\$ 135,233	\$ 66,304	\$1,300,554	\$1,282,667	\$1,108,005	\$1,123,189
Trading portfolio inclu	ded above				\$ <u>173,204</u>	\$ 173,204	\$ 98,708	\$ 98,708

Securities held for trading are mostly those issued or guaranteed by Canada provinces, municipalities, school boards or other public corporations in Canada.

# 4. OTHER LOANS

	1994	1993
	100	
Public and parapublic institutions	\$ 294,565	\$ 364,107
Members	2,060,133	2,325,267
Other associated corporations	799,503	647,650
Other - private sector	902,103	1,208,279
	4,056,304	4,545,303
Cumulative allowance for credit losses	(47,739)	(97,003)
	\$ <u>4,008,565</u>	\$ <u>4,448,300</u>
Non-accrual loans	\$ 54,001	\$ 124,425
Cumulative allowance for credit losses	(47,739)	(97,003)
Total net non-accrual loans	\$ 6,262	\$ <u>27,422</u>

	1994	1993
Balance at beginning of year Provision for loan losses Write-offs Balance at end of year	\$ 97,003 20,067 (69,331) \$ 47,739	\$ 72,936 24,067  \$ <u>97,003</u>
Consisting of : Specific provisions Provision for doubtful accounts Total	\$ 29,200 18,539 \$ 47,739	78,936 _18,067 \$ <u>97,003</u>
6. OTHER ASSETS	1994	1993
Accrued interest Income taxes recoverable Deferred income taxes Other	\$ 46,206 3,434 27,208 \$ 76,848	\$ 57,313 1,228  15,826 \$ 74,367
7. DEPOSITS	1994	1993
Canada Provinces Banks Members - for clearing purposes - for other purposes Other associated corporations Other	\$ 21,064 61,756 278,078 18,745 485,089 273,944 3,624,763 \$4,763,439	\$ 322,480 122,116 248,997 48,455 354,059 202,805 3,738,384 \$5,037,296
8. OTHER LIABILITIES	1994	1993
Accrued interest Deferred income taxes Income taxes payable Obligations related to securities sold short Other	\$ 63,492  4,712 72,366 5,182 \$ 145,752	\$ 73,362 675  22,605 <u>6,173</u> \$ <u>102,815</u>

5. CUMULATIVE ALLOWANCE FOR CREDIT LOSSES

# 9. SUBORDINATED DEBENTURES

The debentures are obligations whose repayment is subordinated to the claims of depositors and other creditors. Denominated in Luxembourg Francs with a nominal value of 1,500,000,000 - Canadian equivalent of \$ 66,991,000 - and maturing on December 4, 2002, the subordinated debentures are not redeemable and they bear interest at the annual rate of 8.5 %. In relation with these subordinated debentures, Caisse centrale Desjardins entered into hedging transactions to eliminate foreign exchange exposure.

#### 10. CAPITAL STOCK

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

#### 11. RETAINED EARNINGS

Allocation of the 1994 retained earnings will be decided by the Board of Directors at a later date.

# 12. REMUNERATION OF CAPITAL STOCK

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

# 13. INCOME TAXES

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

	1994	1993
Statements of income Statements of retained earnings	\$ 5,629	\$ 5,146
Recovery of income taxes related to the remuneration of capital stock and other payments to members Total income taxes	(4,094) \$ <u>1,535</u>	(2,072) \$ <u>3,074</u>
Current and deferred income taxes are as follows: Current Deferred	\$ 5,644 (4,109)	\$ 2,154 920
Total income taxes	\$ <u>1,535</u>	\$ 3,074

No recovery of income taxes related to the results of the subsidiary was recorded in 1994 and 1993; this explains the difference between the statutory rate as adjusted for the large corporations' tax and the effective rate.

# 14. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

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

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

The table below shows Caisse centrale Desjardins' various off-balance sheet instruments. They are expressed in terms of the contractual or notional amount of the related commitments or contracts.

	1994	1993
Financial instruments with contractual amounts representing credit risk		
Guarantees and standby letters of credit Commitments to extend credit [original term to maturity]:	\$ 292,900	\$ 147,425
. more than one year	477,653	452,785
one year or less and conditionals	4,559,093	4,180,939
Total credit commitments	\$ <u>5,329,646</u>	\$ <u>4,781,149</u>
Financial instruments with contractual or notional amounts that exceed the amount of credit risk Interest rate contracts		
. swap contracts	\$ 4,747,526	\$ 4,498,783
. forward rate agreements	381,242	226,315
	5,128,768	4,725,098
Foreign exchange contracts		
. spot and forward contracts	3,559,082	2,571,359
. swap contracts	<u>2,427,007</u> <u>5,986,089</u>	2,240,791 4,812,150
Total derivatives	\$ <u>11,114,857</u>	\$ <u>9,537,248</u>

# Financial instruments with contractual amounts representing credit risk:

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

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



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

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

# Derivatives:

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

The table provides the notional principal amounts of the derivatives of Caisse centrale Desjardins; however they are not indicative of the credit risk. Credit risk is managed through authorizations limits granted to customers. As at December 31, 1994, the current credit exposure (current replacement value of all outstanding contracts in a gain position) was \$ 128 million and these transactions were almost exclusively carried out with banks, members, associated corporations and public and parapublic corporations. The current credit exposure is presented without giving effect to any possible reduction due to master netting agreements.

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

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

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

### 15. LEASE COMMITMENTS

Future rental commitments for long-term leases expiring up to April, 2005 amount to \$ 7,714,000. The annual rental payments for the next five years are \$ 832,000 in 1995, \$ 723,000 in 1996, \$ 795,000 in 1997, \$ 827,000 in 1998 and \$ 833,000 in 1999.

# 16. OTHER RELATED PARTY TRANSACTIONS

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

	1994	1993
Other assets Other liabilities Interest income Interest expense Other income Non-interest expenses	\$ 38,278 11,207 243,782 40,275 1,196 3,383	\$ 50,000 6,501 266,553 32,192 1,158 3,176

# 17. PENSION PLAN

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

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

The total pension expense arising from employer contributions aggregated \$ 746,000 for the year ended December 31, 1994 (1993 - \$ 765,000).

# 18. SEGMENTED INFORMATION

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



MANAGEMENT'S DISCUSSION

AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS

OF OPERATIONS

# FINANCIAL HIGHLIGHTS 1990 - 1994 as at December 31

(in thousands of dollars)	1994	1993	1992	1991	1990
Operating Results					
Net interest income	50,803	50,537	56,519	66,712	76,283
Other income	13,046	13,973	18,402	13,943	14,401
Net income	17,394	15,006	4,259	46,284	54,017
Return on average assets	0,31%	0.26%	0.08%	1.10%	1.32%
Return on members' equity	3,91%	3.42%	0.94%	10.35%	12.18%
Financial Position					
Total assets	E 420 470	F 050 005	0 110 100	F 007 000	
Loans	5,428,479	5,650,965	6,440,169	5,087,096	4,073,490
Securities	4,008,565	4,456,300	5,198,530	4,017,961	3,258,845
Deposits	1,300,554	1,108,005	1,088,628	893,536	688,373
Subordinated debentures	4,763,439	5,037,296	5,808,185	4,549,662	3,534,370
Members' equity	66,991	55,960	58,594	454005	
Capital ratio - BIS risk-based	444,061 19.39%	444,395 17.22%	438,343	454,097	447,136
Capital fatto - bis fisk-based	19.39%	17.22%	16.03%	15.46%	14.38%
Other Information					
Remuneration of capital stock	16,000	5,000	17,621	39,486	51,663
Other payments to members	5,822	6,026	6,540	7,327	8,254
Percentage of funds issued on				,	0,20
international markets	70.0%	53.0%	50.0%	45.6%	45.0%

# **RATINGS**

The high credit ratings of Caisse centrale remained unchanged, for the seventh consecutive year backed in particular by the federations to maintain minimum capital ratios and availability of stand-by lines of credit by Caisse centrale, and are as follows:

STANDARD & POOR'S:

A-1+ & AA

MOODY'S:

P-1 & Aa3

CANADIAN BOND RATING SERVICE:

A-1+ & A+

DOMINION BOND RATING SERVICE:

R-1M & AA



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

This analysis provides a comparison of Caisse centrale's financial condition and of its results of operations for the years ended December 31, 1994 and 1993, as well as an indication for the future. Also provided is a discussion of how Caisse centrale manages credit risks, liquidity and sources of funds.

# REVIEW OF THE ECONOMY

After three years of restrained and uneven recovery, the Canadian economy finally got moving again in 1994. From 1991 to 1993, the recovery could be felt in export-related sectors especially, while most domestic demand sectors were slow to regain momentum. In early 1994 however, the situation changed, due to vigorous household consumption and business spending. Business investments rose more than 9%, spurred on by substantial profits and growing confidence, while personal spending rose 3.2% as a result of significant job creation. At the same time, government spending continued to decrease due to budget cuts affecting both federal and provincial governments.

Business conditions improved in 1994; gross domestic product grew 4.5% overall, compared to 2.2% in 1993. This growth is largely attributed to a strong manufacturing sector in Quebec and Ontario.

The strength of the economy was mostly felt in employment; after 3 years of steady decline between 1990 and 1992, and an increase of just over 143,000 positions two years ago, 362,000 jobs were created last year, the vast majority of them full-time. By year-end, Canada had regained pre-recession employment levels.

In 1994, the Canadian dollar continued its decline from \$0.76 US in early January to \$0.71 US at yearend. The shrinking dollar heightened the competitiveness of Canadian businesses and greatly improved the current account balance of payments: a good sign for the coming years. Canadian businesses increased their competitiveness due to tight controlled production costs, in particular and through very low wage increases. Faced with the globalization of markets, the corporations have continued to rationalize their operations and restructure their business plans. Exports responded by increasing more than 14%.

The Canadian economy draws its strength from that of our neighbours to the south. The American economy has just achieved its fourth year of growth. Nevertheless, the success of the American

economy has prompted fears of accelerating inflation. Sure signs of this have yet to materialize, but there are already several factors feeding speculation. These factors have led the U.S. Federal Reserve to tighten its monetary policy as a preventive measure several times since February 1994 in an effort to check potential inflationary pressures. As a result, the US prime rate doubled in one year from 3% to 6%.

As American interest rates rose, Canadian rates followed. Canada was forced to maintain a positive spread in order to avoid speculation on the dollar and make our debt securities attractive. As well, the problematic condition of public finances caused great instability on the money markets; on several occasions and often without warning, the Bank of Canada was forced to raise interest rates significantly in order to stabilize the currency.

From their January 1994 level of 3.85%, 90-day treasury bill rates rose to 7.25% by year-end. With interest rates nearly 2% higher than expected, the Federal Government's attempts to bring the deficit into line with the projections of the Liberal budget were seriously hampered. As a result, the hoped-for deficit reduction didn't materialize, and looming over the new year is the spectre of a deficit nearing \$40 billion and a debt that remains out of control.



# FINANCIAL HIGHLIGHTS

Quality of the loan portfolio greatly improved in 1994. Caisse centrale also performed many activities for the benefit of its members and for the Desjardins Group.

Accordingly, net consolidated income was \$17.4 million, an increase of \$2.4 million or 15.9% over last year. With considerable efforts attributed to manage the non-performing and high risk loans, we reduced costs of non-performing assets and lowered the provision for loan losses. However, the results were negatively impacted by the replacement of certain derivatives instruments caused by the bankruptcy of Confederation Treasury Services Ltd, the decrease in value of certain securities, a decline of average outstanding loans to the private sector, and by lower credit commissions and foreign exchange revenue.

As at December 31, 1994, total assets stood at \$5.4 billion, a decrease of \$223 million or 4% from last year. This decrease is solely attributable to the loans portfolio which was \$4 billion, \$447 million or 10% less than last year. With higher deposits and liquidities in the network, loans to members fell by \$265 million to reach \$2 billion (1993 : \$2.3 billion). Loans to the public and parapublic sectors were \$295 million compared to \$364 million last year. The decrease is due to the popularity of the publi-privilège option, average use of which reached \$205 million in 1994, up 73% from 1993. A new sharing program was instituted with the caisses in 1994 to counter competition on rebates given to these borrowers. We therefore expect higher average volume in 1995.

Loans to the private sector decreased by \$257 million and stood at \$854 million as at December 31, 1994. According to our strategies, we favoured the development of the medium-sized business market with the network and lowered the level of participation in bank syndicates. This orientation will give us a more stable portfolio and closer contacts with customers should generate fee income for the network. The risk of this market is also easier to control as in many cases loans are granted with guarantees.

As already mentioned a good deal of efforts were dedicated to increase the quality of the loan portfolio. Loan loss provision fell by \$4 million and was \$20 million in 1994. Non-performing loans, net of the provisions, declined by 77% and were \$6.3 million at the end of 1994. The coverage ratio is 88% compared to 78% last year. This ratio is higher than those of the six major banks in Canada as at October 31, 1994 (50%).

The reduction of the loan portfolio was partly offset by higher liquidities. To face a potential "credit squeeze" of the markets, an average of \$541 million exceeded the regulatory requirements during 1994.

At year-end 1994, the securities portfolio stood at \$1,300 million and close to 91% of the portfolio comprised securities issued or guaranteed by the Government of Canada or the provinces, public and parapublic corporations, as well as Canadian banks. As at December 31, 1994, the securities portfolio represented 24% of total assets (1993: 20%).

At the close of 1994, outstanding deposits and debentures were \$4.8 billion compared to \$5.1 million in 1993. International deposits accounted for \$3.4 billion or 70% (1993: 53%).

Caisse centrale's contribution to the network in 1994 was \$16 million as remuneration of capital stock and an additional remuneration of \$5.8 million was paid as other payments to members for a total of \$21.8 million compared to \$11 million last year.

As at December 31, 1994, total capital ratio according to guidelines of the Bank for International Settlements (BIS) was 19.39% (1993: 17.22%), well above the minimum prescribed ratio of 8%.

To better serve Desjardins Group's members in Florida, Caisse centrale established a wholly owned subsidiary, Desjardins Federal Saving Bank (Desjardins FSB). It is to be noted that this subsidiary offers a full range of services and products to members residing or vacationning in Florida. The operations of Desjardins FSB are consolidated with those of Caisse centrale.

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



# TOTAL INCOME

Caisse centrale had total income of \$374 million in 1994, compared to \$398 million in 1993 or a decrease of 6%. A lower average volume as well as a change in the mix of interest bearing assets explains essentially this reduction.

Interest on loans totalled \$296 million in 1994, compared to \$320 million in 1993. The securities portfolio generated revenues of \$78 million, a similar amount compared to last year or a slight increase of \$571,000. Other income totalled \$13 million, down \$1 million from the previous year.

#### NET INTEREST INCOME

Net interest income is the difference between the interest generated by loans and securities, and interest paid on deposits. Caisse centrale derives most of its revenues from this type of income, which is, however, affected by volume of operations and interest rate fluctuations.

Net interest income in 1994 rose by \$266,000 to reach \$50.8 million in 1994. Net interest margin, expressed as a percentage of average assets increased to 0.91% from 0.87% in 1993. This increase was caused by lower costs of non-performing assets although it was negatively impacted by the replacement of certain derivative instruments due to the bankruptcy of Confederation Treasury Service Ltd and permanent devaluation of certain securities.

Due to political uncertainties, Caisse centrale, in 1994, maintained higher liquidities to prevent anticipated volatile interest rates which generated lower income than loans. This average volume of securities represented 25% of total average assets (1993: 22%) and therefore interest income was 20.8% of total interest income (1993: 19.4%).

With tighter lending policy, the average volume of the private sector decreased by \$67 million during 1994 and reached \$1,155 million (1993: 1,222 million). Average interest rates on this portfolio is similar to last year.

Financing operations with associated corporations are carried out at arm's length, in compliance with the provisions of the Savings and Credit Unions Act governing transactions with interested parties. The average volume of loans to the associated corporations was \$701 million, an increase of \$146 million over last year.

Under Caisse centrale's constituent legislation and its mandate as a supplier of funds, member federations are not considered related parties in transactions with Caisse centrale and are therefore entitled to more favourable terms. Short-term loans are granted to members at Caisse centrale's cost of funds and medium-term loans carried a minimal net spread of 0.05%. Average outstanding loans to the federations were \$2 billion in 1994, compared to \$2.2 billion in 1993.

In 1995, we forecast an increase in net interest income, mainly due to the expected rise in interest rates on liquid assets and lower costs of non-performing assets.

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

(in thousands of dollars)	1994			1993		
	Average		Average	Average		Average
	balance	Interest	rate	balance	Interest	rate
ASSETS						
Securities	1,389,685	77,763	5,60	1,285,189	77,192	6.01%
Loans						
Members	1,964,326	151,182	7,70	2,237,769	177,186	7.92%
Associated corporations	700,684	48,284	6,89	554,802	40,337	7.27%
Public and parapublic sectors	305,164	23,316	7,64	381,854	29,899	7.83%
Private sector	1,154,972	81,583	7,06	1,222,531	87,463	7.15%
Other (1)		(8,381)	N	75	(15,046)	-
	4,125,146	295,984	7,18	4,396,956	319,839	7.27%
Total interest - bearing assets	5,514,831	373,747	6,78	5,682,138	397,031	6.99%
Other assets	99,420		1975	118,884		-
TOTAL ASSETS	5,614,251	373,747	6,66	5,801,029	397,031	6.84%
LIABILITIES AND MEMBERS' EQ	UITY					
Deposits and debentures						
Demand deposits	193,219	7,202	3,73	157,818	4,602	2.92%
Fixed-term deposits	4,785,877	315,742	6,60	5,035,371	341,892	6.79%
Total interest - bearing liabilities	4,979,096	322,944	6,49	5,193,189	346,494	6.67%
Other liabilities	189,764			163,827	-	-
Members' equity	445,391			444,013		_
TOTAL LIABILITIES AND						
MEMBERS' EQUITY	5,614,251	322,944	5,75	5,801,029	346,494	5.97%
	5,011,1201		31.0	0,000,020	E E A E I S	0.0770
NET INTEREST INCOME/						
TOTAL ASSETS	5,614,251	50,803	0,91	5,801,029	50,537	0.87%
TOTAL ADDLTO	5,017,201	50,000	0,01	5,001,025	50,557	0.07 /0

<sup>(1)</sup> Other interest expenses, including hedging operations.

## OTHER INCOME

Other income refers to non-interest income from service charges and administration fees for domestic and international banking services, as well as foreign exchange and credit fees. Other income was \$13 million in 1994, a decrease of 6.6% or \$927,000.

On the international scene, Caisse centrale offers banking services to individuals and businesses through Desjardins FSB, its wholly - owned banking subsidiary. Caisse centrale continued to expand its network of correspondents with over 475 banks in 76 countries. To enhance the efficiency of the Desjardins network international services, Caisse centrale is the sole representative of the Desjardins Group in dealings with foreign banks. To this end, Caisse centrale concluded agreements with major international banks.

Desjardins FSB's other income revenue rose by 22.1% to total \$550,000 in 1994. Service charges on deposits and payment services were \$10.2 million, a decline of \$214,000 or 2% over last year due to a change of the payment method by the Receiver General of Canada (direct deposits in the beneficiary's account), lower issues of travellers checks within the network and decreases of certain fees to counter competition.

Credit fees were \$469,000, lower by \$457,000 from last year on account of our voluntary opting-out of the syndicated loan business. This activity generated much higher income during the previous years. Foreign exchange revenue were \$866,000, a decrease of \$163,000 compared to last year.

In 1995, we expect similar other income.

Table II
OTHER INCOME
for the years ended December 31

(in thousands of dollars)	1994	1993	Variation %	
Deposit and payment service charges	10,223	10,437	(2.0)	
Credit fees	469	926	(49.3)	
Foreign exchange revenue	866	1,029	(15.8)	
Other	_1,488	_1,581	_(5.9)	
TOTAL	13,046	13,973	<u>(6.6</u> )	

# REMUNERATION OF CAPITAL STOCK AND OTHER PAYMENTS TO MEMBERS

Since 1992, the remuneration of capital stock is based on results of Caisse centrale. During 1994, the Board of directors authorized to pay \$16 million as remuneration of capital stock. In March 1995, the Board of Directors decided to pay as remuneration of capital stock the 1994 retained earnings in the amount of \$6.8 million including the related recovery of income taxes.

Together with the network, Caisse centrale offers large public and private Canadian organizations a wide range of banking services. Fees charged for these services and distributed to members totalled, in 1994, \$5.8 million, compared to \$6 million in 1993.



Most of this decrease comes from less revenue on deposit accounts due to the change of payment method of the Receiver general of Canada using the direct deposit system. This decrease was partially offset by higher rebates on loans caused by the new sharing program with the network. During 1995, we anticipate higher volume of this program and therefore higher other payments to members.

# SERVICES OFFERED TO THE DESJARDINS GROUP

As mentioned in the previous sections, member-federations are not considered related parties to Caisse centrale under the provisions of the Savings and Credit Union Act. Thus the majority of the transactions (such as loans, interest rate swaps, foreign exchange contracts, etc.) involving the federations are done at favourable terms.

Over and above these transactions Caisse centrale performed without remuneration many activities for the benefit of the Desjardins Group during 1994:

- ► cash management for most federations and La Confédération des caisses populaires et d'économie Desjardins du Québec and manager of the liquidity portfolio of certain federations (close to \$500 million at the end of 1994). This represents a better share of the responsibilities within Desjardins and permit these entities to realize substantial savings;
- ► representation of the Desjardins Group with the Canadian Payments Association and the Canadian Depository System;
- development (with ten european bank partners) and installation at the federations' level of a computerized international payment transfer system at better costs than presently;
- ▶ to respond more appropriately to the need of the Desjardins Group, the provincial government and institutional clients, we will take charge during 1995 of the institutional brokerage activities of Valeurs Mobilières Desjardins;
- ▶ following on agreement with Desjardins Trustco, we became manager of the productive loan portfolio of Credit Industriel Desjardins.

#### NON-INTEREST EXPENSES

Non-interest expenses include staff, premises, equipment and computer costs and all other operating expenses.

As indicated on Table III, they totalled \$20.8 million in 1994, compared to \$20.3 million last year, an increase of \$468,000 (of which Desjardins FSB accounted for \$199,000) or 2.3% and mostly attributable to increases in other expenses. Excluding expenses of Desjardins FSB, non-interest expenses grew by 1.5% in 1994 compared to an increase of 3.6% in 1993.

In 1995, Caisse centrale will continue to closely monitor its expenses.

## Salaries and staff benefits

Salaries and staff benefits represented 51% of non-interest expenses (1993: 52%). They amounted to \$10.7 million in 1994, an increase of less than 1% compared to last year. Excluding Desjardins FSB. 154 positions were authorized in 1994, the same number for a fourth consecutive year.

Expenses for premises, equipment and furniture (including subcontracting expenses)

This category of expenses increased by 2.5% on account of higher subcontracting expenses caused by additional costs for development such as EDI. Excluding this, of which expenses are offset by feebased services, expenses for premises, equipment and furniture would be lower by 7.06%.

#### Other expenses

Caisse centrale incurs fairly substantial expenditures in carrying out its mandate as supplier of funds for the Desjardins Group. Examples of such expenses include financial rating agency fees, fees for short and long-term issues, as well as fees paid to Canadian securities commissions. In 1994, such expenditures were approximately \$360,000.

Other expenses increased by \$273,000 or 5.6% over last year. This increase is due to higher professional fees for non-recurring items such as the required registration under the reform of the Civil Code, amendments to the Canadian and European prospectus and the finalization of our membership in the Canadian Depository System.



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

(in thousands of dollars)	1994	1993	Variation %	
Salaries and staff benefits	10,680	10,607	0.7	
Premises, equipment and furniture				
Rental and taxes	1,652	1,810	(8.7)	
Depreciation	610	610		
Subcontracting expenses	2,115	1,776	19.1	
Other	595	654	(9.0)	
	4,972	4,850	2.5	
Other expenses				
Advertising, promotion and publication	288	248	16.1	
Business development	677	820	(17.4)	
Telecommunications, mailing and couriers	780	758	2.9	
Insurance	354	272	30.1	
Supplies, stationery and printing	382	346	10.4	
Professional fees	1,390	975	42.6	
Membership dues paid to the Confédération	on 635	665	(4.5)	
Amortization of the start-up costs				
for the subsidiary	198	199	(0.5)	
Other	403	551	(26.9)	
	5,107	4,834	5.6	
TOTAL	20,759	20,291	2.3	
Non-interest expenses on average assets	0.37%	0.35%	-	
		No.		

## **INCOME AND OTHER TAXES**

Caisse centrale follows the tax allocation method of accounting. Current and deferred income taxes are detailed in Note 13 to the financial statements.

The provision for income taxes was \$5.6 million, compared to \$5.1 million for the previous year. The 1994 provision includes \$1 million (\$989,000 in 1993) on account of the federal large corporations minimum tax and a compensation tax of \$192,000 (1993: \$187,000) imposed on salaries by the Québec government.

## COMMENTS ON THE BALANCE SHEET

As at December 31, 1994, total assets of Caisse centrale stood at \$5.4 billion, down \$223 million or 4% from 1993, primarily due to a decrease of loans (\$447 million or 10%) and higher securities (\$192 million or 17%).

Average assets reached \$5.6 billion, a decline of \$187 million or 3.2% over 1993, mainly attributable to higher securities (\$104 million) and lower loan demand from the federations (\$273 million).

In 1995, we expect a moderate increase of assets. Except a decline of loans to the federations all other categories of loans should be higher.

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

Table IV ASSET MIX as at December 31

(in millions of dollars)	1994	1993	1992	1991	1990
Securities	1,300	1,108	1,089	894	688
Loans	4,009	4,456	5,198	4,018	3,259
Other assets	119	87	153	175	126
TOTAL	5,428	5,651	6,440	5,087	4,073
Average assets	5,614	5,801	5,322	4,227	4,108

#### Loans

At year-end 1994, the loan portfolio stood at \$4 billion (1993 : \$4.5 billion). Growth of deposits raised by the network and higher liquid assets caused loans to federations to decrease by \$265 million to reach \$2 billion. However, loans to associated corporations in the amount of \$800 million increased by \$152 million. Loans to public and parapublic institutions were \$295 million compared to \$364 million last year. This decrease is due to a greater usage of the option Publi-privilège by public corporations. While continuing our development towards mid-sized businesses, in conjunction with the caisses, we have strictly followed our credit risk management policies and reduced our level of participation in banking syndicates. Therefore, loans to the private sector have decreased by \$257 million compared to last year and stood at \$854 million as at December 31, 1994.



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

(in millions of dollars)	1994	1993	1992	1991	1990
Composition					
Day to day		8		15	
Members	2,060	2,325	2,871	1,656	809
Other associated corporations	800	648	558	330	384
Public and parapublic sectors	295	364	548	530	570
Banks				5	
Other - private sector	854	1,111	1,221	1,482	1,496
TOTAL	4,009	4,456	5,198	4,018	3,259
Geographic distribution					
Québec	3,622	3,872	4,560	3,294	2,458
Ontario	205	383	421	518	566
Other Canadian provinces	154	177	202	201	235
Foreign	28	24	15	5	
TOTAL	4,009	4,456	5,198	4,018	3,259
Average Loans	4,125	4,397	4,295	3,390	3,161

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

(in millions of dollars)	1994			19	993
	\$	%_		\$	%
Primary industries	96	11.0		95	8.4
Manufacturing industries					
. food and tobacco	40	4.6		70	6.2
. textiles, rubber and plastics	30	3.4		47	4.2
. wood and furniture	2	0.2		3	0.3
. pulp and paper	137	15.7		170	15.1
. metal products	67	7.7		95	8.4
. other	106	12.1		93	8.2
Real estate	103	11.8		173	15.3
Transportation and communications	97	11.1		124	11.0
Wholesale and retail trade	62	7.1		86	7.6
Financial intermediaries	80	9.2		137	12.1
Other service corporations	53	6.1		36	3.2
	873	100.0		1,129	100.0
Provision for doubtful accounts	_(19)			(18)	
TOTAL	854			1,111	

## Credit risk management

In 1994, credit risk management was our main priority. Caisse centrale managed its loan portfolio carefully, applying a highly selective risk management policy and working toward well-defined risk diversification objectives. In August 1994, Caisse centrale tightened its credit policies which had already been revised the past years, in order to allow better control and diversification of the loan portfolio and therefore reduce its commitments towards certain borrowers, categories of borrowers and regions, while maintaining its objective to increase loans to medium-sized businesses.

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

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

Besides conducting these periodic reviews, Caisse centrale reviews all the risk ratings of its credit records at least twice a year. These reviews are submitted to the Executive Committee and approved by the Board of Directors. Caisse centrale is of the opinion that the portfolio is of high quality. The 15% limit on private sector commitments, is respected in all sectors of economic activities. Caisse centrale is also limiting its commitments with respect to highly leveraged transactions, real estate lending, industry sectors and geographically.

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



#### Commercial real estate loans

In 1994, the real estate market sustained the effects of the last recession. The vacancy rate is still high and the value of real estate assets remains depressed.

Outstanding loans, net of provisions, stood at \$103 million as at December 31, 1994, a decrease of \$70 million or 40.5% from last year. More than 50% of the specific provisions or \$15 million is allocated to the real estate portfolio. Net non-performing loans in this industry reached \$22.3 million, or 0.6% of net outstanding loans compared to 0.5% in 1993. Furthermore, the net non-performing ratio on members' equity is only 5.02%. This ratio compares favourably to that of the major Canadian banks as at October 31, 1994 (13.6%). Based on current lending policy, as in 1994, we expect to abide by the 15% limit of commitments in this sector.

## Pulp and paper loans

Commitments in this sector decreased by \$68 million or 26.6% to reach \$188 million compared to \$255 million a year ago. As disclosed in Table VI, net outstanding loans were \$137 million, down \$33 million or 19.4% from 1993. Furthermore, net non-performing loans, of only \$1.1 million, were reduced by \$8 million or 88%.

#### Loans categorized as "highly leveraged transactions"

Caisse centrale has not authorized loans in this category in 1994 and does not expect to do so in 1995. Resolution of many large accounts took place in 1994 and consequently outstanding loans, all performing, stood at \$30 million at year-end, compared to \$104 million last year, a major decline of \$74 million or 71%.

#### Non-performing loans

Non-performing loans are those which are 90 days past due net of the cumulative provision for loan losses. Through-out the year, we minimized losses through sound management of non-performing loans. Non-performing loans, net of provisions, were \$6.3 million at year-end 1994 compared to \$27.4 million in 1993 down \$21 million or 77%. Net non-performing loans stood at \$6.3 million (1993: \$27.4 million) and represented 0.2% of total loan portfolio (1993: 6.2%).

The coverage ratio (the cumulative allowance for credit losses as a percentage of gross non-performing loans) was 88% compared to 78% last year. Finally, net non-performing loans as a percentage of members' equity is only 1.4% (1993: 6.2%). these two ratios are better than those of the major banks in Canada which were respectively 50% and 26% as at October 31, 1994.

In 1995, we expect to settle current outstanding records and closely monitor the loan portfolio.

## Provision for loan losses and cumulative allowance for credit losses

During 1994, Caisse centrale revised its policy on provisionning credit risk and write-offs. This policy sets guidelines related to creation of specific provisions when collectibility of capital is considered doubtful or uncollectible and introduced a more refined formula to establish and maintain a provision for doubtful accounts.

Due to the better quality of the loan portfolio, provision for loan losses charged to the income statement fell by \$4 million from last year to stand at \$20 million in 1994.

As at December 31, 1994, the cumulative allowance for credit losses was \$47.7 million (1993: \$97 million) or a decrease of 51% from 1993. As at December 31, 1994, specific provisions were \$29.2 million, down 63% from the previous year. Those related to the financial intermediaries sector fell by \$39.9 million and accounted for 48% of the total specific provisions compared to 68% last year. Write-offs in 1994 were \$69 million mostly on the pulp and paper and financial intermediaries sectors.

Accordingly, Caisse centrale expects a much lower provision for loan losses in 1995.



# LIQUIDITY MANAGEMENT

The purpose of liquidity management is to ensure that Caisse centrale has sufficient liquid assets at all times to meet its financial obligations. Stability and diversity of sources of funds, described in the next section, are essential components of sound liquidity management. Caisse centrale monitors carefully loan and term deposit maturity dates. In addition, as a direct clearer of the Canadian Payments Association, Caisse centrale is also entitled to borrow from the Bank of Canada.

As disclosed in Note 3 of the financial statements, the securities portfolio had 73% of the holdings, or \$952 million, maturing in less than one year. Moreover, close to 90% of the portfolio comprised securities issued or guaranteed by the Government of Canada or the provinces, public and parapublic corporations, as well as Canadian Banks. As at December 31, 1994, the securities portfolio represented 24% of total assets (1993: 20%).

Caisse centrale complied fully with the liquidity requirements of the Inspector General of financial Institutions, and, in 1994, maintained sufficient liquid assets to meet its own operating requirements. Furthermore, Caisse centrale maintained liquid assets - \$541 million on average - over and above those required by law. This high level of liquidities allowed Caisse centrale in spite of political uncertainties, to meet its financial obligations to the Desjardins' network, to meet its own financial obligations while providing the flexibility needed to take advantage of opportunities.

In 1995, year of a referendum election, Caisse centrale will carry-on above mentioned strategy.

Table VII
BREAKDOWN OF THE SECURITIES PORTFOLIO
as at December 31

(in millions of dollars)	1994	1993	1992	1991	1990
Canada	373	367	392	177	190
Provinces	745	554	365	330	114
Members and associated corporations	25	15	23	41	53
Other Canadian issuers	119	150	297	346	331
Foreign issuers	38	22	12		
TOTAL	1,300	1,108	1,089	894	688
Average securities	1,390	1,285	899	734	831

Caisse centrale's funding policy is to maintain a deposit base diversified with respect to region, currency and maturity date, and designed to ensure safe fund procurement to the Desjardins Group at the lowest possible cost. Table VIII discloses the composition of the funding sources and the geographic distribution.

There were \$4.8 billion in outstanding deposits and subordinated debentures at year-end 1994, down by \$263 million or 5.2 % from last year. Demand deposits, which stood at \$211 million as at December 31, 1994, have decreased by \$25 million or 10.6% from the previous year.

Deposits by members increased by \$101 million or 25.1% and represents 10% of total deposits and subordinated debentures. During 1994, the federations agreed to deposit their excess of liquidities at Caisse centrale thereby improving internal flows of funds within Desjardins. Other deposits have decreased by \$364 million or 7,8%, reaching \$4.3 billion at current year-end compared to \$4.7 billion.

For several years, Caisse centrale has been diversifying and increasing the number of its funding sources. To this end, Caisse centrale has established, a number of short and medium-term borrowing programs. In addition to a domestic program under which it issues short and medium-term notes, Caisse centrale has been raising funds using two other short-term programs (in the United States and Europe) and one medium-term program (in Europe). During 1994, Caisse centrale raised the limits of these three facilities. Each of the two short-term programs limits were raised from US\$400 to US\$600 million. The limit of the medium-term program was increased from US\$750 million to US\$1 billion. In addition, Caisse centrale can also resort to public and private issues, when appropriate. Moreover, Caisse centrale has US\$250 million of stand-by lines of credit.

Caisse centrale was very active on the international markets in 1994. Caisse centrale has thus raised two Euro Can public issue for a total of \$200 million and 20 new issues of its European multi-currency program for approximately US\$207 million; three private issues totalling \$170 million were also concluded.

As at December 31, 1994, through its various fund supply programs, Caisse centrale had issued: \$1,346 million from public issues, \$297 million from private issues, \$819 million through its European mid-term program, \$737 million of short-term commercial paper and \$162 million of bank deposits. Caisse centrale's sound credit ratings have made these issues and commercial paper programs possible. Deposits and subordinated debentures issued on international markets accounted for 70% or \$3.4 billion of the total, compared to 53% in 1993 as disclosed in Table VIII.

No medium-term public issues matures in 1995.

In 1995, Caisse centrale will continue its policy of diversifying its sources of funds to meet the demand of funds from its members and associated corporations. Caisse centrale has plans for new public and private issues on international markets, continuing its issues of short-term commercial paper in the United States and Europe and finalizing, if necessary, the medium-term note program in the United States already undertaken.

Considering the 1995 political uncertainties, our strategies will be to favour funds of longer terms specifically of floating rates offered by the international markets.

Table VIII
DEPOSITS AND SUBORDINATED DEBENTURES
as at December 31

(in millions of dollars)	1994	1993	1992	1991	1990
Canada	21	322	231	507	200
Public agencies	62	122	166	96	8
Members	504	403	370	400	231
Associated corporations	274	203	288	163	123
Other deposits	3,902	3,987	4,753	3,384	2,972
n	4,763	5,037	5,808	4,550	3,534
Subordinated debentures	69	56	59		
TOTAL	4,830	5,093	5,867	4,550	3,534
Average liabilities	4,979	5,193	4,730	3,683	3,563
1994	1993	1992	199	1	1990

	19	94	19	1993		1992		1991		1990	
	\$	%	\$	%	\$	%	\$	%	\$	%	
Geographic distribution											
Canada	1,469	30	2,369	47	2,934	50	2,477	54	1,942	55	
International	3,361	70	2,724	53	2,933	50	2,073	46	1,592	45	
TOTAL	4,830	100	5,093	100	5,867	100	4,550	100	3,534	100	

## INTEREST RATE SENSITIVITY POSITION

Changes in the level of interest rates have an effect on net interest income. The amount and direction of the effect depends on the amount of assets and liabilities that reprice in the time period during which interest rates change.

The measure of interest rate risk is the interest rate sensitivity position or "gap" of Caisse centrale. Gap is the difference in the amount of assets and liabilities that reprice during any given time period.

If liabilities repricing in a given time period exceed assets that reprice, the gap is referred to as negative or liability sensitive. Conversely, if more assets than liabilities reprice in a given time period, then Caisse centrale has a positive gap or is asset sensitive. If Caisse centrale is liability sensitive, when interest rates fall, net interest income will increase; when interest rates increase, net interest income will decrease. The reverse is true if Caisse centrale is asset sensitive.

The magnitude of the impact on the earnings of such gaps is a function of the frequency and degree of interest rate changes, and the maturity profiles of the assets and liabilities, which depend on customers' varying term preferences for loans and deposits.

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

Table IX shows Caisse centrale's position with regards to interest rate sensitivity as at December 31, 1994. This is the position at that particular date and it could have changed since then taking into account the forecasted interest rates and clients' preferences with respect to the products and terms.

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



# Table IX INTEREST RATE SENSITIVITY POSITION as at December 31, 1994

	Within	3 to 6	6 to 12	Total within	Over	Non- interest sensitive	Total
(in millions of dollars) Assets	3 months	months	months	12 months	1 year	sensitive	Total
Cash and deposits with			222			41	41
Bank of Canada		450			336	15	
Securities	580	156	213	949			1,300
Loans	2,021	287	202	2,510	1,493	6	4,009
Other assets	4			4		74	78
	2,605	443	415	3,463	1,829	136	5,428
Liabilities							
Deposits	2,616	377	175	3,168	1,595		4,763
Other liabilities					72	82	154
Subordinated debentures					67		67
Members' equity			44	Harrie		444	444
monipole equity	2,616	377	175	3,168	1,734	526	5,428
On-balance sheet gap	(11)	66	240	295	95	(390)	
Off-balance sheet gap (1)		(53)	(159)	(31)	31		
Total interest rate	102	(50)	1100/	10.17			
sensitivity gap	171	13	81	264	126	(390)	
Cumulative interest rate sensitivity gap	171	184	264	264	390		

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

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

# Risk-adjusted assets and off-balance sheet commitments

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

Off-balance sheet commitments are initially converted to "credit equivalent amounts" as shown in Table X. For credit instruments such as guarantees, letters of credit and commitments to extend credit, the "credit equivalent amounts" are determined by multiplying the principal of nominal values by the appropriate "credit conversion factors", which can range from 0% to 100%, depending on the nature of the instrument and the original term to maturity. The "credit equivalent amounts" for foreign exchange and for interest and currency contracts comprise the replacement cost of contracts with positive value and the possible future credit exposure on the contracts, calculated on the basis of their residual term to maturity.

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

As shown in Table X, Caisse centrale's risk-adjusted assets and off-balance sheet commitments stood at \$2,635 million as at December 31, 1994.



# Table X RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET COMMITMENTS as at December 31, 1994

ASSETS (in thousands of dollars)	Balance sheet amount	Principal risk weight	Risk- adjusted balance
In thousands of dollars)	amount	weight	Dalance
Cash and deposits with Bank of Canada	40,789	0 %	0
Securities issued or guaranteed by Canada, provinces	,,,,,,,	- 10	
and municipal, public or school corporations	1,149,207	0-20 %	67,213
Securities issued by banks	71,096	20 %	14,220
Securities issued by members and associated			
corporations	25,048	20-100 %	17,829
Other securities	55,203	100 %	55,203
Loans granted or guaranteed by Canada, provinces,			
municipalities, school boards and public agencies	305,867	0-20 %	58,588
Loans to members	2,060,134	20 %	412,027
Loans to associated corporations	799,503	100 %	799,503
Other loans	843,062	100 %	843,062
Other assets	78,571	100 %	78,571
	5,428,480	=	2,346,216

## OFF-BALANCE SHEET COMMITMENTS

Contract amount	Credit conversion factor	Credit equivalent amount	Principal risk weight	Risk adjusted balance
292,900	0-100 %	289,518	20-100 %	72,877
477,653	50 %	238,828	0-100 %	145,115
4,533,434	0 %	0	0 %	0
25,659	100 %	25,659	20-100 %	10,441
7,598,665	(1)	200,808	0-50 %	43,188
3,516,192	(1)	83,117	0-50 %	17,383
16,444,503		837,930		289,004
	477,653 4,533,434 25,659 7,598,665 3,516,192	Contract amount         conversion factor           292,900         0-100 %           477,653         50 %           4,533,434         0 %           25,659         100 %           7,598,665         (1)           3,516,192         (1)	Contract amount         conversion factor         equivalent amount           292,900         0-100 %         289,518           477,653         50 %         238,828           4,533,434         0 %         0           25,659         100 %         25,659           7,598,665         (1)         200,808           3,516,192         (1)         83,117	Contract amount         conversion factor         equivalent amount         risk weight           292,900         0-100 %         289,518         20-100 %           477,653         50 %         238,828         0-100 %           4,533,434         0 %         0 0 %         0 %           25,659         100 %         25,659         20-100 %           7,598,665         (1)         200,808         0-50 %           3,516,192         (1)         83,117         0-50 %

## TOTAL RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET COMMITMENTS

\$<u>2,635,220</u>

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

Remaining term to maturity	Foreign exchange contracts	Interest rate contracts
Less than one year	1%	0%
Greater than one year	5%	0.5%

## Capital ratio

Members' equity was \$444 million as at December 31, 1994. In addition, Caisse centrale had outstanding subordinated debentures totalling \$67 million eligible as Tier 2 capital under BIS guidelines. Total capital stood at \$511 million at current year-end.

All of the member federations have, through an equity maintenance agreement, irrevocably guaranteed a minimum capitalization level for Caisse centrale equal to the minimum of 5.5% of its liabilities or 8.5% of its risk-weighted assets and off-balance sheet items determined in accordance with the BIS' standards, whichever is the highest. As at December 31 1994, the liability ratio was 9.48%, and the BIS ratio 19.39%, well above the minimum ratios.

Considering the amount of its total capital as at December 31, 1994, liabilities and the risk-weighted assets and off-balance sheet commitments would have to exceed respectively \$9.3 billion and \$6 billion so that members would be required to contribute additional capital.

#### Off-balance sheet transactions

To help clients meet their liquidity requirements and protect themselves against fluctuations in interest and foreign exchange rates, Caisse centrale offers a number of off-balance sheet instruments. Caisse centrale itself uses some of these instruments to manage its own exposure to interest and exchange rate fluctuations. All off-balance sheet instruments are subject to Caisse centrale's normal credit standards, financial controls, risk ceilings and monitoring procedures. 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. Caisse centrale constantly improves its evaluation methods on this subject. Note 14 of the financial statements provides further details on these transactions notably on their utilization by Caisse centrale.

For the most part, off-balance sheet instruments fall into two categories: credit instruments, and foreign exchange and interest rate contracts.

## Credit instruments

Products in this category, which include guarantees, letters of credit and commitments to extend credit, are designed to provide clients with funds for which they anticipate a need.



Conditional commitments to extend credit are subject to clients' compliance with particular credit standards. Risk associated with such commitments is therefore reduced considerably.

A firm commitment requires a duly signed offer, including confirmation of acceptance by the client. In such cases, Caisse centrale must pay out the amount specified in the commitment.

## Foreign exchange and interest rate contracts

Currency and interest rate contracts and foreign exchange contracts allow Caisse centrale and its clients to transfer, modify or reduce the foreign exchange and interest rate risk.

Currency and interest rate contracts are transactions in which two parties exchange currencies and/or interest flows on a specified principal amount for a predetermined period.

With the exception of hedging contracts, Caisse centrale's commitments to purchase a fixed amount of a foreign currency are generally offset by options to sell an equal amount of the same currency. The majority of currency and interest rate contracts and foreign exchange contracts are concluded with banks, the federations, the associated corporations and with the public and parapublic sectors.

Table XI
OFF-BALANCE SHEET ACTIVITIES
as at December 31

(in millions of dollars)	95 42	1994	11 1 No. 1	Charles and the same	1993	
	Related			Related		
	Party	Other	Total	Party	Other	Total
Commitments to extend credit Guarantees and standby						
letters of credit	3	290	293	2	145	147
Commitments to extend credit						
- Firm	2,353	2,048	4,401	2,068	1,871	3,939
- Conditional	140	496	636	_140	555	695
	2,493	2,544	5,037	2,208	2,426	4,634
	2,496	2,834	5,330	2,210	2,571	4,781
Foreign exchange and interest rate contracts	A STATE OF THE STA					
Foreign exchange contracts	162	3,397	3,559	37	2,534	2,571
Currency and interest rate contracts	1,827	5,729	7,556	2,026	4,940	6,966
	1,989	9,126	11,115	2,063	7,474	9,537
TOTAL	4,485	11,960	16,445	4,273	10,045	14,318
	CAVITACISMO	WIND DIVINE	District Notice of	V 15 1 07 V 30 00		

The amount of capital stock, at \$409.4 million, and the general reserve, at \$28.9 million, remained unchanged from the previous year. The 1994 retained earnings including the recovery of income taxes, in the amount of \$6.8 million, were paid to members, at the beginning of 1995, as remuneration of capital stock.

Return on members' equity was 3.9% in 1994 (1993 : 3.4%). Expressed as a percentage of total assets, members' equity reached 8.2% in 1994 compared to 7.9% in 1993. As disclosed in note 12 of the financial statements, under the Incorporating Act, the Board of Directors may not declare or pay interest on shares where Caisse centrale is or would thereby become insolvent or when the paid-in share capital is or would be impaired.

Table XII
CONSOLIDATED BALANCE SHEETS \*
as at December 31

(in thousands of dollars)	1994	1993	1992	1991	1990
ASSETS					
Cash and deposits with Bank of Canada	40,789	10,212	53,517	86,594	36,837
Securities	1,300,554	1,108,005	1,088,628	893,536	
Loans	Committee of the commit		,,	000,000	000,070
. Members and associated corporations	2,859,636	2,972,917	3,429,331	1,985,888	1,193,135
. Public and parapublic sectors	294,565	364,107	548,304	529,994	
. Other loans	854,364	1,111,276	1,220,895		1,495,594
Other assets	78,571	76,448		89,005	
TOTAL ASSETS	5,428,479	5,650,965			4,073,490
LIABILITIES AND MEMBERS' EQUITY Deposits . Payable on demand . Payable on a fixed date Other Liabilities	210,587 4,552,852 153,988 4,917,427	236,209 4,801,087 113,314 5,150,610	174,681 5,633,504 135,047 5,943,232	4,354,459 83,337	3,454,481 91,984
Subordinated debentures Members' equity	66,991	55,960	58,594		
. General Reserve	28,940	28,940	28,940	44,694	37,733
. Retained Earnings	5,718	6,052	-	-	-
. Capital Stock	409,403	409,403	409,403	409,403	409,403
	444,061	444,395	438,343	454,097	447,136
TOTAL LIABILITIES AND			•		
MEMBERS' EQUITY	5,428,479	5,650,965	6,440,169	5,087,096	4,073,490

<sup>\*</sup> Some corresponding data, presented for the previous years, have been reclassified to meet the current year's presentation.



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

(in thousands of dollars)	1994	1993	1992	1991	1990	
Interest income						
Loans	295,984	319,839	344,212	348,768	403,112	
Securities	77,763	77,192	67,057	74,216	105,788	
	373,747	397,031	411,269	422,984	508,900	
nterest expense						
Deposits	322,944	346,494	354,750	356,272	432,617	
Net interest income	_50,803	50,537	56,519	66,712	76,283	
Provision for loan losses	20,067	24,067	49,500	9,000	10,500	
Net interest income after provision						
for loan losses	30,736	26,470	7,019	57,712	65,783	
Other income	_13,046	13,973	18,402	13,943	14,401	
Net interest income and other income	43,782	40,443	25,421	71,655	80,184	
Non-interest expenses						
Salaries and other staff benefits Premises, equipment and furniture,	10,680	10,607	10,003	8,610	8,045	
including depreciation	4,972	4,850	4,408	3,568	3,485	
Other	5,107	4,834	4,501	3,315	3,536	
TOTAL	20,759	20,291	18,912	15,493	15,066	
Net income before income taxes	23,023	20,152	6,509	56,162	65,118	
Provision for income taxes	5,629	5,146	2,250	9,878	11,101	
NET INCOME	17,394	15,006	4,259	46,284	54,017	

<sup>\*</sup> Some corresponding data, presented for the previous years, have been reclassified to meet the current year's presentation.





**Desjardins**