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La Caisse centrale
Desjardins du Québec



1987

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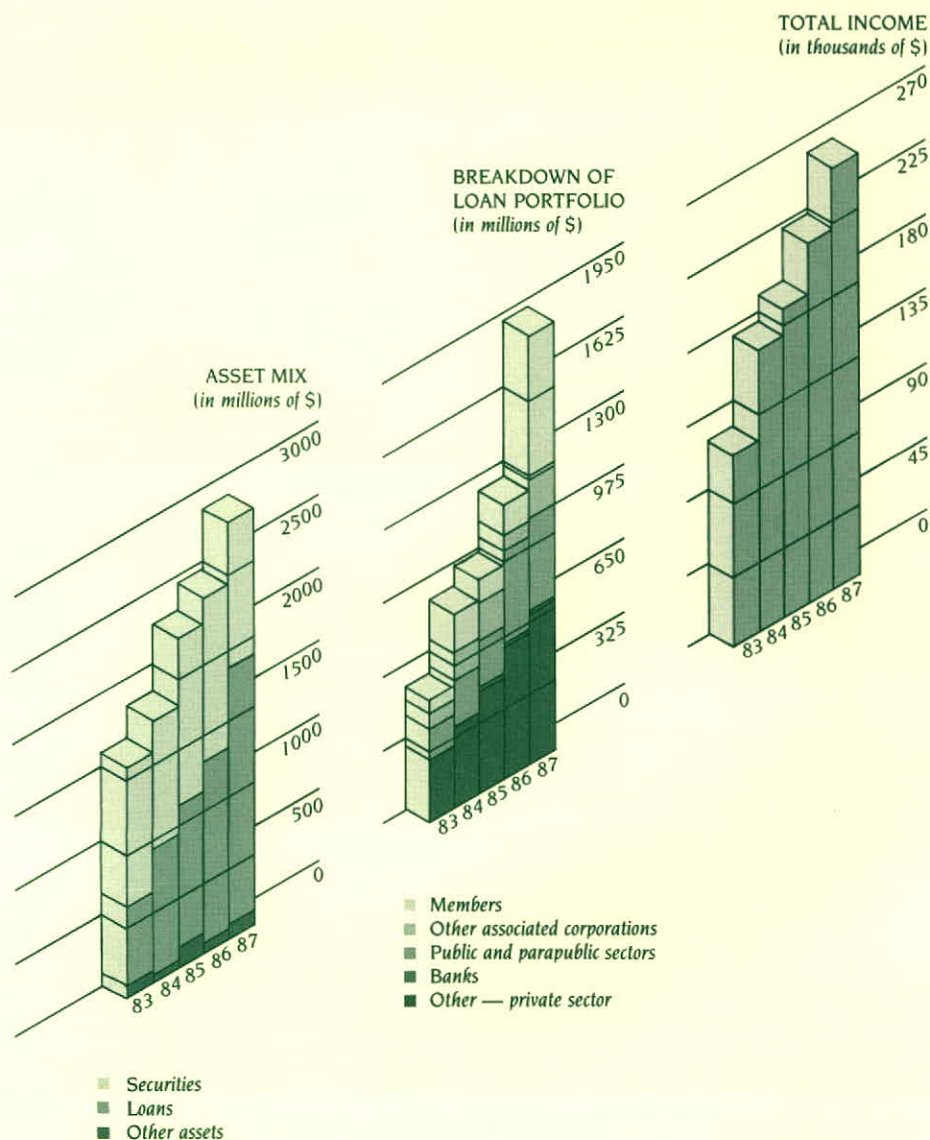


Desjardins

FINANCIAL HIGHLIGHTS 1983-1987

As at December 31 (in thousands of \$)	1987	1986	1985	1984	1983
Total assets	2,846,895	2,415,555	2,246,997	1,774,334	1,563,457
Loans	1,907,104	1,211,262	967,296	858,335	539,150
Securities	853,251	1,135,834	1,140,647	871,252	943,347
Deposits	2,372,077	1,965,286	1,807,774	1,336,572	1,088,079
Capital and reserves	422,401	418,360	415,530	413,169	411,559
Total income	257,581	218,117	187,700	170,811	116,519
Net income	36,572	38,881	38,666	40,418	39,371
Remuneration of capital stock	34,339	38,993	42,620	45,816	46,039
Other payments to members	5,405	5,051	1,655	1,511	531

Note: Unless otherwise stated, the terms "Caisse Centrale", "Members" or "Desjardins caisses" used in this report mean La Caisse centrale Desjardins du Québec, the 11 federations of the Desjardins Group and Desjardins caisses respectively.



"The Caisse populaire
will be the focal point
for a network of new
projects. Its success will
inspire confidence and
spur people towards
other economic achieve-
ments. These new con-
cepts will give rise to a
manifold program of
the most fruitful col-
lective activities."

Alphonse Desjardins

CONTENTS

Financial Highlights	
Message to Members	3
Review of Operations	7
Financial Overview	13
Financial Statements	19
Directors	31
Officers and General Information	32

Throughout the 1987 fiscal year, in keeping with its objectives and planning, Caisse Centrale Desjardins emphasized service and integration with the Desjardins Group. Created to meet the new and increasing needs of its members, the Caisse Centrale centered its efforts on attaining this goal while maintaining the rigorous management standards which have always formed the basis of the organization's outstanding growth in a highly competitive environment. Entering its ninth year of operation, the Caisse Centrale is proud to present a balance sheet and services worthy of its members' expectations and clients' needs.

Fiscal year 1987 was marked by several events whose repercussions were felt throughout the economic and financial world. In general, however, this unstable economic situation did not impair the operations or the financial equilibrium of the Caisse Centrale. Problems of solvency in certain borrowing countries, imbalances caused by the trade deficits in industrialized countries, North American government deficits, changing competition, and the October 1987 stock market crash did not affect our results to any significant degree.

Such a situation does nevertheless bear out the judiciousness of cautious management in all our activities. Sound risk management and effective cost control is reflected in the quality of the assets we have built up in a competitive, unpredictable environment characterized by narrow margins and high demand for quality service. This year once again, the Caisse Centrale reported no loan losses or non-productive assets.

In 1987, diversification of our supply of funds was given top priority. The Caisse Centrale issued securities in Yen, Swiss francs and US dollars for a total of \$287 million, a record high on a yearly basis. All our foreign currency issues were converted into Canadian dollars, thus avoiding virtually any risk associated with exchange operations. Over one quarter of our funds now come from various sources outside of Canada.

The success of our various 1987 issues can be attributed in large part to the sustained level of our credit ratings despite a turbulent period during which several institutions experienced a downgrading of their ratings. The excellent reputation and strong backing of the Desjardins Group is a major asset in maintaining Caisse Centrale's credit ratings. The Group's assets rose by 15%, combined with a lower loan loss ratio and a most satisfactory level of profitability. The activities of the Desjardins Group are mostly in Quebec, where growth is currently above the national average and is thus benefiting from the province's expansion.

With regard to our sources of income, diversification and growth continued. In keeping with the Desjardins Group policies, our short-term portfolio is made up exclusively of high-quality securities. As in the past, optimum matching and advanced techniques ensure protection of our assets. Income from loans and non-interest income experienced significant growth. On the whole, total income for the Caisse Centrale exceeded by far the objectives set for 1987.

The Caisse Centrale offers its members and clients a wide range of financial services and high-quality bank products, either directly or in conjunction with the Group. In each case, we are attentive to the needs and expectations of our clients, while respecting the industry's current profitability standards.

Loans to members and other associated corporations rose sharply in 1987. It is quite apparent that the Caisse Centrale made it possible for the Desjardins Group to benefit from a source of funds at the right moment and at satisfactory conditions, thus meeting the expectations of its members.

The Caisse Centrale is keeping a close watch on financial institution deregulation. All our activities, in Quebec as well as elsewhere in Canada and abroad, could be affected by legislative changes. Given the determination of various governments to adopt new laws and regulations, 1988 could be a turning point. We are keeping a close look on developments, to the



extent that our activities could be affected, and we are proceeding with the appropriate studies and consultations. All our efforts in this regard are aimed at ensuring the smooth continuity of our operations and respect for the new regulations to which we may eventually be subject. We remain mindful of the Caisse Centrale's objectives, the needs of our members and the continuity of our activities in a context of complementary services integrated into the Desjardins Group.

Fiscal year 1987 was also marked by major changes in the administrative organization of the Caisse Centrale. After seven years of untiring dedication and admirable results throughout, the very first President and Chief Operating Officer of the Caisse Centrale handed in his resignation. Mr. Bruno Riverin, whose achievements cannot be praised too highly, enabled the Caisse Centrale to make its debut in the financial world and later to become a financial institution of which the Desjardins Group can rightfully be proud. We are deeply grateful for his many contributions and wish him continued success in his career in financial management.

A. Hervé Hébert, President and Chief Executive Officer of Fiducie du Québec, and a member of the Board of Directors and Executive Committee of the Caisse Centrale, retired after being part of management since inception. We thank Mr. Hébert for the qualities of leadership he brought to the Caisse Centrale.

Resulting from changes in the composition of the Board of Directors, all members are now exclusively from the eleven federations. In addition, a request was submitted by the Caisse Centrale to the Caisses' Confédération to become an auxiliary member. This request was granted by the Confédération's Board of Directors.

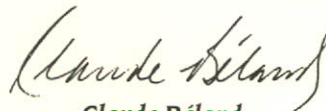
The Caisse Centrale continues to increase its participation in the Desjardins Group, assuming a greater role not only as supplier of specialized services, but also through its commitment to the fundamental principles of the Group.

The principles underlying the Group's operations were defined at the 14th conference held in November 1986. They are as follows:

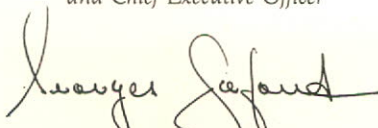
- money at the service of human development;
- personal commitment;
- democratic action;
- integrity and rectitude in cooperative undertakings;
- solidarity in the community.

In its own way, given its structure and its corporate mission, the Caisse Centrale upholds these values and contributes to their development within and outside the Group.

Our human resources are fully capable of grasping and reflecting the values belonging to our organization. We can rely on a group of exceptional individuals from various backgrounds, all working towards the common objective of making the Caisse Centrale a leader in its field. We wish to thank the entire staff of the Caisse Centrale whose efforts have always enabled us to go beyond our objectives.



Claude Béland
Chairman of the Board
and Chief Executive Officer



Georges Lafond
President and Chief Operating
Officer



Review of Operations

During the 1987 fiscal year, we centered our efforts on the specific needs of our clients, federation members, associated corporations, public and parapublic agencies, and medium-sized and large businesses, primarily in Canada. The following is a report of the most significant events to affect our operations during that period.

Federations, their affiliated caisses and associated corporations

The Caisse Centrale represents the federations and their affiliated caisses in the Canadian Clearing and Payment System. As a member of the Canadian Payments Association, it guarantees and settles the clearing operations of the Desjardins caisses on a daily basis directly with the Bank of Canada. It also represents the Desjardins Group in dealing with the Receiver General of Canada.

The Caisse Centrale manages, on behalf of the federations and their affiliated caisses, a liquid reserve fund of over \$400 million. It has created a portfolio of marketable securities consisting mainly of primary reserves, including its cash on hand and deposits with the Bank

Mario Lavoie and Suzanne Geoffrion confer with Michel Jourdain, (left) Senior Vice-President, Finance of the Fédération des caisses populaires Desjardins de Montréal et de l'Ouest-du-Québec



of Canada, as well as secondary reserves in the form of liquid securities, government Treasury bills, bankers' acceptances and high-quality commercial paper. It can also borrow from the Bank of Canada which acts as lender of last resort for the Canadian bank network.

The federations have access to lines of credit from the Caisse Centrale. During the year, it paid increasing attention to extending their deposit terms, primarily by using financial markets in Canada and abroad. This activity was completed at times through synthetic products of interest rate management to better meet the objectives of the organization and those of its member federations.

The year 1987 was an exceptional period in Quebec. Preliminary data indicates that growth exceeded 5% during this fifth year of economic recovery. The high volume of activity in the real estate market, a record level of consumer spending and

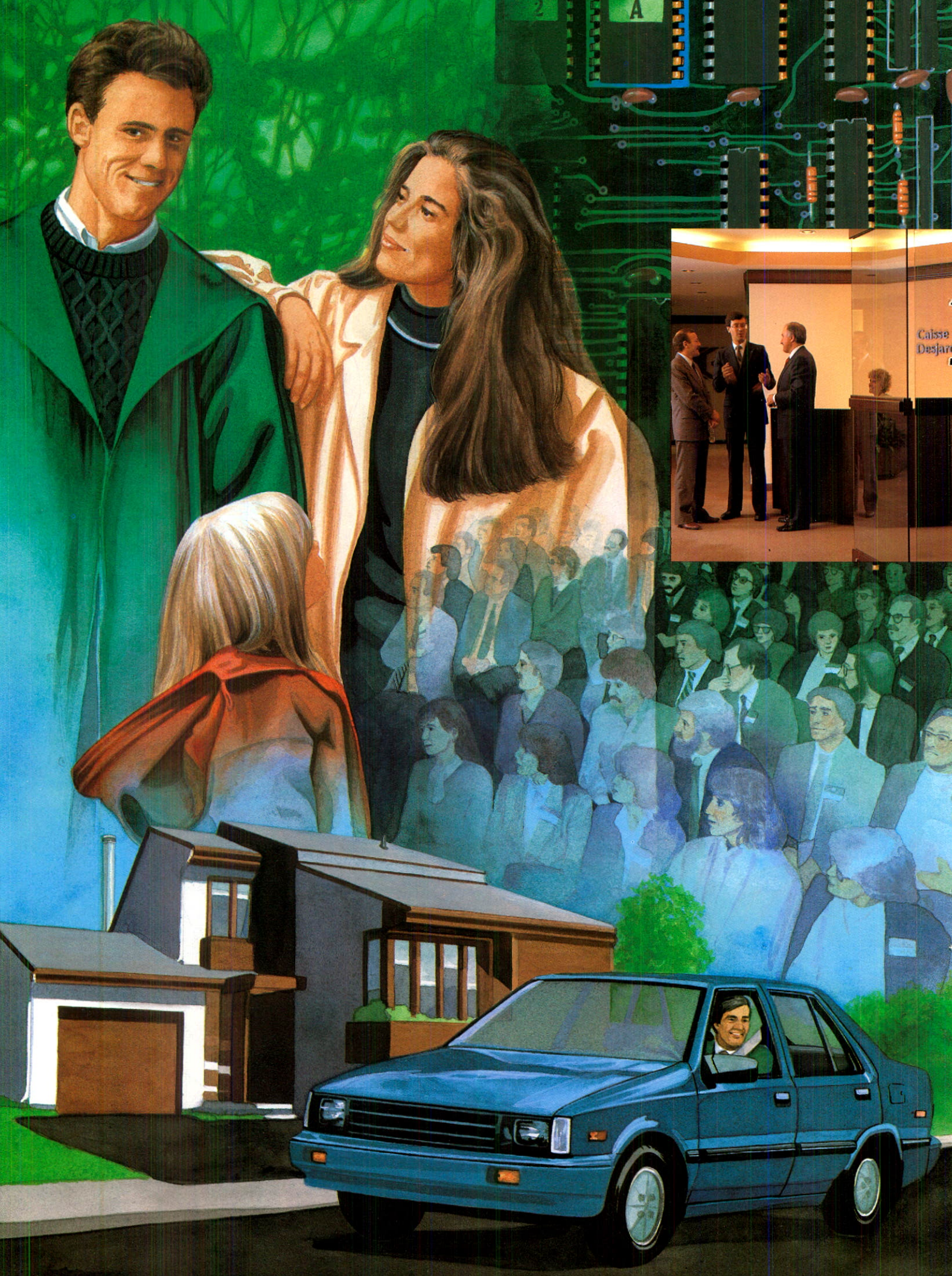


a relative stability of interest rates stimulated the growth of demand for mortgage and personal loans at the Desjardins caisses. Through their federations, the caisses were able to use the Caisse Centrale as a source of additional funds whenever they were unable to find sufficient local supplies or when the terms of deposits did not coincide with those of the loans. This resulted in a substantial increase in the number of loans to the federations and interest rate swaps underwritten by the Caisse Centrale. The Caisse Centrale uses swaps and other interest rate operations to help its clients hedge risks stemming from interest rate fluctuations.

Maurice Guay and Trung Nguyen are reviewing the terms and conditions of certain international services with Pierre Labonté, (left) Manager, Accounting and Control of the Fédération des caisses populaires Desjardins du Centre du Québec

The officers:

President and Chief Operating Officer, Georges Lafond; Senior Vice-Presidents Jean Laflamme, Finance and Administration; Jean-Guy Langelier, Operations and Banking Services; Fernand Lafleur, Corporate Financing.



Fernand Lafleur discusses the need for collaboration with Michel Thérien, President and General Manager of Centre Desjardins de traitement de cartes Inc. (Visa) and Pierre Barnès, President and General Manager of Crédit Industriel Desjardins Inc.

In addition, the caisses can form blocs of mortgage loans and transfer them to the Caisse Centrale to maintain a balance between their permanent capital and long-term growth. The caisses continue to manage these loans; the operation does not affect the borrowing member in any way. This is another of the mechanisms developed by the Caisse Centrale to allow the caisses to sustain their growth on traditional markets.

The Desjardins caisses have acquired an outstanding reputation in the field of services to small and medium-sized businesses in Quebec. These businesses have been the driving force of the Quebec economy in recent years and everything points to their continuing to play this role in the foreseeable future. To help the caisses meet the needs of these businesses, particularly those whose activities extend beyond Canada, the Caisse Centrale improved its international banking services. It implemented a new software package to operate the SWIFT system with which all international financial



Marcel Gagnon is reviewing a financing project with Gérard Brouard, (center) Financial Analyst at the Municipal Affairs Ministry and Jean-Pierre Bélanger, (left) General Manager and Secretary-Treasurer of the Régie d'aqueduc intermunicipal du Bas-Richelieu.

transactions are carried out for its members and clients businesses. It also expanded its network of banking correspondents who now include over 150 financial institutions throughout the world. In addition, its information system was modified to process a growing volume of transactions more efficiently and to be in a position to fully meet future operational needs.

The Caisse Centrale has set itself the objective of offering the complete range of banking services to associated institutions and corporations of the Desjardins Group. In general, these operations are concluded at arm's length.

The Caisse Centrale participates in the financing of the



Yves Grimard and Jean-Pierre Morin, Manager of Mortgage Loans at La Sauvegarde are reviewing the terms and conditions of a loan participation.

Confédération's assets, in particular the accounts receivable portfolio of Visa Desjardins cardholders and certain computer equipment. It also provides to the Centre Desjardins de traitement de cartes Inc. required services. It acts as the principal banker for Fiducie du Québec, and Crédit Industriel Desjardins Inc. and gives them access to lines of credit required in the normal course of their operations. During the fiscal year, the Caisse Centrale entered into a number of joint financing agreements with La Sauvegarde Compagnie d'assurance sur la vie, Fiducie du Québec and Crédit Industriel Desjardins Inc.

The requirements and volume of national and international services vary from one federation to another. The expectations of the federations and their affiliated caisses are based on quality of service and ease of operations. Our main objective is still to maintain a highly competitive quality/price ratio for all the financial services we offer.





A meeting among Alfred Pfeiffer, Kenneth G. Spurling (Toronto office) and Lorraine Bell, Vice-President and Manager of Swaps for Prudential Bache Canada Ltd. (Toronto)

reduced rates. The Caisse Centrale has fallen into line with this trend by providing local caisses and their institutional clients access to new products such as fixed-rate loans for very short periods.

Technology plays a leading role in the development of financial services. The Desjardins Group is in the forefront of this field in Quebec. There are more than 674 municipalities in the province where the only financial institution is a caisse. The banking services of the Caisse Centrale are offered through the Group to

corporate clients and public sector institutions. Using the Desjardins information system allows clients optimal use of their funds. We also offer our clients an integrated

range of products and services such as high volume accounts, payment of bonds and coupons, traditional and electronic transfers of funds. During 1987, many clients used our consignment cheque service, a product of the most advanced technology, increasingly required by institutions that issue a large volume of cheques.

The Caisse Centrale played a major role in financing municipalities by means of term notes and continues to



Jean Longpré and Guy Choinière are reviewing with Serge Gadbois, (center) Vice-President, Finance at Épicieris unis Métro-Richelieu Inc. the terms and conditions of our last financing offer.

be a dominant force in that sector. It granted over 600 loans to Quebec municipalities, representing commitments of some \$150 million. Caisse Centrale's operations play a complementary role to that of the federations and caisses, integrating its activities into the Group's, while the caisses remain the privileged institution in local towns and municipalities.

The network of caisses, federations, and the Caisse Centrale now controls approximately 77% of the market for municipal financing through term notes. In general, the expertise developed by the Desjardins Group in this field makes it an invaluable resource for municipalities and paramunicipal agencies.

Public and parapublic institutions

In this sector, the Caisse Centrale continues to play an important complementary role in the Desjardins Group. The Caisse Centrale grants funds required by institutions directly, through the federations or jointly with local caisses. Although traditional loans still represent a major part of our financing methods for this type of clientele, we tend to increase the use of money market instruments to obtain



Jean Héon and Raymond Chamberland provide an update on our direct deposits services to Robert Dion, Treasurer and Controller of the Montreal Urban Community Transport Commission.

Medium-sized and large businesses

The advent of new technologies has had and will continue to have a significant impact on the management and structure of financial institutions. The most striking technological developments in the banking sector occurred in retail operations. Electronic transfers of funds have made it possible for the Caisse Centrale, through the network of federations and caisses, to offer corporate clients direct deposit and account collection services.

With competition on the rise, corporate clients are looking for increasingly sophisticated banking services. Financial institutions must provide computerized services capable of direct access to accounts, operations on money markets and computerized cash management. Advanced-technology services are essential to the management of bank operations conducted by medium-sized and large businesses. In 1987, the Caisse Centrale intensified its efforts to develop and market products aimed at its corporate clientele.

Company treasurers continued to manage their commitments with the greatest of care and to seek sources of financing other than bank loans. In this context, the Caisse Centrale continued to strengthen its presence in the markets, conducting major operations in Montreal and Toronto.

In 1987, the Caisse Centrale maintained its strict management and risk control policies. In the final analysis, the profitability and stability of the Caisse Centrale can be attributed to its credit policy. The quality and diversification of its loan and investment portfolios remain two of the vital elements of risk management. The Caisse Centrale has recorded zero loan losses to date, a tribute to its rigorous approach to risk management.

Medium-sized and large businesses acknowledge the Caisse Centrale as a flexible lender, capable of innovating and meeting the specific needs of its clients while keeping formalities and delays to a minimum. The organization's reputation for top-quality services derives from the competence and dynamism of its professionals. Top priority is given to accurate assessment of each client's needs, followed by close coordination of treasury and corporate financing activities, allowing us to offer our members and clients competitive services on the money markets. One of the distinctive characteristics of the Caisse Centrale is its

ability to give members and clients direct access to its team of traders.

The Caisse Centrale continues to stress participation in banking syndicates through which it not only shares credit risks with other financial institutions but also has access to their expertise. The Caisse Centrale has adopted very strict policies with respect to risk sharing and the size of its loans; it has set certain limits for commitments to a client or group of associated clients, and for commitments in any given economic sector.

In the prevailing context of competition, we must rely on the quality and competence of the men and women who are in direct contact with our clients, the technicians who oversee our information systems, in short all those whose skills and professionalism make the Caisse Centrale a reliable and dynamic financial institution.

The contents of the following Financial Overview attest to the outstanding teamwork of the Caisse Centrale personnel.

Asset Growth

As at December 31, 1987, total assets of the Caisse

Centrale stood at \$2.8 billion, up 17.8% or \$431 million over the previous year.

This increase is attributable in large part to loans, which rose by 57.5% over the previous year.

Table I
ASSETS MIX
as at December 31

(in millions of \$)	1987	1986	1985	1984	1983
Securities	853	1,136	1,141	871	943
Loans	1,907	1,211	967	858	539
Other assets	87	69	139	45	81
Total	2,847	2,416	2,247	1,774	1,563
Average assets	2,810	2,284	1,873	1,548	1,171

The marked growth in the loan portfolio was the result of meticulous planning, a highly selective risk policy and specific risk diversification objectives, based on sectorial and geographical factors. Table II shows the loan portfolio mix and provides details on geographical diversification at year-end.

The loan portfolio totalled \$1,907 million at year-end, an increase of \$696 million over the previous year. This growth can be attributed primarily to loans to members and other associated corporations, which rose to \$818 million, or \$605 million over the previous year's total of \$213 million. The

True to its policy of geographic diversification, the Caisse Centrale intensified its efforts to develop markets outside Quebec. The growth in loans to large businesses occurred primarily in Ontario and other provinces. We have also embarked on risk-sharing operations in the United States.

Caisse Centrale entirely fulfilled its role of last resort lender for the federations and affiliated caisses.

Loans to private sector businesses and banks reported a relative growth of 15.3%, totalling \$680 million in 1987, compared with \$590 million the previous year.

Table II
BREAKDOWN OF LOAN PORTFOLIO
as at December 31

(in millions of \$)	1987	1986	1985	1984	1983
Members	624	131	129	172	56
Other associated corporations	194	82	159	121	58
Public and parapublic sectors	409	408	220	210	146
Banks	8	8	8	—	—
Other — private sector	672	582	451	355	279
Total	1,907	1,211	967	858	539
Quebec	1,443	861	704	677	395
Ontario	374	328	211	134	92
Other provinces	90	22	52	47	52
Total	1,907	1,211	967	858	539
Average loans	1,640	1,114	873	669	397

A close look at the increase in average annual volume of assets and their components indicates the extent of growth of the Caisse Centrale's activities. Average annual assets rose by \$526 million, standing at \$2.8 billion at year-end. This increase is attributable wholly to loans, which reported a growth rate of 47.2%, from \$1,114 million in 1986 to \$1,640 million in 1987.

Liquidity Management

A corporate objective of the Caisse Centrale is to manage a portion of the primary liquid assets of the Desjardins caisses. In addition, the Caisse Centrale must maintain sufficient liquidities for its own operations. The primary objectives of liquidity management are to coordinate deposit withdrawals and loan maturity dates and meet the needs of clients who wish to borrow or

repay. Liquidity assets also has a significant impact on the return on the performance of the Caisse Centrale assets.

At year-end, the securities portfolio totalled \$853 million, a drop of \$283 million compared to the previous year's total. It should be noted that the average annual volume of securities rose slightly, totalling \$1,112 million at year-end.

The federations, on behalf of their affiliated caisses, used the Caisse Centrale as a source of funds when they were unable to obtain sufficient funds or when deposit terms did not coincide with those of the loans granted by the caisses. The federations also adhered to strict policies with respect to liquidity management assets and matching operations.

As shown in Table III, the securities issued or guaranteed by Canada, the provinces and municipal or school corporations in Canada, account for 57.3% of the year-end total. Other securities in the amount of \$364 million are composed of securities from banks and other institutions allowed to raise deposits, totalling \$301 million.

Table III
BREAKDOWN OF THE SECURITIES PORTFOLIO
as at December 31

(in millions of \$)	1987	1986	1985	1984	1983
Canada	443	438	260	283	134
Provinces	46	109	137	127	154
Other Canadian issuers	364	588	743	460	654
Foreign issuers	—	1	1	1	1
Total	853	1,136	1,141	871	943
Average securities	1,112	1,066	864	817	694

Deposit liabilities

At year-end, outstanding deposits totalled \$2.4 billion, an increase of 20.7% over the 1986 figure of \$2 billion. Deposits payable on demand rose slightly compared to 1986, to \$182 million at

December 31, 1987. Deposits from members and other associated corporations declined by \$36 million, standing at \$108 million at year-end. Asset growth was financed mainly by other deposits raised on financial

markets. These deposits increased from \$1,533 million as at December 31, 1986 to \$1,972 million in fiscal 1987, a rise of 28.6%. The breakdown of deposits at year-end is shown in Table IV. During 1987, the Caisse Centrale continued to diversify its sources of medium-term funds by issuing securities for \$287 million on both private and public American, European and Asian markets. As at December 31, 1987, foreign sources of funds represented 28% of fixed-term deposits.

Table IV
DEPOSITS
as at December 31

(in millions of \$)	1987	1986	1985	1984	1983
Members	36	81	222	215	219
Other associated corporations	72	63	37	15	21
Canada	256	277	348	187	457
Public agencies	36	11	16	34	16
Other deposits	1,972	1,533	1,185	886	375
Total	2,372	1,965	1,808	1,337	1,088
Average deposit liabilities	2,343	1,818	1,421	1,099	734

Off-balance sheet transactions

As part of its own operations and of the services it offers, the Caisse Centrale underwrote various off-balance sheet contracts and commitments which form part of the contingent liability items. A number of these financial vehicles are used to reduce the risks related to fluctuations in interest rates and exchange rates.

All off-balance sheet transactions are subject to the credit-risk criteria, financial controls, maximum risks and regular monitoring procedures of the Caisse Centrale.

Operating results

Total income rose to an unprecedented level of \$257.6 million, an increase of 18.1% over the 1986 figure of \$218.1 million. This increase is attributable entirely to the growth in income from loans, which rose from \$116.2 million in 1986 to \$154.2 million in 1987, an increase of \$38 million or 32.7%. Loan operations are the main source of income for the Caisse Centrale. These accounted for 60% of total income in 1987, compared to 53.3% in 1986, and 54% in 1985. The increase stems primarily from the average volume of operations recorded throughout 1987. When interpreting the results, it should be noted that the income arising from loan operations is based on the volume of operations, the

trend in interest rates and the spread between the rates at which the Caisse Centrale obtains funds from its depositors and those at which it lends these funds. Income from investment operations, in turn, also depends largely on changes in interest rates on the money market during the fiscal year. The securities portfolio generated an income of \$92.7 million, compared with \$94.1 million for the previous year. This relative decrease is the result of a decline in income from securities and can be compared to the decrease in 90-day Canadian Treasury bills, which reported an average of 8.99% in 1986 compared with 8.17% in 1987. During the fiscal year, the highest rate was 9.58%, while the lowest was 6.78%.

Other income

Other income reached a new peak, totalling \$10.7 million at year-end, an increase of 37.4%.

Main sources of non-interest income are shown in Table V. Administration fees amounted to \$5.7 million in 1987, up 16.5% over 1986. In

keeping with our objective of diversification, our income from foreign exchange operations and international services rose by 126.3% and our income from loan commissions by 210.1%. The total other income rose to \$10.7 million in 1987, an increase of \$2.9 million over the 1986 total of \$7.8 million.

The contribution from non-interest income also increased, accounting for 4.2% of total income, compared with 1.2% in 1984.

Table V
OTHER INCOME
as at December 31

(in thousands of \$)	1987	1986	Change (in %)
Fees from foreign exchange operations and international services	844	373	126.3
Administration fees	5,675	4,872	16.5
Service fees	2,384	1,870	27.5
Loan commissions	1,659	535	210.1
Other	128	130	(1.5)
Total	10,690	7,780	37.4

Net interest income

Net interest income totalled \$48.6 million in 1987, compared with \$51.8 million in

1986. However, net interest income stemming from the Caisse Centrale's own activities, after remuneration of

capital stock, stood at \$14.3 million, compared with \$12.8 million in 1986.

Non-interest expenses

Non-interest expenses include all operating expenses of the Caisse Centrale with the exception of interest expenses, the provision for loan losses and income taxes.

The Caisse Centrale stresses close links with its clientele and needs a sufficient number of highly qualified employees, as well as adequate, efficient technological resources to meet the needs of its clients thus the personnel administration expenses account for nearly 50% of total operating expenses.

Non-interest expenses totalled \$12.4 million in 1987, compared with \$10.1 million in 1986. Expressed as a percentage of average assets, however, they stand at 0.44%, the same level as the previous year.

The main items of operating expenses appear in Table VI. Growth and diversification of our activities combined with the total write-off of our expenses to develop the computer system resulted in greater expenses for premises, equipment and furniture, which increased by \$1.5 million for

a total of \$3.8 million at year-end. The increase in sub-contracting expenses also stems from the growth in the volume of transactions.

Other expenses declined slightly, however, totalling \$2.5 million in 1987.

Other comments

Net income for the year ended December 31, 1987 stood at \$36.6 million, compared with \$38.9 million in 1986. A total amount of \$34.3 million was allocated to the remuneration of capital stock, which represents an annual return of 8.72% on the capital, compared with 9.95% in 1986. Other payments to members rose to \$5.4 million, compared with \$5.1 million in 1986.

The quality of our loan portfolio remains very high, owing to the fact that the Caisse Centrale continues to record no loan losses, as it has since inception. However, we thought it prudent to set aside \$2.3 million as provision for loan losses in reduction of net interest income. The cumulative provision for loan losses represented \$7.7 million at December 31, 1987.

Table VI
NON-INTEREST EXPENSES
as at December 31

(in thousands of \$)	1987	1986
Salaries, pension and other staff benefits	6,161	5,259
Premises, equipment and furniture		
Rental and taxes	1,075	624
Amortization, including preliminary expenses	1,407	756
Sub-contracting expenses	1,115	727
Other expenses	161	144
	3,758	2,251
Other expenses		
Advertising, promotion and business development	719	891
Communications	430	447
Insurance	67	55
Supplies, stationery and printing	291	264
Fees for professional services	546	501
Other	411	399
	2,464	2,557
Total	12,383	10,067
Non-interest expenses on average assets	0.44%	0.44%

After remuneration of capital stock and other payments to members, the Caisse Centrale

generated an amount of \$4 million which was transferred to the general reserve as provision for contingen-

cies. That same provision amounted to \$2.8 million in 1986.

**Table VII
CAPITAL RATIOS
as at December 31**

(in millions of \$)	1987	1986	1985	1984	1983
Total assets	2,847	2,416	2,247	1,774	1,563
Members' equity:					
Capital stock	409	409	409	409	409
General reserve	13	9	6	4	2
Total capital	422	418	415	413	411
Capital to assets ratio	14.8%	17.3%	18.5%	23.3%	26.3%

Capital ratios

Capital remained at \$409.4 million while the general reserve rose to \$13 million, following an entire transfer of retained earnings for the year. The capital ratio was 17.3% in 1986 and 14.8% in 1987. Table VII shows the progression of this ratio over the past five fiscal years.

**Supplement to the
financial review**

Tables VIII and IX show the

progression of the assets and liabilities and income over the past five fiscal years.

**Table VIII
STATEMENT OF ASSETS AND LIABILITIES
as at December 31**

(in thousands of \$)	1987	1986	1985	1984	1983
Assets					
Cash, deposits with Bank of Canada and items in transit	48,000	46,196	114,928	24,337	61,166
Securities	853,251	1,135,833	1,140,647	871,252	943,347
Loans	1,907,104	1,211,262	967,296	858,335	539,150
Other assets	38,540	22,264	24,126	20,410	19,794
Total assets	2,846,895	2,415,555	2,246,997	1,774,334	1,563,457
Liabilities					
Deposits					
Payable on demand	182,185	168,451	430,823	220,842	435,662
Payable on a fixed date	2,189,892	1,796,834	1,376,951	1,115,730	652,417
Other liabilities	52,417	31,910	23,693	24,593	63,819
	2,424,494	1,997,195	1,831,467	1,361,165	1,151,898
Capital and Reserves					
General reserve	12,998	8,957	6,127	3,766	2,156
Capital stock	409,403	409,403	409,403	409,403	409,403
Retained earnings	—	—	—	—	—
	422,401	418,360	415,530	413,169	411,559
Total liabilities, capital and reserves	2,846,895	2,415,555	2,246,997	1,774,334	1,563,457

Table IX
STATEMENT OF INCOME
year ended December 31

(in thousands of \$)	1987	1986	1985	1984	1983
Interest income					
Loans	154,241	116,196	101,432	75,642	37,999
Securities	92,650	94,142	83,040	93,114	76,777
	246,891	210,338	184,472	168,756	114,776
Interest expense					
Deposits	198,266	158,550	130,603	112,848	63,412
Net interest income	48,625	51,788	53,869	55,908	51,364
Provision for loan losses	2,250	2,000	1,750	1,500	200
Net interest income after provision for loan losses	46,375	49,788	52,119	54,408	51,164
Other income	10,690	7,780	3,227	2,054	1,744
Net interest income and other income	57,065	57,568	55,346	56,462	52,908
Non-interest expense					
Salaries	5,212	4,489	3,445	3,047	2,161
Pension and other staff benefits	949	770	579	462	351
Premises and equipment, including amortization	3,758	2,250	1,914	1,881	1,168
Other	2,464	2,558	2,255	1,781	1,214
Total	12,383	10,067	8,193	7,171	4,894
Income before income taxes	44,682	47,501	47,153	49,291	48,014
Income taxes	8,111	8,620	8,487	8,873	8,643
Net income	36,571	38,881	38,666	40,418	39,371

FINANCIAL STATEMENTS

CONTENTS

Financial Statements	
Year Ended	
December 31, 1987	
Statement of Assets and Liabilities	20
Statement of Income	22
Statement of Retained Earnings and General Reserve	23
Statement of Changes in Financial Position	24
Notes to Financial Statements	25
Management's Report	29
Auditors' Report	30

STATEMENT OF ASSETS AND LIABILITIES

ASSETS As at December 31	1987	1986
Cash Resources		
Cash and deposits with Bank of Canada	\$ 48,000,036	\$ 40,017,885
Cheques and other items in transit, net	—	6,177,743
	48,000,036	46,195,628
Securities (note 3)		
Issued or guaranteed by Canada	443,060,235	438,310,738
Issued or guaranteed by provinces and municipal or school corporations	45,845,542	108,888,136
Other securities	364,345,415	588,634,764
	853,251,192	1,135,833,638
Loans		
Day, call and short loans to investment dealers and brokers, secured	—	65,000,000
Other loans (note 4)	1,907,104,222	1,146,261,665
	1,907,104,222	1,211,261,665
Other Assets		
Fixed assets, less accumulated depreciation	1,896,714	2,110,449
Other assets (note 5)	36,643,094	20,153,607
	38,539,808	22,264,056
	\$2,846,895,258	\$2,415,554,987

LIABILITIES As at December 31**1987****1986****Deposits** (note 6)

Payable on demand \$ 182,185,610 \$ 168,451,177

Payable on a fixed date 2,189,891,876 1,796,834,387

2,372,077,486 1,965,285,564**Other Liabilities**

Cheques and other items in transit, net 13,270,389 —

Other liabilities (note 7) 39,146,511 31,909,574

52,416,900 31,909,574**CAPITAL AND RESERVES****General Reserve**

12,997,872 8,956,849

Capital Stock Issued (note 8)

409,403 shares 409,403,000 409,403,000

Retained Earnings (note 9) — —**422,400,872** 418,359,849**\$2,846,895,258** **\$2,415,554,987**

On behalf of the Board,



Director



Director

STATEMENT OF INCOME

Year Ended December 31	1987	1986
Interest Income		
Loans	\$154,241,218	\$116,196,063
Securities	92,649,727	94,141,838
Total interest income	246,890,945	210,337,901
Interest Expense	198,265,934	158,549,620
Net Interest Income	48,625,011	51,788,281
Provision for loan losses	2,250,000	2,000,000
Net Interest Income After Provision for Loan Losses	46,375,011	49,788,281
Other income	10,689,737	7,779,480
Net Interest and Other Income	57,064,748	57,567,761
Non-Interest Expense		
Salaries	5,211,621	4,488,503
Pension and other staff benefits	948,895	770,626
Premises, equipment and furniture, including amortization of deferred charges	3,758,176	2,250,331
Other expenses	2,464,357	2,557,839
Total non-interest expense	12,383,049	10,067,299
Income Before Provision for Income Taxes	44,681,699	47,500,462
Provision for income taxes		
Current	7,213,628	7,992,149
Deferred	896,100	627,000
	8,109,728	8,619,149
Net Income	\$ 36,571,971	\$ 38,881,313

STATEMENT OF RETAINED EARNINGS AND GENERAL RESERVE

Year Ended December 31	1987	1986
Retained Earnings		
Balance at beginning of year	\$ —	\$ —
Net income for the year	36,571,971	38,881,313
Remuneration of capital stock and other payments to members	(39,744,576)	(44,044,029)
Recovery of income taxes related to the remuneration of capital stock and other payments to members	7,213,628	7,992,149
Transfer to general reserve	(4,041,023)	(2,829,433)
Balance at end of year	<u>\$ —</u>	<u>\$ —</u>
General Reserve		
Balance at beginning of year	\$ 8,956,849	\$ 6,127,416
Transfer from retained earnings	4,041,023	2,829,433
Balance at end of year	<u>\$ 12,997,872</u>	<u>\$ 8,956,849</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31	1987	1986
Operating Activities		
Net income	\$ 36,571,971	\$ 38,881,313
Items not affecting cash resources		
Provision for loan losses	2,250,000	2,000,000
Depreciation expense	536,598	366,650
Amortization of preliminary expenses	—	274,623
Amortization of integrated computer system development costs	870,808	115,068
Deferred income taxes	896,100	627,000
Cash resources provided by operations	41,125,477	42,264,654
Net change in other assets and liabilities	(15,986,782)	12,130,676
Net cash resources provided by operations	25,138,695	54,395,330
Financing Activities		
Deposits	406,791,922	157,511,810
Cash resources available before investment activities and remuneration of capital stock	431,930,617	211,907,140
Investment Activities		
Securities	(282,582,446)	(4,812,991)
Loans	698,092,557	245,965,211
Fixed assets	322,863	1,435,814
	415,832,974	242,588,034
Remuneration of capital stock and other payments to members, net of related recovery of income taxes	27,563,624	38,051,064
Decrease in cash resources	(11,465,981)	(68,731,958)
Cash resources at beginning of year	46,195,628	114,927,586
Cash resources at end of year	\$ 34,729,647 ⁽¹⁾	\$ 46,195,628

(1) Net of cheques and other items in transit, net

1. INCORPORATION

La Caisse centrale Desjardins du Québec was established on June 22, 1979, by an Act of the Québec Legislature [An Act to amend the Act respecting La Confédération des caisses populaires et d'économie Desjardins du Québec (S.Q. 1971 c. 80—S.Q. 1979

c. 46 and amendments)]. La Caisse centrale Desjardins du Québec is a cooperative institution that is also governed by the Savings and Credit Unions Act of Québec.

2. SIGNIFICANT ACCOUNTING POLICIES**a) Securities:**

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

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

b) Loans:

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

Interest income is recorded on the accrual basis. Loans are placed on a nonaccrual basis whenever (a) there is doubt regarding the collectibility of principal or interest or (b) when payment of interest is ninety days past due unless management determines that the collectibility of principal and interest is not reasonably in doubt. Upon classification of a loan to a nonaccrual basis, any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, amounts received on nonaccrual loans are recorded as interest income on the date of receipt.

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

c) Interest Rate and Cross Currency Swaps:

La Caisse centrale Desjardins du Québec enters into interest rate and cross currency swaps as a principal in order to manage interest rate and foreign currency

exposure. Income or expense associated with interest rate and cross currency swaps is recorded over the life of the agreements.

d) 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	Depreciation Methods	Rates
Office furniture and equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Computer software	Straight-line	20%
Leasehold improvements	Straight-line	11%

e) 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 monthly at prevailing market rates and the resulting gains and losses are included in "Other income".

f) Income Taxes:

La Caisse centrale Desjardins du Québec provides for income taxes using the tax allocation method. Deferred income taxes arise mainly from claiming a tax allowable loan loss provision different from the amount recorded in the financial statements.

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.

3. SECURITIES

	Maturity				1987		1986	
	Within 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Carrying value	Market value	Carrying value	Market value
Securities issued or guaranteed by								
Canada	\$394,104,367	\$37,516,009	\$10,419,229	\$1,020,630	\$443,060,235	\$442,811,165	\$ 438,310,738	\$ 438,314,137
Provinces, municipal or school corporations in Canada	45,746,891	98,651	—	—	45,845,542	45,881,736	108,888,136	108,832,665
Other Securities								
<i>Securities of Canadian issuers</i>								
Banks	256,308,748	—	—	—	256,308,748	257,470,423	448,115,180	448,200,514
Associated corporations	18,838,026	8,097,318	—	—	26,935,344	26,986,818	15,150,851	15,184,219
Other issuers	74,220,027	4,173,045	2,500,000	—	80,893,072	80,690,691	124,049,407	123,956,289
Shares of other issuers*	208,251	—	—	—	208,251	235,793	1,319,326	1,319,326
Total	\$789,426,310	\$49,885,023	\$12,919,229	\$1,020,630	\$853,251,192	\$854,076,626	\$1,135,833,638	\$1,135,807,150

* These securities have no stated maturity and include \$200,046 of an associated corporation (1986 – \$200,046)

4. OTHER LOANS

	1987	1986
Public and parapublic institutions	\$ 408,675,119	\$ 407,739,195
Banks	7,993,924	8,024,590
Members	624,163,877	131,350,609
Other associated corporations	193,815,543	82,449,464
Other – private sector	672,455,759	516,697,807
	\$1,907,104,222	\$1,146,261,665

5. OTHER ASSETS

	1987	1986
Accrued interest	\$ 26,447,500	\$ 14,016,731
Integrated computer system development costs, less amortization	—	870,808
Other assets	10,195,594	5,266,068
	\$36,643,094	\$ 20,153,607

6. DEPOSITS

	1987	1986
Canada	\$ 256,287,469	\$ 277,080,403
Provinces	35,855,652	10,500,259
Banks	364,583,583	296,962,226
Members – for clearing purposes	24,484,438	30,630,477
– for other purposes	11,493,145	50,129,078
Other associated corporations	72,177,240	63,886,293
Other deposits	1,607,195,959	1,236,096,828
	\$2,372,077,486	\$1,965,285,564

7. OTHER LIABILITIES

	1987	1986
Remuneration of capital stock payable	\$ 10,927,446	\$ 5,960,122
Accrued interest	19,163,052	21,977,457
Other liabilities	6,161,513	1,973,595
Deferred income taxes	2,894,500	1,998,400
	<u>\$ 39,146,511</u>	<u>\$ 31,909,574</u>

8. CAPITAL STOCK

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

La Caisse centrale Desjardins du Québec may, if authorized in writing by the Inspector General of Financial Institutions, redeem the shares held by a member

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

9. RETAINED EARNINGS

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

of retained earnings as at December 31, 1987 to the general reserve as a provision for contingencies.

10. REMUNERATION OF CAPITAL STOCK

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

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

11. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business La Caisse centrale Desjardins du Québec has various contracts and contingent liabilities such as future foreign exchange contracts, forward rate agreements, interest rate swaps and undrawn lines of credit. These items are not reflected in the statement of assets and liabilities. In the opinion of management, there are no material commitments or contingencies which represent unusual risks and no material losses are anticipated as a result of these transactions.

In addition, La Caisse centrale Desjardins du Québec guarantees the payment of liabilities and issues letters of credit on behalf of clients; in the event of a call, La Caisse centrale Desjardins du Québec has recourse against the clients.

The guarantees and letters of credit, which are not reflected in the statement of assets and liabilities, are as follows:

	1987	1986
Guarantees	\$12,205,026	\$ 761,811
Letters of credit	1,040,288	401,321
	<u>\$13,245,314</u>	<u>\$1,163,132</u>

Future rental commitments for long-term leases expiring up to April 30, 2005 amount to \$11,234,000. The annual rental payments for the next five years are as follows:

1988 – \$720,000;	1989 – \$719,000;
1990 – \$718,000;	1991 – \$716,000;
1992 – \$716,000.	

12. 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.

	1987	1986
Cheques and other items in transit, debit balance	\$ 5,662,216	\$ 1,330,762
Other assets	10,461,487	4,682,481
Other liabilities	11,897,301	7,510,466
Interest income	43,700,706	24,870,721
Interest expense	9,214,416	11,431,689
Other income	1,001,759	820,116

13. PENSION PLAN

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

An actuarial valuation of the pension plan is performed at least every three years. As at January 1,

1985, the date of the latest valuation, the pension plan was fully funded.

The total pension expense, arising from employer contributions, aggregated \$431,078 for the year ended December 31, 1987 (1986 – \$366,692).

14. SEGMENTED INFORMATION

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

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

MANAGEMENT'S REPORT

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

The accounting system of the Caisse Centrale and the related internal controls and procedures are designed to ensure the reliability of financial information and,

to a reasonable degree, the safeguard of assets against loss or unauthorized use. These procedures include quality standards in hiring and training of employees, an organizational structure with clearly defined lines of responsibility, written and up-dated policies and procedures, planning and follow-up of projects, budget controls by cost centers, and divisional performance accountability.

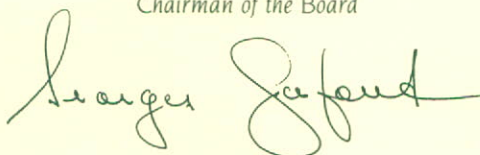
The Inspector General of Financial Institutions annually makes an examination of the affairs of the Caisse Centrale for the purpose of satisfying that the provisions of the Constituting Act, particularly with respect to the protection of the depositors, are being duly observed and that the Caisse Centrale is in a sound financial condition.

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

The independent auditors appointed by the general meeting of members, Raymond, Chabot, Martin, Paré and Touche Ross, have the responsibility of auditing the financial statements in accordance with generally accepted auditing standards and their report follows.



Claude Béland
President and
Chairman of the Board



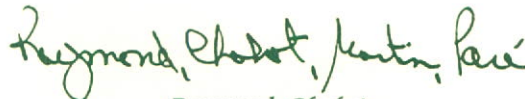
Georges Lafond
President and
Chief Operating Officer

AUDITORS' REPORT

To the Members of
La Caisse centrale Desjardins
du Québec

We have examined the statement of assets and liabilities of La Caisse centrale Desjardins du Québec as at December 31, 1987, and the statements of income, retained earnings and general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of La Caisse centrale Desjardins du Québec as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



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



Touche Ross
Chartered Accountants

Montreal
February 2, 1988

DIRECTORS

*** Claude Béland**

Town of Mount Royal
Chairman of the Board
President
La Confédération des caisses
populaires et d'économie
Desjardins du Québec

Jean-Eudes Bergeron

Métabetchouan
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins du Saguenay-
Lac St-Jean

*** Guy Bernier**

Montréal
Vice-Chairman of the Board
President and Chief
Executive Officer
Fédération des caisses populaires
Desjardins de Montréal et de
l'Ouest-du-Québec

*** Jacques Bertrand**

Ste-Foy
Secretary of the Board
President
Fédération des caisses populaires
Desjardins de Québec

**** Paul-Roch Charbonneau**

Joliette
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de Lanaudière

*** Raymond Comtois**

Sherbrooke
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de l'Estrie

*** Claude Deslandes**

St-Hyacinthe
Senior Vice-President
and General Manager
Fédération des caisses populaires
Desjardins de Richelieu-Yamaska

Wesley Hogg

Rimouski
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins du Bas St-Laurent

*** Gilles Lafleur**

Mirabel
Senior Vice-President and
General Manager
Fédération des caisses d'économie
Desjardins du Québec

Marc Lemieux

St-Nicolas
Senior Vice-President,
General Manager
Fédération des caisses populaires
Desjardins de Québec

Denis Martel

Amos
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de l'Abitibi

**** Albert Ouellet**

Maria
Senior Vice-President and
General Manager
Fédération des caisses populaires
Desjardins de la Péninsule
et des Îles

**** François Richard**

Laval
Senior Vice-President,
General Manager
Administration and Data
Processing
Fédération des caisses populaires
Desjardins de Montréal et de
l'Ouest-du-Québec

*** Henri-Paul Trudel**

Trois-Rivières Ouest
President
Fédération des caisses populaires
Desjardins du Centre du Québec

* Member of the Executive Committee

** Member of the Audit Committee

OFFICERS AND GENERAL INFORMATION

Claude Béland
President and
Chief Executive Officer

Georges Lafond
President and
Chief Operating Officer

Jean Laflamme
Senior Vice-President
Finance and Administration

Fernand Lafleur
Senior Vice-President
Corporate Financing

Jean-Guy Langelier
Senior Vice-President
Operations and Banking Services

Raymond Laurin
Vice-President
Control and Administration

Jean Longpré
Vice-President
Corporate Financing

Jacques Luys
Vice-President
Operations

Trung Huu Nguyen
Vice-President
International
Banking Services

Alfred Pfeiffer
Vice-President
Treasury

Kenneth G. Spurling
Vice-President
Treasury – Toronto

Auditors
Raymond, Chabot, Martin, Paré
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Issuing and Paying Agent, Transfer Agent

National Bank of Canada:
Quebec, Vancouver, Calgary,
Edmonton, Winnipeg, Toronto
and Halifax

Prospectus

A copy of the Canadian
Prospectus of the Caisse Centrale
may be obtained through the
Caisse Centrale or its brokers.

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

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