

# CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

## MANAGEMENT DISCUSSION AND ANALYSIS

*This annual management discussion and analysis (MD&A) supplements the financial statements and contains financial highlights but does not reproduce the full annual financial statements of Capital régional et coopératif Desjardins (CRCD). It presents management's assessment of CRCD's results for the period reported in the financial statements, as well as its financial position and any material changes to it.*

*CRCD's annual compounded returns expressed in this MD&A are net of expenses and income taxes while returns by activity or investment profile represent returns before expenses and income taxes.*

*This disclosure document contains management's analysis of forward-looking statements. Caution should be exercised in the interpretation of this analysis and these statements since management often makes reference to objectives and strategies that contain risks and uncertainties. Due to the nature of CRCD's operations, the associated risks and uncertainties could cause actual results to differ from those anticipated in forward-looking statements. CRCD disclaims any intention or obligation to update or revise such statements based on any new information or new event that may occur after the reporting date.*

*Copies of the annual financial statements may be obtained free of charge, on request, by calling 514 281-2322 or (toll free) 1 866 866-7000, extension 5552322, by writing to 2 Complexe Desjardins, P.O. Box 760, Desjardins Station, Montréal, Québec H5B 1B8, or from our website at [capitalregional.com](http://capitalregional.com) or SEDAR at [www.sedar.com](http://www.sedar.com).*

*Interim financial information may be obtained in the same way.*

# FINANCIAL HIGHLIGHTS AS AT DECEMBER 31

The following charts present key financial data and are intended to assist in understanding CRCD's financial results for the preceding five fiscal years. This information is derived from CRCD's audited separate annual financial statements. Financial information for fiscal years 2013 to 2016 is presented in accordance with International Financial Reporting Standards ("IFRS"). Financial information for fiscal year 2012 is presented in accordance with Canadian generally accepted accounting principles ("GAAP") then in effect.

## RATIOS AND SUPPLEMENTAL DATA

(in thousands of \$, unless indicated otherwise)

|   | 2016<br>(IFRS) | 2015<br>(IFRS) | 2014<br>(IFRS) | 2013<br>(IFRS) | 2012<br>(GAAP) |
|---|----------------|----------------|----------------|----------------|----------------|
| Revenue   | 44,449         | 45,269         | 44,422         | 51,982         | 53,491         |
| Gains on investments  | 78,869         | 64,035         | 42,884         | 10,670         | 42,376         |
| Net earnings  | 85,957         | 74,806         | 49,245         | 24,950         | 53,435         |
| Net assets  | 1,789,417      | 1,642,076      | 1,502,462      | 1,470,576      | 1,356,446      |
| Common shares outstanding (number, in thousands)                      | 134,944        | 130,183        | 124,665        | 126,165        | 118,243        |
| Total operating expense ratio <sup>(1)</sup> (%)                      | 2.0            | 1.9            | 2.1            | 2.0            | 2.4            |
| Total expense and common share issue expense ratio <sup>(1)</sup> (%) | 2.2            | 2.0            | 2.2            | 2.2            | 2.4            |
| Portfolio turnover rate:  |                |                |                |                |                |
| – Investments impacting the Québec economy (%)                        | 11             | 19             | 19             | 16             | 23             |
| – Other investments   | 126            | 131            | 102            | 108            | 67             |
| Trading expense ratio <sup>(2)</sup> (%)                              | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Number of shareholders (number)                                       | 104,317        | 102,222        | 96,236         | 100,861        | 103,052        |
| Issues of common shares   | 133,401        | 149,882        | 62,906         | 149,995        | 149,994        |
| Common share issue expenses, net of related taxes                     | 1,579          | 1,750          | 764            | 1,739          | –              |
| Redemption of common shares   | 70,438         | 83,324         | 79,501         | 59,075         | 67,410         |
| Investments impacting the Québec economy at cost                      | 787,142        | 738,596        | 675,355        | 671,547        | 625,414        |
| Fair value of investments impacting the Québec economy                | 921,518        | 817,199        | 710,923        | 733,907        | 659,045        |
| Funds committed but not disbursed                                     | 189,121        | 171,082        | 193,764        | 227,593        | 142,350        |

<sup>(1)</sup> Total operating expense ratio is calculated by dividing total expenses (before income taxes) as shown on the separate statements of comprehensive income by average net assets for the fiscal year, pursuant to Section 68 of the Regulation respecting Development Capital Investment Fund Continuous Disclosure.

The total operating expense and common share issue expense ratio is computed on the same basis but adding the common share issue expenses as shown on the separate statements of changes in net assets to total expenses.

<sup>(2)</sup> Trading expense includes brokerage fees and other portfolio transaction costs. These expenses are not material to CRCD.

## CHANGES IN NET ASSETS PER COMMON SHARE

|   | 2016<br>(IFRS) | 2015<br>(IFRS) | 2014<br>(IFRS) | 2013<br>(IFRS) | 2012<br>(GAAP) |
|---|----------------|----------------|----------------|----------------|----------------|
|   | (\$)           | (\$)           | (\$)           | (\$)           | (\$)           |
| <b>Net assets per common share, beginning of year</b>                 | <b>12.61</b>   | <b>12.05</b>   | <b>11.66</b>   | <b>11.47</b>   | <b>11.02</b>   |
| <b>Increase attributable to operations</b>                            | <b>0.66</b>    | <b>0.59</b>    | <b>0.40</b>    | <b>0.20</b>    | <b>0.46</b>    |
| Interest, dividends and negotiation fees                              | 0.34           | 0.35           | 0.36           | 0.41           | 0.46           |
| Operating expenses  | (0.26)         | (0.23)         | (0.25)         | (0.23)         | (0.28)         |
| Income taxes  | (0.03)         | (0.03)         | (0.06)         | (0.07)         | (0.09)         |
| Realized gains (losses)   | 0.18           | 0.29           | 0.52           | 0.03           | 0.48           |
| Unrealized gains (losses)   | 0.43           | 0.21           | (0.17)         | 0.06           | (0.11)         |
| <b>Difference attributable to common share issues and redemptions</b> | <b>(0.01)</b>  | <b>(0.03)</b>  | <b>(0.01)</b>  | <b>(0.01)</b>  | <b>(0.01)</b>  |
| <b>Net assets per common share, end of year</b>                       | <b>13.26</b>   | <b>12.61</b>   | <b>12.05</b>   | <b>11.66</b>   | <b>11.47</b>   |

## OVERVIEW

CRCD closed fiscal 2016 with net earnings of \$86.0 million (\$74.8 million in 2015), representing a return of 5.3% (4.9% in 2015), resulting in an increase of net assets per share to \$13.26 based on the number of common shares outstanding at the end of the fiscal year, compared with \$12.61 at the end of fiscal 2015. CRCD aims to strike an appropriate balance between shareholder return and its mission of Québec economic development. The financial asset management strategy adopted by CRCD several years ago provides the benefits of strong complementarity between the Investments impacting the Québec economy and Other investments portfolios and limits volatility in periods of substantial market turbulence. In fact, CRCD has generated positive returns for the last eight years.

Investments impacting the Québec economy posted a return of 12.6% in 2016, compared with a return of 12.8% in 2015. As at December 31, 2016, the cost of Investments impacting the Québec economy disbursed totalled \$787.1 million and investments made during fiscal 2016 reached \$117.5 million. As at December 31, 2016, commitments made but not disbursed, which represent investments already agreed upon with companies, cooperatives or funds and that will be disbursed by CRCD at a later date, amounted to \$189.1 million. New commitments for the year came to \$135.5 million.

Other investments generated a return of 2.9% for fiscal 2016, compared with a return of 2.3% for fiscal 2015. During the year, issues of common shares totalled \$133.4 million, out of an authorized maximum of \$135 million. The \$1.6 million balance of the authorized issue has already been pre-subscribed by investors selected under the established process and the corresponding shares will be issued no later than February 28, 2017. Share redemptions totalled \$70.4 million. As at December 31, 2016, the balance of shares eligible for redemption totalled over \$620 million. Net assets stood at \$1,789.4 million, up 9.0% compared with the previous year. The number of shareholders as at December 31, 2016 was 104,317.

## CRCD'S VISION FOR QUÉBEC ENTREPRENEURSHIP

Québec faces a huge challenge – developing and growing existing businesses. Businesses tend to remain too small and to overleverage themselves, putting a healthier capital structure at risk. Undercapitalization has significant repercussions on their performance, including low productivity and a low level of activity in international markets, which ultimately lowers Québec's ability to create and retain its fair share of highly paid jobs – jobs that are needed to maintain a healthy economy for the province.

In carrying out its mission, CRCD aims to stand tall and play a unique role on these diverse issues that guide its actions every day.

## CRCD – STANDING TALL FOR OUR PARTNER COMPANIES

From the support, networking or training we offer our partner companies through to enhancing our product offering and sharing our business network, CRCD acts on many levels to grow Québec SMEs and cooperatives.

In response to a series of consultations carried out in 2015 with our partner companies, CRCD developed an innovative offering focused on simplifying and streamlining our approach and documentation to achieve enhanced flexibility.

A real catalyst in the business development process of its existing and potential partners, CRCD pays regular visits to entrepreneurs across Québec to apprise them of economic prospects in their region and gather feedback from local business people.

CRCD's partner companies had the opportunity to showcase their expertise and promote their products and services through activities or networking platforms aimed at broad spectrum target audiences. And the strategic use of such tools since 2015 has led to the creation of 80 highly profitable alliances or networks for all of the businesses involved.

Because governance contributes to building strong foundations for companies to grow on, CRCD has once again been very active in that field. We offer strategic support for our partner companies through our external directors. Rich in experience and carefully handpicked, these individuals provide support for companies in their business decisions. And to further enrich their roles within these companies, they received training sessions from either CRCD or our collaborators, such as the Collège des administrateurs de sociétés and the Institute of Corporate Directors. By the same token, several business leaders also benefit from the training provided free of cost by the École d'Entrepreneurship de Beauce, another key partner for CRCD.

# ECONOMIC ENVIRONMENT

## THE ECONOMIC CLIMATE IN 2016

Global economic growth in 2016 was modest. Estimated at only 2.9%, it scored lower than the 3.3% generated in 2015. The slowdown affected both some of the advanced economies and the main emerging countries.

But in spite of some concerning news, 2016 was upbeat for the financial markets. After a flurry of jitters early in the year, stock markets quickly began a strong upward trend. Advances were driven by significant support measures initiated by the central banks and the upturn in raw materials prices. Rather than putting a damper on market momentum, the Brexit win in the U.K., and Donald Trump's election as President of the United States seemed to put new wind in the sails. In Canada, the Toronto Stock Exchange in particular fared well with a 17.5% gain for 2016. After trending downward overall for the first quarters of 2016, bond rates began to rise in the second half of the year, picking up speed on the heels of the U.S. presidential election. The FED raised its key rates 25 basis points at the very end of 2016 while the Bank of Canada opted for the status quo throughout the year.

The first six months of 2016 were disappointing for the U.S. economy. Despite some improvement in the second half, the economy advanced only 1.6% in 2016 compared with 2.6% in 2015. After a few years of strong growth, job creation pulled back, although labour market trends remained healthy.

In Canada, after a promising start to the year, some disruptive events took place that put a crimp in economic growth in the spring. Forest fires in Alberta in May resulted in a significant slump in oil production by nonconventional methods. What's more, ex energy exports were impacted by a temporary softening in U.S. demand. Under these conditions, Canadian real GDP declined in the second half of the year, losing part of its first quarter gains. A gradual return to normal levels of oil production and a resumption of the upward trend in ex energy exports allowed Canada's economy to recover in the third quarter. Canadian real GDP is expected to grow 1.3% for 2016 as a whole, a similar advance to 2015. These results may appear disappointing at first glance, but in fact they are only slightly lower than the Canadian economy's growth potential, which is currently estimated by the Bank of Canada at about 1.5%.

Québec's economy picked up speed in 2016. In fact, real GDP growth is estimated at 1.7%, compared with the 1.2% growth posted in 2015, with the advance fuelled by consumer spending. Business investment remained lacklustre. Lastly, the export sector failed to see the expected recovery as international exports felt whiplash from the flat U.S. economy.

## ECONOMIC OUTLOOK FOR 2017

If President Trump's program manages to stimulate economic activity and inflation over the next few quarters, the FED will likely continue to gradually raise its key rates. North American bond rates are expected to continue their upward track in 2017, but remain relatively low from a historical point of

view. The Bank of Canada is in a tricky position — stronger U.S. demand could be favourable for the Canadian economy, but the possibility of obstacles complicating Canada/U.S. trade is a major risk. The Canadian dollar is expected to weaken slightly. The most likely scenario is that Canadian monetary policy will remain unchanged until at least 2018. The higher profits and lower taxes anticipated for households and businesses in the United States will likely see North American stock markets racking up more gains in 2017, in spite of upward trending interest rates.

Global economic growth is expected to be somewhat stronger in 2017. Some of the factors that have slowed growth in the emerging countries, in particular Brazil and Russia, have already partially abated. However, the Chinese economy is expected to lose steam once again, but only moderately. Britain's economy will likely be further hobbled by the uncertainty surrounding the Brexit, and it should be noted that negotiations with the European Union have yet to begin formally and are expected to continue for two years. World trade could be influenced by the protectionist bent of the Trump administration. But, in the short term, a temporary uptick in U.S. domestic demand could be a bright spot for the global economy.

The fate of economic growth in the United States will depend largely on the new President's plans. The proposed tax cuts and new infrastructure investments will likely drive short-term growth with higher disposable income and increased federal spending, but the net effect of these measures remains difficult to assess. Their budget costs, which imply — based on realistic assumptions — ballooning public debt along with deficits, could give taxpayers and investors cold feet and thereby minimize the positive spinoffs. Additionally, if the new administration and Congress move ahead with proposals to limit immigration and take a harder stance on international trade relations, economic growth will likely feel the pinch.

Canada's economic growth is expected to pick up steam in 2017 due to a number of positive factors. The upward trend in exports will likely continue in step with the anticipated uptick in international demand, in particular from the United States. And the dollar will likely remain under US\$0.80, which could further drive Canadian exports. Expectations are also that stabilizing oil prices will put the brakes on slumping investment in the energy sector. Furthermore, the federal government's recovery program could spur economic growth in 2017. On top of that, infrastructure spending will likely ramp up significantly during the year. In Alberta, rebuilding the homes destroyed by the forest fires in the Fort McMurray area is expected to expand residential investment. But Canada's economy could be impacted in 2017 by certain initiatives and concerns. On the one hand, the housing markets in British Columbia, Ontario and most other provinces are expected to cool, in particular due to the effects of the new federal measures imposing restrictions on mortgage lending. On the other hand, U.S. protectionism could become a stronger force with Donald Trump's election as President, which could harm Canadian exports to the United States. Given all of these factors, real GDP growth in Canada is expected to be 1.9% for 2017.

For Québec, 2017 looks promising. A weak Canadian dollar, expectations of stronger U.S. economic growth and sustained growth in Ontario are likely to favour exports. Like the rest of Canada however, if the new President's election ultimately means heightened U.S. protectionism — as he stated repeatedly during the campaign — Québec exports to the United States could feel the heat. Business investment is expected to pick up, as investment by public bodies could represent larger contributions since the province has achieved budgetary balance. In that respect, the Québec government's financial position has improved considerably. In fact, after balancing the budget during the 2015-2016 fiscal year, balanced budgets should continue through fiscal 2016-2017 to 2020-2021. And improvement in the labour market, where job creation and lower unemployment are expected, would encourage household spending. Accordingly, real GDP is expected to grow 1.7% in 2017.

## MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

### OPERATING RESULTS

#### CRCD NET RESULTS AND RETURNS

CRCD closed its fiscal year ended December 31, 2016 with net earnings of \$86.0 million, or a return of 5.3%, compared with net earnings of \$74.8 million (return of 4.9%) for the preceding year. Based on the number of common shares outstanding, this performance brings net assets per share to \$13.26 as at year-end, compared with \$12.61 at the end of fiscal 2015. For information purposes, at a price of \$13.26 effective February 16, 2017, shareholders who invested seven years earlier would obtain an annual after-tax return of more than 12.4%, taking into account the 50% income tax credit as per the rate applicable on February 18, 2010.

CRCD's performance is driven primarily by Investments impacting the Québec economy and Other investments, which generated returns of 12.6% and 2.9%,

respectively, while expenses, net of administrative charges received and income taxes had an impact of 2.5% on CRCD's performance.

CRCD's financial asset management strategy allows it to enjoy a more balanced overall long-term portfolio profile, while actively contributing to Québec's economic development. This should limit the volatility of CRCD's returns in periods of substantial market turbulence.

#### INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of \$119.8 million and disposals of \$92.3 million were made for a net balance of \$27.5 million. Combined with realized and unrealized net gains of \$76.1 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to \$921.2 million as at December 31, 2016 (\$817.6 million as at December 31, 2015). Investments in the funds comprising the entrepreneurial ecosystem, as described below, in the amount of \$35.9 million, and a \$58.8 million aggregate investment in four companies, mainly accounted for the investments of \$119.8 million made during the fiscal year.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, which amounted to \$189.1 million as at December 31, 2016, compared with \$171.1 million as at December 31, 2015. Total commitments at cost as at December 31, 2016 amounted to \$976.3 million in 97 companies, cooperatives and funds, of which \$787.1 million was disbursed. As at December 31, 2016, backed by its entrepreneurial ecosystem, CRCD directly supported growth in 417 companies, cooperatives and funds.

Notes payable and financial liabilities with a fair value of \$25.2 million (\$26.3 million as at December 31, 2015) were largely attributable to the November 30, 2010 acquisition of certain investments from Desjardins Venture Capital L.P. Their fair value is adjusted according to changes in the fair value of these investments held by CRCD. During the year ended December 31, 2016, CRCD repaid \$0.5 million in notes and the fair value of notes and financial liabilities was adjusted downwards by \$0.6 million, arising from impairment losses on underlying investments.

| RETURN BY ACTIVITY   | 2016                                  |               |                   |                         | 2015                                  |               |                   |                         |
|--|---------------------------------------|---------------|-------------------|-------------------------|---------------------------------------|---------------|-------------------|-------------------------|
|  | Average assets under management (\$M) | Weighting (%) | Return 1 year (%) | Contribution 1 year (%) | Average assets under management (\$M) | Weighting (%) | Return 1 year (%) | Contribution 1 year (%) |
| Activities related to Investments impacting the Québec economy * | 872                                   | 51.4          | 12.6              | 6.4                     | 766                                   | 49.2          | 12.8              | 6.1                     |
| Other investments and cash                                       | 825                                   | 48.6          | 2.9               | 1.4                     | 792                                   | 50.8          | 2.3               | 1.2                     |
|  | <b>1,697</b>                          | <b>100.0</b>  | <b>7.8</b>        | <b>7.8</b>              | <b>1,558</b>                          | <b>100.0</b>  | <b>7.3</b>        | <b>7.3</b>              |
| Expenses, net of administrative charges                          |                                       |               | (2.3)             | (2.3)                   |                                       |               | (2.1)             | (2.1)                   |
| Income taxes   |                                       |               | (0.2)             | (0.2)                   |                                       |               | (0.3)             | (0.3)                   |
| Rendement de CRCD  |                                       |               | 5.3               | 5.3                     |                                       |               | 4.9               | 4.9                     |

\* Includes Investments impacting the Québec economy, amounts receivable on disposal of investments, notes payable and foreign exchange contracts.

During fiscal 2016, Investments impacting the Québec economy generated a contribution of \$102.6 million, for a return of 12.6%, compared with \$93.3 million in 2015 (a return of 12.8%).

| CONTRIBUTION GENERATED BY INVESTMENTS IMPACTING THE QUÉBEC ECONOMY (in thousands of \$) | 2016    | 2015   |
|---|---------|--------|
| Revenue   | 26,243  | 28,234 |
| Gains and losses  | 76,394  | 65,076 |
|   | 102,637 | 93,310 |

Revenue, consisting of interest, dividends and negotiation fees related to Investments impacting the Québec economy, provides a solid income base that promotes overall portfolio profitability. Negotiation fees, which amounted to \$2.8 million for fiscal 2016 (\$3.2 million in 2015), are earned by Desjardins Venture Capital Inc. (DVC), the manager, and a credit for that amount is applied against the management fees paid to DVC by CRCD. Negotiation fees are included in the contribution generated by the Investments impacting the Québec economy as they are included in the profitability analysis of the investments. The profile of the investments held by CRCD is changing over time and the amounts earmarked for the funds in its ecosystem are increasingly larger (refer to the following section for further information). Therefore, investments held by these ecosystem funds generate revenue in addition to the revenue generated by CRCD. This revenue, of which CRCD's share amounted to \$14.3 million for fiscal 2016 (\$11.8 million in 2015), is reported as Gains and losses as it makes a positive contribution to the fair value of CRCD's interest in these funds.

CRCD accounts for its Investments impacting the Québec economy at fair value. Two comprehensive portfolio reviews are carried out each year, with one covering the six-month period ending June 30 and the other covering the six-month period ending December 31.

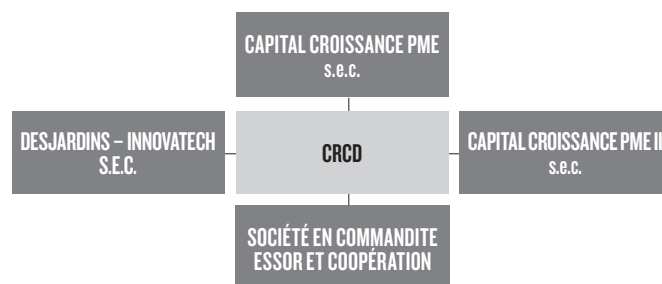
CRCD recorded a realized and unrealized gain of \$76.4 million in its results for the fiscal year compared with a gain of \$65.1 million for fiscal 2015. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2016, the overall risk level of the Investments impacting the Québec economy portfolio remained stable compared with its December 31, 2015 level, as discussed in the Credit and counterparty risk section.

## ENTREPRENEURIAL ECOSYSTEM

CRCD invests directly in Québec companies and also fulfils its economic development role via investments through the funds it has helped create, each of which has a specific mission. With this approach of seeking capital from various partners, CRCD can leverage its resources, thereby enhancing its positive impact on Québec's economic development.

## Main funds of the entrepreneurial ecosystem



These funds, which are also managed by CRCD's manager, DVC, are:

- Capital croissance PME s.e.c. (CCPME), created on July 1, 2010, whose main goal is to invest in Québec's small- and medium-sized businesses, primarily in the form of subordinated debt securities for amounts not exceeding \$5 million. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the fund, agreed to invest equal amounts totalling a maximum of \$220 million. As at December 31, 2016, CRCD had disbursed \$104.2 million of its total commitment of \$110 million. As CCPME's investment period closed on December 31, 2013, funds committed but not disbursed totalling \$5.8 million will be used for reinvestment and to pay the fund's operating expenses until its scheduled winding up date of July 1, 2021. As at December 31, 2016, CCPME had committed \$75.1 million to support a total of 126 companies and funds. Since its inception, the Fund has committed a total of \$191.0 million in 184 companies.
- The renewal of the partnership agreement with CDPQ has created the Capital croissance PME II s.e.c. fund (CCPME II) as of January 1, 2014. An additional amount of \$230 million, most of which is invested over a three-year period, will allow the two partners to continue supporting small- and medium-sized enterprises in Québec. In 2016, an agreement between the two partners adding a further \$90 million provided for a maximum amount of \$320 million to extend the investment period until December 31, 2017. CRCD's interest in CCPME II is 50%. As at December 31, 2016, CRCD had disbursed \$91.5 million of its total commitment of \$160 million. As at that date, CCPME II had committed \$164.7 million to support a total of 170 companies and funds. Since its inception, the Fund has committed a total of \$183.2 million in 176 companies.
- CRCD is also the sponsor of the Desjardins–Innovatech S.E.C. fund (DI). DI has undertaken to inject a total of \$85 million to support Québec technology or innovation businesses through each stage of their development. DI has participated in the creation of innovative business accelerators in partnership with specialized organizations located in various regions of Québec, enabling it to support businesses from the embryonic stage through commercialization. As at December 31, 2016, DI had committed \$68.5 million to support a total of 54 companies and funds. CRCD's interest in DI is 54.5%.
- The objective of the Société en commandite Eссор et Coopération (Eссор et Coopération), established on January 1, 2013, is to support the creation, growth and capitalization of cooperatives in Québec. In the second half of fiscal 2016, following amendment of the partnership agreement to include three limited partners from the cooperative sector, CRCD's interest for fiscal 2016 amounted to 94.6%. Since the inception of Eссор et Coopération, CRCD has disbursed \$26.6 million of its total commitment of \$85 million. As at December 31, 2016, Eссор et Coopération had committed \$30.0 million in 16 cooperatives.

In all, as at December 31, 2016, CRCD and its ecosystem supported the growth of 417 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of \$1,016.2 million, while helping to create and retain over 71,300 jobs. Of that total, 21 cooperatives benefited from commitments of \$165.0 million by CRCD and its ecosystem.

Given the size of the amounts allocated to these funds and to better manage and keep track of its operations, CRCD monitors changes in asset allocation and performance by investment profile.

Each investment profile includes assets held by CRCD together with similar assets held by the funds in its ecosystem based on CRCD's proportionate share in each fund.

The investment profiles related to Investments impacting the Québec economy are:

- Debt: investments in the form of advances and/or mainly unsecured loans and/or preferred shares;
- Equity: investments comprising common shares that may be combined with advances and/or mainly unsecured loans in companies other than those included under the Venture capital profile;
- External funds: investments in funds outside CRCD's entrepreneurial ecosystem;
- Venture capital: investments in companies specializing in technological innovations.

### Entrepreneurial ecosystem performance

The entrepreneurial ecosystem's sound performance stems from the Equity and Debt investment profiles, which posted returns of 15.9% and 9.4%, respectively. These gains are attributable to the higher profitability of several portfolio companies and given the large amount of assets allocated to these profiles, they made a major contribution to the ecosystem's return of 12.6% for 2016. The External funds and Venture capital investment profiles also contributed positive returns but have a more limited impact on the portfolio's total return due to their volume.

### OTHER INVESTMENTS

Managing the Other investments portfolio involves the portion of assets not earmarked for Investments impacting the Québec economy, including temporarily available cash resources prior to their investment in companies.

This portfolio, consisting primarily of bonds, money market instruments, real estate funds, global equity funds and preferred shares, provides stable current revenue for CRCD and ensures the necessary liquidity to fund common share redemptions and investments.

As at December 31, 2016, CRCD's Other investments portfolio, including cash but excluding foreign exchange contracts, totalled \$844.6 million compared with \$792.1 million as at December 31, 2015. This portfolio, consisting primarily of liquid assets including fixed-income securities and global equity funds, provides sound diversification. As at December 31, 2016, 68% of portfolio bond securities were government-guaranteed (70% as at December 31, 2015).

The Other investments portfolio accounted for 47% of total net assets as at the end of fiscal 2016 (49% as at December 31, 2015). Commitments already made but not disbursed of \$189.1 million, representing 11% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

CRCD expects the Other investments portfolio over the long term to represent close to 35% of total net assets. In keeping with its core mission, this will allow an increase in funds allocated to Investments impacting the Québec economy.

CRCD has implemented management strategies for the Other investments portfolio to optimize potential return while retaining the required liquid assets to meet liquidity needs arising from redemption requests from shareholders and Investments impacting the Québec economy it expects to make.

| RETURN BY<br>INVESTMENT PROFILE              | 2016   |                  |                         |                               | 2015   |                  |                         |                               |
|--|--|------------------|-------------------------|-------------------------------|--|------------------|-------------------------|-------------------------------|
|  | Average<br>assets under<br>management<br>(\$M) | Weighting<br>(%) | Return<br>1 year<br>(%) | Contribution<br>1 year<br>(%) | Average<br>assets under<br>management<br>(\$M) | Weighting<br>(%) | Return<br>1 year<br>(%) | Contribution<br>1 year<br>(%) |
| Debt   | 276  | 16.3             | 9.4                     | 1.6                           | 255  | 16.4             | 8.2                     | 1.3                           |
| Equity                                       | 486  | 28.6             | 15.9                    | 4.2                           | 397  | 25.5             | 10.0                    | 2.4                           |
| External funds                               | 66   | 3.9              | 11.9                    | 0.5                           | 51   | 3.2              | 96.3                    | 2.4                           |
| Venture capital                              | 26   | 1.5              | 4.3                     | 0.1                           | 29   | 1.9              | 0.6                     | 0.0                           |
| Investment profiles subtotal                 | 854  | 50.3             | 13.0                    | 6.4                           | 732  | 47.0             | 13.7                    | 6.1                           |
| Other asset items held by<br>ecosystem funds | 18   | 1.1              | (0.5)                   | 0.0                           | 34   | 2.2              | 0.9                     | 0.0                           |
| <b>Ecosystem total</b>                       | <b>872</b>                                     | <b>51.4</b>      | <b>12.6</b>             | <b>6.4</b>                    | <b>766</b>                                     | <b>49.2</b>      | <b>12.8</b>             | <b>6.1</b>                    |

| CONTRIBUTION GENERATED BY<br>OTHER INVESTMENTS (in thousands of \$) | 2016          | 2015    |
|---|---------------|---------|
| Revenue   | 20,489        | 19,457  |
| Gains and losses  | 2,475         | (1,041) |
|   | <b>22,964</b> | 18,416  |

Revenue consists primarily of interest, dividends, distributions and trading activities related to Other investments. Interest income (primarily from bonds) is recognized at the bond rate in effect at the acquisition date.

Other investments made a contribution of \$23.0 million in fiscal 2016 compared with a contribution of \$18.4 million in 2015. Current revenue was up slightly compared with 2015, as distributions received in the global equity funds and real estate funds, which saw assets grow, more than offset lower interest income arising from reduced bond portfolio weight during the fiscal year.

For fiscal 2016, CRCD recorded a gain of \$2.5 million on its Other investments portfolio, with the global equity fund portfolio gaining \$2.5 million in a volatile and rising market. The real estate fund portfolio also returned solid performance, generating a \$1.2 million gain.

Conversely, the preferred share portfolio posted a loss of \$0.3 million and the sector experienced significant volatility during fiscal 2016. Given that the future outlook for this asset class appears less attractive, the portfolio will be gradually transferred into low-volatility Canadian equity funds late in fiscal 2017.

The bond portfolio recorded a \$0.9 million loss due mainly to higher bond rates during the year. Five-year Government of Canada benchmark bonds posted yield to maturity of 1.11% as at December 31, 2016, due to an increase of 38 basis points during fiscal 2016.

Over the last few years, the fair value of the bond portfolio benefited from repeated interest rate decreases. The current rise in rates had a negative impact on unrealized changes in value during the fiscal year. CRCD's financial asset management strategy aims to diversify the market risks associated with the Other investments portfolio through the use of Canadian and global securities that are not traded on bond markets. Furthermore, CRCD seeks to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of changes in bond rates on CRCD's results.

## CAPITAL RAISING

CRCD offers its common shares exclusively through the Desjardins caisse network in Québec.

CRCD reached its capitalization limit as of February 28, 2014. Despite the provisions of its constituting act, the Minister of Finance of Québec in his Budget Speech of March 17, 2016, authorized CRCD exceptionally to raise a maximum amount of \$135 million for each of the capitalization periods from March 1, 2016 to February 28, 2017 and from March 1, 2017 to February 28, 2018. The Québec government has set the rate for the tax credit it grants for purchasing shares at 40%.

To allow as many shareholders as possible to buy CRCD shares, the maximum annual amount allowable was capped at \$3,000 per investor, for a tax credit of \$1,200.

This tax credit was 45% for shares purchased from March 1, 2014 to February 29, 2016, inclusively, and 50% for shares purchased from November 10, 2007 to February 28, 2014, inclusively, and before March 24, 2006, and 35% for shares purchased from March 24, 2006 to November 9, 2007, inclusively.

The minimum holding period for shares of CRCD before a shareholder would normally be eligible for a redemption is seven years to the day from the date of purchase. Note however that shareholders who withdraw some or all of their shares after the seven-year holding period may no longer claim a tax credit for any subscription for which the tax credit would apply in the current tax year or in any subsequent tax year.

Each 12-month capitalization period begins on March 1 of each year. A special tax is payable by CRCD if it fails to comply with the authorized issuance amounts, and it has implemented control mechanisms to ensure compliance. No special tax was paid for fiscal 2016 and 2015.

As at December 31, 2016, CRCD had \$1,434.7 million in share capital for 134,943,941 common outstanding shares.

During fiscal 2016, CRCD accepted subscriptions of \$133.4 million, or substantially all of the \$135 million authorized maximum for its 2016 issue. The \$1.6 million balance of the authorized issue has already been pre-subscribed by investors selected under the established process and the corresponding shares will be issued no later than February 28, 2017. For comparison purposes, in 2015, CRCD raised the authorized maximum of \$150 million for that year's issue.

During fiscal 2016, share redemptions totalled \$70.4 million (\$83.3 million in 2015).

As at December 31, 2016, the balance of shares eligible for redemption totalled over \$620 million. During the coming year, additional shares with an approximate value of \$244 million will also become eligible for redemption, bringing potential redemptions close to \$864 million for fiscal 2017. CRCD feels that the current economic conditions and low interest rates in particular are behind the low volume of redemptions in the last few years.

Subscriptions and redemptions for fiscal 2016 brought the number of shareholders to 104,317 as at December 31, 2016, compared with 102,222 as at December 31, 2015.

CRCD's policy is to reinvest income from operations rather than pay dividends to its shareholders in order to increase the capital available for investment in eligible entities and to create share value appreciation.

## EXPENSES AND INCOME TAXES

| EXPENSES (in thousands of \$) | 2016          | 2015   |
|-------------------------------|---------------|--------|
| Management fees               | 27,293        | 25,431 |
| Other operating expenses      | 4,989         | 2,690  |
| Shareholder services          | 2,144         | 2,099  |
|                               | <b>34,426</b> | 30,220 |



CRCD has entrusted DVC with its management and operations, in accordance with the strategies and objectives approved by the Board of Directors. The five-year management agreement is effective January 1, 2013. The agreement provides for the invoicing of separate fees for the Desjardins caisse network's contribution in distributing CRCD's shares. Negotiation fees, which amounted to \$2.8 million for the fiscal year ended December 31, 2016, are earned by DVC and a credit for that amount is applied against the management fees paid by CRCD.

For fiscal 2016, CRCD paid DVC annual management fees equivalent to 2.02% of CRCD's annual average assets' value, after deduction of any amounts payable related to Investments impacting the Québec economy and Other investments, less an adjustment of \$1.65 million. This adjustment, granted in connection with the fee negotiations currently underway for 2017 and subsequent years, in particular reflects the economies of scale achieved by DVC with regard to the growth of CRCD's assets and the increase in the balance of CRCD shares eligible for redemption over the last few years. An adjustment to the management fees charged to CRCD is also made to avoid double billing relative to CRCD's interest in some funds.

The \$2.3 million increase in other operating expenses resulted primarily from the fees related to CRCD's project to automate its share distribution processes, costs related to its three-year strategic planning process and investments in information technology.

CRCD has appointed Desjardins Trust Inc. as shareholder registrar and share transfer agent. Desjardins Trust also acts as an intermediary for various shareholder support services. Since CRCD began operations, Desjardins Trust has represented the largest component of shareholder service expenses. This agreement became effective on July 1, 2016 and will remain in force until December 31, 2020.

CRCD has appointed Fédération des caisses Desjardins du Québec to distribute its shares through the Desjardins caisse network. This agreement became effective on July 1, 2016 and will remain in force until December 31, 2020. CRCD has agreed, until December 31, 2017, to pay annual professional fees and, as needed, project fees to cover work required to upgrade the tools and applications supporting the share distribution processes.

Income taxes for fiscal 2016 amounted to \$2.9 million, compared with \$4.3 million for the previous fiscal year. Revenue type has a significant impact since, unlike interest income, dividends are generally not taxable and capital gains are eligible for deductions and mechanisms allowing for income tax refunds.

## LIQUIDITY AND CAPITAL RESOURCES

For fiscal 2016, cash inflows from subscriptions net of redemptions and share issue expense totalled \$63.0 million (cash inflows of \$62.4 million in 2015). Operating activities generated net cash outflows of \$76.4 million, compared with net cash outflows of \$82.3 million in 2015.

Cash outflows for Investments impacting the Québec economy amounted to \$117.5 million for fiscal 2016 (\$168.5 million in 2015). Net cash outflows for the Other investments portfolio totalled \$46.3 million for fiscal 2016 compared with net cash generated of \$63.9 million for fiscal 2015.

As at December 31, 2016, cash and cash equivalents totalled \$19.1 million (\$32.6 million as at December 31, 2015).

CRCD had an authorized line of credit of \$50 million as at December 31, 2016 (\$10 million as at December 31, 2015). In the event that liquidity needs exceed

expectations, this line of credit could be used on a temporary basis to cover CRCD's obligations. This additional flexibility optimizes the level of liquid assets held and reduces the risk of having to dispose of assets hastily under potentially less advantageous conditions. The line of credit was not used during fiscal 2016 and fiscal 2015.

Given the management approach for Other investments of matching the average maturity of bonds held with the average maturity of its expected cash outflows, CRCD does not anticipate any shortfall in liquidities in the short or medium terms and expects to be able to repurchase shares issued at least seven years earlier from those shareholders who make such a request.

## CRCD'S MISSION, VISION, STRATEGIC PRIORITIES AND STRATEGIES

CRCD was founded on the July 1, 2001 effective date of the *Act constituting Capital régional et coopératif Desjardins* (the Act) adopted on June 21, 2001 by Québec's National Assembly, on the initiative of Desjardins Group. DVC manages CRCD's activities.

### MISSION

CRCD strives to value and nurture the best of Québec entrepreneurship that is part of the collective wealth that is ours to have and to hold. With that in mind, CRCD's mission will be to:

*Energize our entrepreneurship. Prioritize Québec ownership. Grow our collective wealth and make it last for generations to come. By crossing over our walkways to tomorrow, together we can contribute to the vitality of an entire economy.*

### CRCD'S VISION AND STRATEGIC PRIORITIES

Strategic planning initiatives began in early 2016 and continued throughout the fiscal year. The work involved consulting with our wide range of stakeholders, and included taking the pulse of shareholders and partner entrepreneurs as well as a number of meetings between CRCD's Board of Directors and DVC's Management Committee. This approach allowed us to update CRCD's vision, identify issues as well as opportunities to be grasped and set our strategic priorities for the next three years. The new 2017–2019 strategic plan, in continuation of the 2013–2016 strategic plan, was approved by CRCD's Board of Directors in late fiscal 2016.

CRCD's vision is to "Be the #1 choice of entrepreneurs: the go to for SMEs."

To achieve this, CRCD will continue to keep jobs and retain business ownership in Québec along with implementing initiatives that give our partners an edge.

Carrying out CRCD's mission and vision is also driven by the following five strategic goals for 2017–2019:

- Ensuring the availability of sufficient long-term capital to carry out CRCD's mission
- Leveraging the strength of Desjardins Group to amplify CRCD's socioeconomic leadership
- Boosting CRCD's profile among SME entrepreneurs and visibility within the business community
- Enhancing the ability to innovate and anticipate entrepreneurs' needs so CRCD's offering remains ahead of the curve
- Growing CRCD's footprint in the resource regions, for cooperatives, among innovation enterprises and in new market segments

## STRATEGIES

DVC organizes its teams to optimize efficiency and management fee control. This administrative organization aims to appropriately fulfil our mandate of driving regional and cooperative development and Québec's economic development in general.

As discussed previously, to better manage and keep track of its operations, CRCD now monitors changes in asset allocation and performance by investment profile. Each investment profile includes the assets held by CRCD and similar assets held by the funds in its ecosystem according to their respective interests.

CRCD aims for a balance between its mission to drive regional economic development and reasonable long-term return for the shareholders. Using a global approach to managing its financial assets, CRCD manages its portfolio of Investments impacting the Québec economy jointly with its Other investments portfolio. This allows CRCD to balance its overall investment portfolio and limit volatility in share price due to changing economic conditions over the entire holding period.

To do this, CRCD's strategy for managing financial assets is as follows:

- CRCD takes an integrated and overall approach to managing its financial assets, which means that target asset allocation must include diversification to reduce the risks inherent in certain asset classes within the investment portfolios.
- The objective is to optimize the after tax risk/return ratio of CRCD's financial assets in compliance with its role as an economic development agent, to limit six-month fluctuations in the price of its shares and secure reasonable returns for shareholders.
- A sufficient portion of CRCD's financial assets must be invested in liquid securities to meet any share redemption requests that exceed issues of shares.
- A sufficient portion of CRCD's financial assets must be invested in securities that generate current income to meet its expenses.

Last, CRCD must fulfil its mission within certain guidelines that include investing 61% of its average net assets in eligible Québec companies. This percentage is gradually increased by 1% per year to reach 65% for the fiscal years beginning after December 31, 2019. In addition, 35% of eligible investments must be made in Québec's resource regions or in eligible cooperatives. If these requirements are not met, the authorized issue of capital for the capitalization period following the end of the fiscal year could be reduced. As at December 31, 2016 and 2015, all of those rules were met.

## RISK MANAGEMENT

### RISK GOVERNANCE

The Board of Directors (the "Board") is made up of 13 members, the majority of whom are independent, and chaired by an independent director. The Board manages CRCD's business and oversees the fulfilment of its mission. To do so, its primary duties are twofold: guiding and overseeing all of CRCD's activities and the risks to which it is exposed.

Its guidance duties consist in particular of ensuring adherence to CRCD's mission and approving broad strategic directions. Its oversight duties involve, among others, ensuring that significant risks are managed by the different committees and monitoring strategic and reputational risks related to investment.

To do this, the Board is supported by eight committees that regularly report to it and make appropriate recommendations. Also, the manager reports on outsourced activities through its executives who attend meetings of the Board and the committees.

Other than specific mandates given to them by the Board from time to time, the main responsibilities of the committees are presented below.

### Executive Committee

The Executive Committee is made up of six directors, a majority of whom are independent. The Committee is authorized to exercise all of the Board's powers, except those statutory powers that must be exercised exclusively by the Board and any powers expressly reserved to it.

The Committee's duties contemplate seven main areas: (i) governance and performance measurement, (ii) risk management, (iii) board and committee functions, (iv) subscriptions, (v) investment (credit and counterparty risk), (vi) share ownership (accountability to shareholders and disclosure) and (vii) other functions (operational risks).

More specifically, in addition to having responsibility for the overall risk management process, its duties include monitoring the following special risks: strategic, dependence related to partnership with Desjardins, litigation, reputational (general), non-compliance with laws and regulations, non-compliance in connection with subscriptions and redemptions and outsourcing, excluding Desjardins Global Asset Management (DGAM), securities advisor.

### Audit Committee

The Audit Committee currently consists exclusively of four independent directors who have sufficient financial literacy to discharge their duties and who collectively represent an appropriate range of expertise.

The Committee's general mandate is to assist the Board in its oversight and accountability roles with aspects relating to the quality, reliability and integrity of financial reporting and continuous disclosure. Its role also includes a component related to the work, performance, independence, appointment and compensation of the independent auditor.

More specifically, it oversees operational risks related to accountability to shareholders and public disclosure, transaction processing, internal and external fraud and information system malfunctions.

### Financial Asset Management Committee

The Financial Asset Management Committee is currently made up of six directors, a majority of whom are independent, who have a range of complementary expertise and sufficient literacy in finance, accounting and economics to properly understand the nature of the financial assets held by CRCD and the related financial risks.

The Committee's primary mandate is the coordination and matching of CRCD's financial assets to optimize overall risk/return ratio. The Committee monitors CRCD's performance and ensures its compliance with regulatory targets.

It also has oversight duties with respect to the following risks: market (interest rate, currency and stock market), credit and counterparty (Other investments), concentration (geographic and sector), liquidity and outsourcing to DGAM.

### Governance and Ethics Committee

The Governance and Ethics Committee is currently made up exclusively of three independent directors who represent a range of complementary expertise and experience in governance, ethics, professional conduct or law.

Its general mandate is to report to the Board concerning all matters pertaining to the application of CRCD's Code of Professional Conduct that the Board has submitted to it and takes an advocacy role with respect to such code towards the Board members, committee members and the manager's resources. With the Board, the Committee oversees compliance with CRCD's mission and values. It updates the governance policy and committee charters, assesses conflict of interest situations and monitors governance regulations and trends.

The Committee also oversees related party transaction risk (associates) and noncompliance risk related to governance and the independence of directors and committee members.

### Portfolio Valuation Committee

The Portfolio Valuation Committee is made up of five members, who include two of CRCD's independent directors, one of whom is the chair, and three external members. The majority of the members are qualified independent valuers collectively representing a range of expertise appropriate to their mandate.

The Committee's general mandate is to provide oversight of operational risk related to non-compliance with the portfolio valuation rules. Its role consists in reviewing all relevant information concerning valuation of CRCD's Investments impacting the Québec economy portfolio in order to provide reasonable assurance that the valuation process complies with the regulations applicable to CRCD.

### Investment committees

The Subordinated Debt Investment Committee is made up of seven members (two directors of CRCD and five external members), the Equity Investment Committee is made up of seven members (four directors of CRCD and three external members), and the Innovation Investment Committee is made up of five members (two directors of CRCD and three external members).

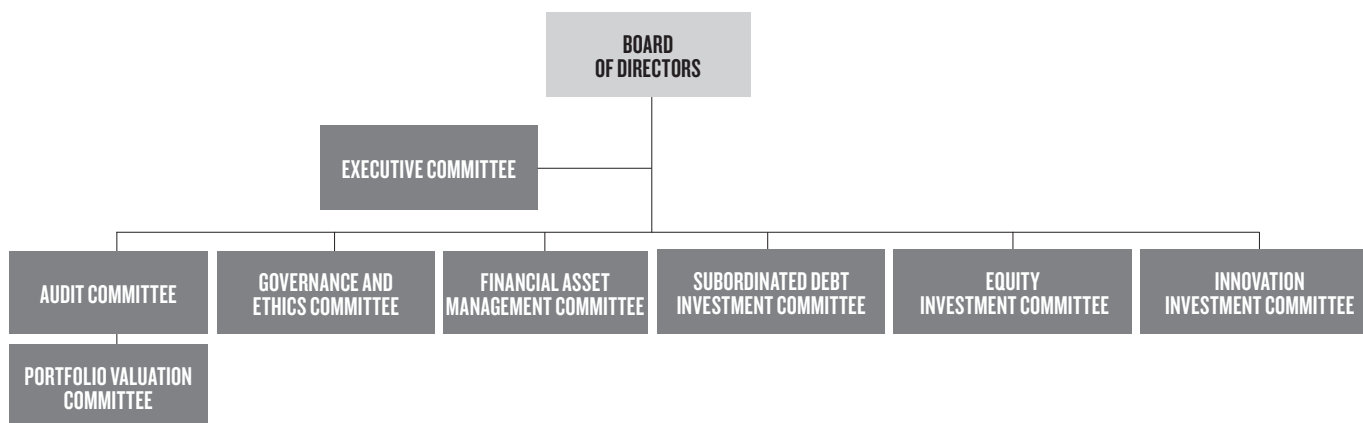
The Chair of each committee must be a director of CRCD and a majority of the members are independent. The members are appointed on the basis of their understanding and their knowledge of the sectors targeted under the various policies governing the investment activities, and for their ability to assess the quality of a transaction and detect any related risks.

The general mandate of these committees is, within the limits of the decision-making process approved by the Board, to authorize or make recommendations on the investment, re-investment or divestment transactions presented by CRCD's manager.

The Subordinated Debt Investment Committee reviews transactions requiring hybrid financing which combines equity and traditional financing. The Equity Investment Committee reviews companies requiring equity or a combination of equity and subordinated debt. The Innovation Investment Committee reviews the files of companies requiring equity or any file requiring a combination of equity and subordinated debt and which promote technological or industrial innovation or advance new uses for existing technologies.

These committees also have an oversight role with respect to the following risks: reputational (investment related), credit and counterparty (Investments impacting the Québec economy), selection and monitoring of directors of companies in which CRCD is a direct or indirect investor, environmental noncompliance, and operational (investment process related).

The governance structure for 2017 is as follows:



## ATTENDANCE RECORD AND COMPENSATION

The following table presents the attendance record and compensation of CRCD's directors and external committee members for fiscal 2016.

| NAME  | BOARD OF DIRECTORS | EXECUTIVE COMMITTEE | AUDIT COMMITTEE | FINANCIAL ASSET MANAGEMENT COMMITTEE | GOVERNANCE AND ETHICS COMMITTEE | PORTFOLIO VALUATION COMMITTEE | SUBORDINATED DEBT INVESTMENT COMMITTEE | EQUITY INVESTMENT COMMITTEE | INNOVATION INVESTMENT COMMITTEE | COMPENSATION   |
|---|--------------------|---------------------|-----------------|--------------------------------------|---------------------------------|-------------------------------|--|-----------------------------|---------------------------------|----------------|
| (Number of meetings and welcoming or training sessions) | 13                 | 7                   | 4               | 4                                    | 8                               | 3                             | 15                                     | 15                          | 9                               | (\$)           |
| Chantal Bélanger  | 13/13              | 6/7                 | 4/4             |                                      | 3/3                             | 3/3                           |  |                             |                                 | 46,600         |
| Ève-Lyne Biron  | 12/13              |                     |                 |                                      | 8/8                             |                               | 14/15                                  |                             |                                 | 34,400         |
| Joane Demers  | 11/13              |                     | 4/4             |                                      |                                 |                               |  |                             |                                 | 24,900         |
| Roger Demers  | 12/13              | 7/7                 |                 | 4/4                                  |                                 |                               |  | 14/15                       |                                 | 44,500         |
| Marlène Deveaux   | 13/13              | 7/7                 | 4/4             |                                      |                                 |                               | 15/15                                  |                             |                                 | 45,400         |
| Maurice Doyon   | 13/13              | 7/7                 |                 | 4/4                                  |                                 |                               |  |                             | 9/9                             | 45,700         |
| André Gabias  | 13/13              |                     |                 |                                      | 7/8                             |                               |  |                             |                                 | 31,800         |
| Jacques Jobin   | 12/12              |                     |                 |                                      | 5/5                             |                               |  |                             | 8/8                             | 28,217         |
| Jean-Claude Loranger                                    | 11/13              |                     |                 | 4/4                                  |                                 |                               |  | 7/9                         |                                 | 30,817         |
| Bruno Morin   | 12/13              | 7/7                 |                 | 4/4                                  |                                 |                               |  | 14/15                       |                                 | 60,000         |
| Jacques Plante  | 13/13              | 7/7                 |                 | 4/4                                  |                                 | 3/3                           |  |                             |                                 | 57,783         |
| Claudine Roy  | 13/13              |                     |                 | 4/4                                  |                                 |                               |  |                             |                                 | 24,900         |
| Xavier Simard   | 0/1                |                     | 0/1             |                                      |                                 |                               |  |                             |                                 | 2,500          |
| Louis-Régis Tremblay                                    | 12/13              |                     | 3/3             |                                      |                                 |                               |  | 13/15                       |                                 | 33,517         |
| Pierre Barnès *   |                    |                     |                 |                                      |                                 |                               |  | 7/11                        |                                 | 8,150          |
| Bernard Bolduc *  |                    |                     |                 |                                      |                                 |                               |  | 6/8                         |                                 | 8,600          |
| Marie-Claude Boulanger *                                |                    |                     |                 |                                      |                                 |                               | 13/15                                  |                             |                                 | 13,500         |
| Évangéliste Bourdages *                                 |                    |                     |                 |                                      |                                 |                               | 7/10                                   |                             |                                 | 8,000          |
| Guy Delisle *   |                    |                     |                 |                                      |                                 |                               | 15/15                                  |                             |                                 | 14,850         |
| Marc-André Dionne *                                     |                    |                     |                 |                                      |                                 |                               |  | 2/7                         |                                 | 3,450          |
| Michel Duchesne *                                       |                    |                     |                 |                                      |                                 |                               | 15/15                                  |                             |                                 | 14,850         |
| Marie-Claude Gévy *                                     |                    |                     |                 |                                      |                                 |                               |  | 15/15                       |                                 | 14,550         |
| Yves Lavoie *   |                    |                     |                 |                                      |                                 |                               | 4/5                                    |                             |                                 | 3,850          |
| Lynn McDonald *   |                    |                     |                 |                                      |                                 |                               |  | 14/15                       |                                 | 14,750         |
| Muriel McGrath *  |                    |                     |                 |                                      |                                 |                               |  |                             | 9/9                             | 12,250         |
| Sébastien Mailhot *                                     |                    |                     |                 |                                      |                                 | 3/3                           |  |                             |                                 | 7,600          |
| Michel Martineau *                                      |                    |                     |                 |                                      |                                 | 3/3                           |  |                             |                                 | 7,600          |
| Marcel Ostiguy *  |                    |                     |                 |                                      |                                 |                               |  | 6/7                         |                                 | 5,550          |
| George Rossi *  |                    |                     |                 |                                      |                                 | 3/3                           |  |                             |                                 | 7,600          |
| Michel Rouleau *  |                    |                     |                 |                                      |                                 |                               | 15/15                                  |                             |                                 | 14,850         |
| Thom Skinner *  |                    |                     |                 |                                      |                                 |                               |  |                             | 9/9                             | 11,950         |
| Normand Tremblay *                                      |                    |                     |                 |                                      |                                 |                               |  |                             | 9/9                             | 12,250         |
| <b>Total compensation</b>                               |                    |                     |                 |                                      |                                 |                               |  |                             |                                 | <b>695,234</b> |

\* External committee member

### EXPLANATORY NOTES TO TABLE:

Compensation includes retainers and fees paid to directors for attending meetings of the Board of Directors and the committees, welcoming sessions, training sessions and working meetings of the special committees.

Bruno Morin, General Manager, receives a fixed salary of \$60,000 per year.

Xavier Simard served as a Director and member of the Audit Committee and the Innovation Investment Committee until February 18, 2016.

Chantal Bélanger served as a member of the Governance and Ethics Committee until April 14, 2016.

Jacques Jobin has served as a Director since April 8, 2016, and as a member of the Governance and Ethics Committee and the Innovation Investment Committee since April 14, 2016.

Jean-Claude Loranger has served as a member of the Equity Investment Committee since April 14, 2016.

Louis-Régis Tremblay has served as a member of the Audit Committee since April 14, 2016.

Pierre Barnès served as an external member of the Equity Investment Committee until August 9, 2016.

Bernard Bolduc has served as an external member of the Equity Investment Committee since May 12, 2016.

Évangéliste Bourdages has served as an external member of the Equity Investment Committee since April 14, 2016.

Marc-André Dionne served as an external member of the Equity Investment Committee until May 10, 2016.

Yves Lavoie served as an external member of the Subordinated Debt Investment Committee until April 14, 2016.

Marcel Ostiguy served as a member of the Equity Investment Committee until May 10, 2016.

**NOTE TO THE READER**

The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been reviewed by CRCD's independent auditor as part of the audit of the separate financial statements concerning which an independent auditor's report was issued on February 16, 2017.

**MARKET RISKS**

Market risks pertain to CRCD's role in the capital markets and, indirectly, to general changes in economic conditions. They also pertain to the impact of capital market movements on the value of CRCD's assets. The various risks that make up market risks directly impacting CRCD are listed below.

In accordance with CRCD's global financial asset management approach, the impact of these interest rate and stock market risks and their interrelatedness are taken into account when determining overall asset allocation.

**Interest rate risk**

Interest rate fluctuations have an impact on the market value of the fixed-income securities and real estate funds held in the portfolio for which fair value is determined based on market conditions. The fair value of these assets as at December 31, 2016 was \$899.7 million (\$970.1 million as at December 31, 2015). Fixed-income securities held in the Other investments portfolio include money market instruments, bonds and preferred shares. Fixed-income securities held in the Investments impacting the Québec economy portfolio include loans and advances and preferred shares.

Money market instruments with a fair value of \$22.2 million (\$37.6 million as at December 31, 2015) have not been valued based on fluctuations in the interest rates due to their very short term maturity and CRCD's intention to hold them until maturity.

Bonds with a fair value of \$580.3 million (\$664.5 million as at December 31, 2015) are directly affected by interest rate fluctuations. A 1% increase in interest rates would have resulted in a decrease of \$33.1 million in net results, representing a 1.9% decrease in CRCD's share price as at December 31, 2016 (\$33.8 million for 2.1% as at December 31, 2015). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a \$35.3 million increase in net results, representing a 2.1% increase in share price (\$35.9 million for 2.2% as at December 31, 2015). CRCD's financial asset management strategy aims to diversify the securities held in the portfolio, which will reduce exposure to long-term bond securities. Given that CRCD matches the maturities of bonds held in its portfolio with the average maturity of expected cash outflows, the long-term effect of interest rates on results should be limited.

Real estate funds and preferred shares with respective fair values of \$64.1 million (\$13.1 million as at December 31, 2015) and \$59.9 million (\$77.8 million as at December 31, 2015), may also be affected by interest rate fluctuations. However, unlike bonds, there is no direct correlation between interest rate fluctuations and changes in the fair value of these two classes of assets.

The loans and advances and preferred shares held in the Investments impacting the Québec economy portfolio, for which CRCD also holds participating shares in the same business as well as those that have been discounted, with a total fair value of \$153.3 million (\$114.0 million as at December 31, 2015), are not sensitive to fluctuations in interest rates. Conversely, the other loans and advances and preferred shares held in the portfolio with a total fair value of \$173.2 million (\$177.1 million as at December 31, 2015) are sensitive to interest rate fluctuations. However, the interest rate risk related to the other loans and advances and preferred shares held in the portfolio is limited given the amounts in question.

**Stock market risk**

Stock market trends have a twofold impact on CRCD. In addition to the direct impact on the market values of publicly traded stocks, the valuations of some private portfolio companies may also be affected by changes in stock prices.

As at December 31, 2016, global equity funds, valued at \$105.1 million (nil value as at December 31, 2015), which were managed by external managers and held in the Other investments portfolio, consisted primarily of listed equities. Accordingly, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a \$10.5 million increase or decrease in net results, representing a variation of 0.6% in CRCD's share price.

The Investments impacting the Québec economy portfolio included listed equities in the amount of \$0.6 million (\$0.8 million as at December 31, 2015). As a result, for these investments, any stock market fluctuations would not have a significant direct impact on CRCD's net results.

**Currency risk**

Changes in currency values have an impact on the activities of a number of CRCD's partner companies. The net effect of an appreciation in the Canadian dollar is not necessarily always negative for these companies, nor is a depreciation necessarily positive. However, rapid fluctuations in the Canadian dollar heighten the difficulties faced by these companies.

Currency fluctuations impact the fair value of assets valued initially in a foreign currency and subsequently translated into Canadian dollars at the prevailing rate of exchange. In the Investments impacting the Québec economy portfolio, the assets, whose value varies in step with fluctuations in the value of a foreign currency, represent a fair value of \$111.1 million, or 6.2% of net assets as at December 31, 2016, compared with \$85.8 million, or 5.2% of net assets as at December 31, 2015.

CRCD aims to systematically hedge currency risk for assets measured in foreign currency, unless the exposure stems from the long-term expected returns of certain asset classes. A \$5 million line of credit has been granted to CRCD for its foreign exchange contract transactions. As at December 31, 2016, CRCD held foreign exchange contracts under which it must deliver US\$82.3 million (US\$62.7 million as at December 31, 2015) at the rate of CAD/USD 1.3360 (CAD/USD 1.3927 as at December 31, 2015) on March 31, 2017.

As at December 31, 2016, the net exposure of CRCD's Investments impacting the Québec economy portfolio to foreign currencies is limited to \$1.2 million (\$1.0 million as at December 31, 2015). Any fluctuation in the Canadian dollar will therefore not have a significant impact on CRCD's results.

For the Other investments portfolio, the net exposure of global equity funds to foreign currencies amounted to \$95.8 million. Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a \$9.6 million increase (decrease) in net income, representing a 0.5% increase (decrease) in CRCD's share price.

**CREDIT AND COUNTERPARTY RISKS**

In pursuing its Investments impacting the Québec economy mission, CRCD is exposed to credit and counterparty risks related to potential financial losses if a partner company fails to fulfill its commitments or experiences a deterioration of its financial position. By diversifying its investments by investment profile, and by limiting the potential risk of each partner company, CRCD has limited portfolio volatility due to the possibility of negative events.

CRCD does not generally require guarantees to limit credit risk on its loans. Requiring guarantees would contravene the eligibility rules for Investments impacting the Québec economy.

The maximum credit risk is the carrying amount of the financial instruments at the end of the reporting period, in addition to funds committed but not disbursed.

In the second half of fiscal 2016, the Moody's RiskAnalyst rating system tool was modified pursuant to a corporate decision. Following this change, the risk rankings of some companies were amended and reclassified in the comparison table below.

Investments impacting the Québec economy, except those carried out through funds, are first ranked by risk from 1 to 9 based on the criteria defined by the RiskAnalyst tool. Subsequently, all the investments are reviewed monthly to identify those that meet the criteria for a ranking of 10.

Investments impacting the Québec economy made as funds are presented in the Low to acceptable risk category due to the structure of this type of product, and because they generally involve no leverage.

The table below shows the stability of the Investments impacting the Québec economy portfolio. Ranked by risk, the percentage breakdown is as follows (fair value amounts):

| Rank                            | AS AT DECEMBER 31, 2016 |          | AS AT DECEMBER 31, 2015 * |          |
|---------------------------------|-------------------------|----------|---------------------------|----------|
|                                 | (in thousands of \$)    | (as a %) | (in thousands of \$)      | (as a %) |
| 1 to 6.5 Low to acceptable risk | 894,154                 | 97.0     | 786,449                   | 96.0     |
| 7 to 9 At risk                  | 20,161                  | 2.2      | 21,390                    | 2.8      |
| 10 High risk and insolvent      | 7,203                   | 0.8      | 9,360                     | 1.2      |

\* Comparative figures for 2015 have been adjusted to reflect the new risk ranking breakdown.

Furthermore, CRCD is exposed to credit risk on financial instruments not recognized in assets, which are funds committed but not disbursed in connection with the Investments impacting the Québec economy portfolio. The table below shows the breakdown, ranked by risk, of funds committed but not disbursed as at the reporting date:

| Rank                            | AS AT DECEMBER 31, 2016 |          | AS AT DECEMBER 31, 2015 * |          |
|---------------------------------|-------------------------|----------|---------------------------|----------|
|                                 | (in thousands of \$)    | (as a %) | (in thousands of \$)      | (as a %) |
| 1 to 6.5 Low to acceptable risk | 188,721                 | 99.8     | 170,682                   | 99.8     |
| 7 to 9 At risk                  | 400                     | 0.2      | 400                       | 0.2      |

\* Comparative figures for 2015 have been adjusted to reflect the new risk ranking.

For the bond portfolio, which represents 69.8% of the fair value of the Other investments portfolio (83.7% as at December 31, 2015), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

| Rank | AS AT DECEMBER 31, 2016 |                      | AS AT DECEMBER 31, 2015 |                      |
|------|-------------------------|----------------------|-------------------------|----------------------|
|      | (in thousands of \$)    | (in thousands of \$) | (in thousands of \$)    | (in thousands of \$) |
| AAA  | 269,452                 |                      | 336,401                 |                      |
| AA   | 194,174                 |                      | 122,857                 |                      |
| A    | 55,695                  |                      | 137,323                 |                      |
| BBB  | 57,966                  |                      | 64,781                  |                      |
| BB   | 3,049                   |                      | 3,181                   |                      |

Credit risk ratings are established by recognized credit agencies.

Consistent with the global financial asset management policy, preferred shares and money market instruments have respective minimum credit ratings of Pfd-2 (low), and A-2 or R-1 (low). Such high credit ratings limit the credit risk associated with these financial instruments.

Counterparty risk is limited to the immediate short term and is associated with CRCD's counterparty when entering into cash transactions.

Counterparty risk is low for foreign exchange contracts given the amounts in question and that the contract counterparty is Caisse centrale Desjardins.

## CONCENTRATION RISKS

Concentration risks arise from the possibility that a significant portion of the Investments impacting the Québec economy portfolio or the Other investments portfolio might become concentrated in a single entity, region or financial product, which could render CRCD vulnerable to any financial difficulties experienced by such entity, region or financial product.

### Risk of concentration in an entity

Pursuant to its constituting act, policies and internal guidelines, the amount that CRCD may invest in any one entity or in a group of associates is limited to a percentage of its assets for both the Investments impacting the Québec economy and Other investments portfolios.

The concentration of the five largest Investments impacting the Québec economy and the five largest Other investments is as follows (percentages are based on fair asset value and funds committed but not disbursed):

|  | As at December 31, 2016 |                 | AS AT DECEMBER 31, 2015 |                 |
|--|-------------------------|-----------------|-------------------------|-----------------|
|  | % of portfolio          | % of net assets | % of portfolio          | % of net assets |
| Investments impacting the Québec economy | 38.0                    | 23.6            | 38.0                    | 22.9            |
| Other investments *                      | 44.5                    | 20.7            | 44.0                    | 22.0            |

\* Government issuers accounted for 86% (90% as at December 31, 2015) of the Other investments portfolio's five largest issuers or counterparties.

### Risk of concentration by region

In keeping with its mission of Québec economic development, the Investments impacting the Québec economy portfolio chiefly comprises businesses whose employees are, in the majority, residents of Québec. Furthermore, at least 35% of its investments must be made in companies located in the resource regions or in cooperatives. Portfolio performance therefore depends heavily on economic conditions in Québec and the resource regions. As at December 31, 2016, the Investments impacting the Québec economy portfolio represented 51.6% of net assets (50.0% as at December 31, 2015).

CRCD has adopted a global financial asset management and investment guidelines policy to govern the Other investments portfolio activities which currently limits the option of holding foreign securities. As at December 31, 2016, the Other investments portfolio includes a portion of foreign securities through its investment in global equity funds. Accordingly, the Other investments portfolio was made up of 88.7% of Canadian securities (100% as at December 31, 2015). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2016, the Other investments portfolio represented 47.2% of net assets (49.0% as at December 31, 2015).

### Risk of concentration in a financial product

The global financial asset management policy favours global integrated management of the Investments impacting the Québec economy and Other investments portfolios. The policy establishes limits by asset class and these limits are applied by the manager. As at December 31, 2016, bond securities represented 32.4% of net assets (40.5% as at December 31, 2015). The lower percentage allocated to this asset class aims to diversify the portfolio by adding new asset classes and to strike an overall balance for the portfolio between risk and return as well as meet CRCD's cash requirements.

The portfolio summary presented at the end of this MD&A also provides relevant information for assessing concentration risk.

### LIQUIDITY RISKS

CRCD must maintain sufficient liquid assets to fund share redemptions and committed Investments impacting the Québec economy. If it failed to do so, CRCD would be dependent on the markets and could be forced to carry out transactions under unfavourable conditions. With liquid investments that should represent approximately 30% of assets under management, and using a management approach that ensures that the average maturity of bonds is close to the average maturity of expected outflows, CRCD can confirm that liquidity risks are adequately covered. Furthermore, credit facilities have been put in place to provide greater cash management flexibility. The credit facilities were not used during fiscal 2016 and fiscal 2015.

Each year, stress testing to simulate extreme but plausible economic and financial scenarios is carried out to measure CRCD's exposure to liquidity risk. For fiscal 2016, this work took into account the expected higher balance of redeemable shares of CRCD. Initiatives will be implemented to encourage the redemption of shares and an increase in the existing line of credit has been granted, raising the authorized limit to \$50 million in 2016 from \$10 million in 2015.

CRCD, through its balanced financial strategy and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

### RECENT EVENTS

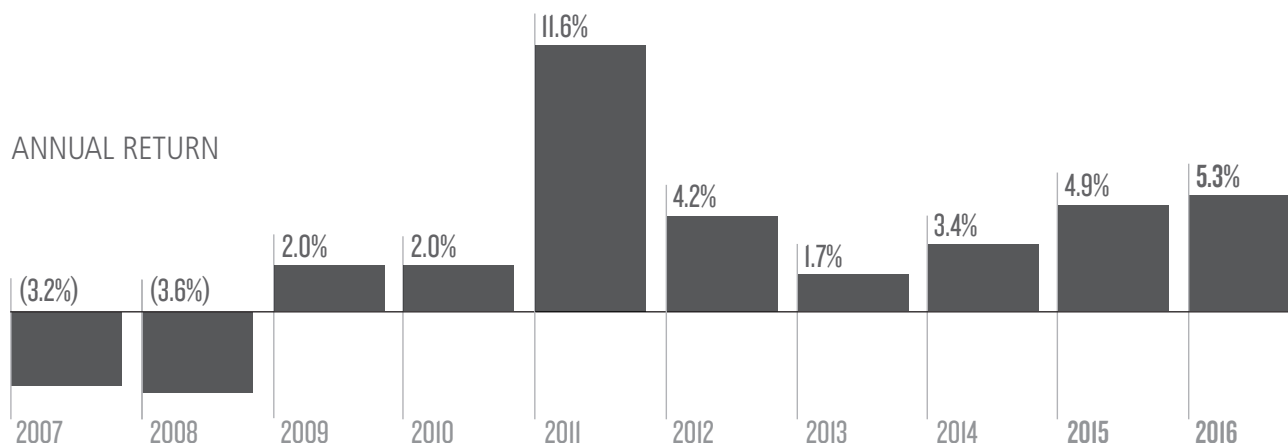
Following the 2016-2017 budget speech, the Québec government announced changes to CRCD's governance pertaining to the composition of its Board of Directors and the concept of independence. The proposed legislative amendments must be adopted by the National Assembly and will be implemented gradually.

## PAST PERFORMANCE

This section presents the CRCD's historical returns. These returns do not include the \$50 administration fee paid by shareholders or the tax credit they enjoy as a result of their investment. Past performance is not necessarily indicative of future returns.

## ANNUAL RETURNS

The following chart shows CRCD's annual returns and illustrates the change in returns from one period to the next for the past ten fiscal years. Annual return is calculated by dividing earnings (loss) per share for the period by the share price at the beginning of the period.



## COMPOUNDED RETURN OF THE COMMON SHARE AS AT DECEMBER 31, 2016

The compounded return is calculated based on the annualized change in the price of the share over each of the periods shown.

| 10 years | 7 years | 5 years | 3 years | 1 year |
|----------|---------|---------|---------|--------|
| 2.6%     | 4.5%    | 3.8%    | 4.4%    | 5.2%   |

## PORTFOLIO SUMMARY

### CORE INVESTMENT PROFILES

As at December 31, 2016, assets in CRCD's Investments impacting the Québec economy and Other investments portfolios were allocated on a fair value basis as follows:

| INVESTMENT PROFILE                                      | % OF NET ASSETS |
|---|-----------------|
| <b>Investments impacting the Québec economy *</b>       |                 |
| Debt  | 15.6            |
| Equity  | 30.0            |
| External funds  | 3.8             |
| Venture capital   | 1.4             |
| Other asset items held by ecosystem funds               | 0.8             |
| <b>Total – Investments impacting the Québec economy</b> | <b>51.6</b>     |
| <b>Other investments</b>                                |                 |
| Cash and money market instruments                       | 2.0             |
| Bonds   | 32.4            |
| Preferred shares  | 3.3             |
| Global equity   | 5.9             |
| Real estate funds                                       | 3.6             |
| <b>Total – Other investments</b>                        | <b>47.2</b>     |

\* Including foreign exchange contracts

## MAIN INVESTMENTS HELD

As at December 31, 2016, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

| ISSUER   | % OF NET ASSETS |
|--|-----------------|
| Investments impacting the Québec economy – 14 issuers *            | 33.7            |
| Merrill Lynch Canada, Inc.   | 5.8             |
| Hydro-Québec   | 4.4             |
| Canada Housing Trust   | 3.8             |
| Government of Canada   | 3.8             |
| Desjardins IBrix Low Volatility Global Equity Fund (I-Class Units) | 3.0             |
| Desjardins Global Dividend Fund (I-Class Units)                    | 2.9             |
| Bentall Kennedy Prime Canadian Property Fund                       | 2.3             |
| Royal Bank of Canada   | 1.8             |
| Province of Alberta  | 1.4             |
| Province of Ontario  | 1.4             |
| Fiera Properties CORE Fund   | 1.3             |

\* The 14 issuers who collectively represent 33.7% of CRCD's net assets are:

- ACCEO Solutions Inc.
- Agropur Coopérative
- Avjet Holding Inc.
- Camso Inc.
- Capital croissance PME s.e.c.
- Capital croissance PME II s.e.c.
- Congebec Logistic Inc.
- Desjardins-Innovatech S.E.C.
- Exo-s Inc.
- Fonds d'investissement MSBI, s.e.c.
- Gecko Alliance Group Inc.
- La Coop fédérée
- Société en commandite Essor et Coopération
- Telecon Group

This summary of CRCD's portfolio may change at any time due to transactions carried out by CRCD.

February 16, 2017



February 16, 2017

## MANAGEMENT'S REPORT

CRCD's separate financial statements together with the financial information contained in this annual report are the responsibility of the Board of Directors, which delegates the preparation thereof to management.

In discharging its responsibility for the integrity and fairness of the financial statements, management has ensured that the manager maintains an internal control system to provide reasonable assurance that the financial information is reliable, that it provides an adequate basis for the preparation of the financial statements and that the assets are properly accounted for and safeguarded.

Furthermore, CRCD's General Manager and Chief Financial Officer have certified that the method used to determine the fair value of each of the Investments impacting the Québec economy complies with the requirements of the Autorité des marchés financiers and have confirmed the reasonableness of the aggregate fair value of the portfolio of Investments impacting the Québec economy.

The Board of Directors fulfils its responsibility for the financial statements principally through its Audit Committee. The Committee meets with the independent auditor appointed by the shareholders with and without management present to review the financial statements, discuss the audit and other related matters and make appropriate recommendations to the Board of Directors. The Committee also analyzes the management discussion and analysis to ensure that the information therein is consistent with the financial statements.

The financial statements present the financial information available as at February 16, 2017. These statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board and audited by PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.

The Board of Directors has approved the separate financial statements, together with the information in the management discussion and analysis. The financial information presented elsewhere in this report is consistent with CRCD's separate financial statements.

(signed) Yves Calloc'h, CPA, CA

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Chief Financial Officer