

OPERATIONAL REPORT 2021-2022

FINANCEMENT-QUÉBEC



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Operational Report 2021-2022
Financement-Québec

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President of the National Assembly
Hôtel du Parlement
Québec

I have the honour of submitting the operational report and financial statements of Financement-Québec for the fiscal year beginning April 1, 2021 and ending March 31, 2022.

Sincerely,

Original French version signed

Eric Girard
Québec, November 2022

Québec, July 19, 2022

Mr. Eric Girard
Minister of Finance
390, boulevard Charest Est, 8^e étage
Québec (Québec) G1K 3H4

Mr. Minister,

As Vice-Chair of the Board, I am pleased to submit the 2021-2022 operational report and financial statements of Financement-Québec.

This report and these financial statements have been prepared in accordance with the provisions of section 42 of the *Act respecting Financement-Québec* (CQLR, chapter F-2.01) and reflect the activities carried out during the fiscal year beginning April 1, 2021 and ending March 31, 2022.

Sincerely,

Vice-Chair of the Board,

Original French version signed

Marie-Pierre Hillinger

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1. PROFILE OF FINANCEMENT-QUÉBEC

Financement-Québec (the “Corporation”) is a legal person with share capital established under the *Act respecting Financement-Québec* (CQLR, chapter F-2.01). The Corporation began its operations on October 1, 1999.

Its mission is to provide financial services to bodies covered by its statute of incorporation, in particular by granting loans to them.

The Corporation grants loans to bodies outside the government reporting entity.

Bodies within the government reporting entity that used to borrow from the Corporation, that is, public bodies in the health and social services network, as well as CEGEPS, school service centres, school boards and the Université du Québec and its constituents, are now borrowing from the Minister of Finance, as the person responsible for the Financing Fund. The Corporation retains, until the term of the loans expires, the loans granted to these organizations before April 13, 2013.

During fiscal year 2021-2022, the Corporation granted a total of \$1.6 billion in long-term loans. As at March 31, 2022, the balance of loans and that of borrowings and advances stood at \$8.6 billion and \$8.2 billion, respectively.

2. FISCAL YEAR AT A GLANCE

TABLE 1

Summary of activities

	2021-2022	2020-2021
Long-term loans made (\$ million)	1 596.2	1 180.6
Number of loans	45	48
Number of clients	14	13
Average amount of short-term loans made (\$ million)	4.1	10.7
Number of loans	54	5
Number of clients	9	4
Long-term advances received from the general fund (\$ million)	1 596.2	1 180.6
Number of advances	28	35

TABLE 2

Summary of long-term loans made in 2021-2022

	Total amount (\$million)	Number of loans	Average amount (\$million)
Universities ⁽¹⁾	294.9	20	14.7
Municipal bodies ⁽²⁾	1 270.3	23	55.2
Municipalities	30.7	1	30.7
Montreal Museum of Fine Arts	0.3	1	0.3
TOTAL	1 596.2	45	35.5

(1) Private university establishments.

(2) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, Société de transport de Montréal and Société de transport de Québec (RTC).

TABLE 3

Financial results

	2021-2022	2020-2021
Net income (\$ million)	14.5	22.6

TABLE 4

Statement of loans, borrowings and advances

	March 31, 2022			March 31, 2021
	Long-term	Short-term	Total	Total
Outstanding loans (\$ million)	8 374.2	218.6	8 592.8	8 063.1
Number of loans	588	55	643	594
Number of clients	125	9	125	133
Outstanding borrowings and advances (\$ million)	8 146.9	20.3	8 167.2	7 652.5

3. OBJECTIVES

This section describes the Corporation's four main objectives and the activities carried out to achieve them.

First objective: Reduce the financing costs of its clients as much as possible

The Corporation finances its requirements through advances from the general fund of the Consolidated Revenue Fund (general fund). Amounts thus obtained finance all the individual requirements of the Corporation's clients. This pooled financing strategy enables the Corporation to make short-and long-term loans under financing conditions similar to those of the Québec government, which helps to reduce the financing costs of the Corporation's clients as much as possible.

The terms and conditions of short-term and long-term loans made to bodies are determined according to the criteria established by the government.

Second objective: Offer clients quality service

To meet its clients' needs, Financement-Québec continuously improves existing financing processes, adds financial services, and works with bodies to assess and negotiate, on their behalf, traditional or structured financing operations.

Providing clients with a simpler way to obtain financing

To streamline the process and reduce the time needed to obtain financing, the board of directors of each of the bodies adopts a borrowing plan that sets the maximum amount of borrowings allowed, as well as their limits and characteristics. The borrowing plan eliminates the constraint of having to have each loan authorized by the board of directors and allows authorized officers to make loans within the established framework.

Bodies carry out all their long-term loans under a loan agreement valid for the term of the borrowing plan. Consequently, at the time a long-term loan is contracted, only the note and, where warranted, the deed of hypothec are required.

Bodies contract their short-term loans with the Corporation under a framework loan agreement. Consequently, at the time a short-term loan is contracted, only a schedule or a transaction confirmation is required.

Adapt loan conditions to the clients' requirements

Loan conditions, in particular the term, principal repayment structure and frequency of interest payments, are adapted to the requirements of the clients or the responsible departments in accordance with the *Policy for the Financing of Public Bodies*.

❑ **Third objective: Adequately manage financial risks**

■ **Credit risk of borrowers**

In general, bodies receiving a subsidy for the repayment of long-term loans contracted with the Corporation must pledge this subsidy in its favour.

For unsubsidized loans, the Minister responsible for the body concerned undertakes to intervene in the event of the body's default, so that the body remedies the situation as soon as possible.

■ **Liquidity risk**

The Corporation manages liquidity risk by coordinating the realization of financings, ensuring forward-looking matching of financial flows of its asset and liability portfolio, and maintaining access to credit to ensure that it can meet its requirements at all times. Cash flows generated in the normal course of its activities, as well as available sources of funding, are sufficient to satisfy its financial obligations.

■ **Currency risk**

In accordance with its currency risk management policy, the Corporation avoids any exposure of this nature.

■ **Interest rate risk**

The Corporation manages interest rate risk using matching methods such as those used by financial institutions for their intermediation activities. It thus limits the net exposure of its asset and liability portfolios to fluctuations in interest rates, in accordance with the policy adopted to that effect. Since April 2018, the long-term advances made from the general fund have had the same capital amortization structure as the loans granted, which optimizes the Corporation's interest rate risk management process.

❑ **Fourth objective: Self-financing and efficient operations**

The Corporation must ensure the self-financing of its operations while offering its clients the best financing conditions. To do so, it must maintain an adequate and competitive rate structure for its products and services. It must also optimize its operational processes to reduce operating costs.

To improve efficiency and reduce costs, the Corporation entered into a service agreement with the Ministère des Finances, in return for compensation, for the following services:

- negotiation, completion, accounting and settlement of borrowings and derivatives;
- management of loans to bodies and follow-up;
- human and physical resources management.

4. THE CORPORATION'S ACTIVITIES

4.1 Short-term loans

The Corporation made 54 short-term loans during fiscal 2021-2022 averaging \$4.1 million, compared to 5 short-term loans averaging \$10.7 million in 2020-2021.

As at March 31, 2022, the balance of short-term loans stood at \$218.6 million.

Following the change in application of the standard respecting transfer payments, temporary funding of investment projects for which the Québec government grants a subsidy is now carried out with the Corporation for all private universities.

The Corporation has thus improved its short-term loan service offering, which has made it possible, in particular, to minimize the cost of financing private university projects subsidized by the government.

As a result, the balance of short-term loans has increased substantially from \$67.8 million at March 31, 2021 to \$218.6 million at March 31, 2022.

4.1.1 Short-term loan pricing

The interest rate for short-term financing as well as issuing and management fees were not revised in 2021-2022.

The interest rate corresponds to the one-month bankers' acceptance rate less a margin of 10 basis points. However, the applicable rate cannot be less than zero.

Issuing and management fees for short-term loans are set at 0 basis point.

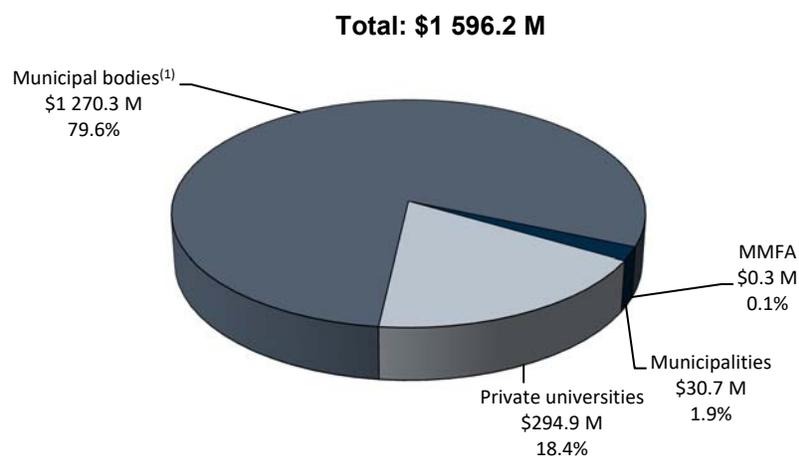
4.2 Long-term loans

The Corporation made 45 long-term loans totalling \$1 596.2 million in fiscal 2021-2022.

As illustrated in Chart 1, long-term loans to municipal bodies, private universities, municipalities and the Montreal Museum of Fine Arts (MMFA) represent, respectively, 79.6%, 18.4%, 1.9% and 0.1% of total loans.

CHART 1

Breakdown of long-term loans made in 2021-2022

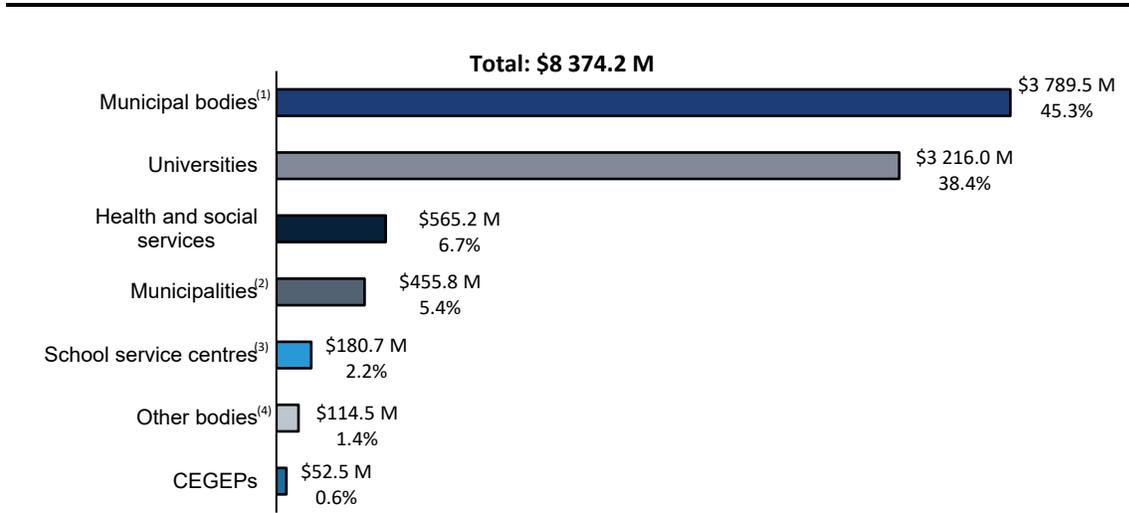


(1) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, Société de transport de Montréal and Société de transport de Québec (RTC).

Chart 2 shows the breakdown of outstanding long-term loans by client as at March 31, 2022.

CHART 2

Breakdown of outstanding long-term loans by client as at March 31, 2022

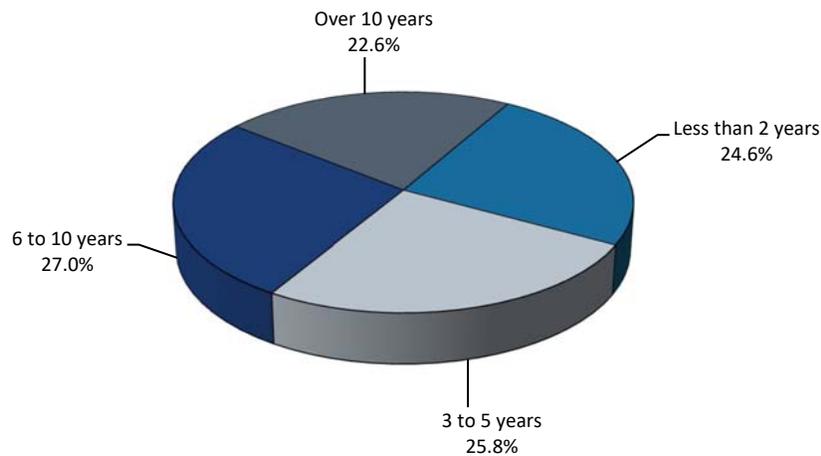


- (1) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, Société de transport de Montréal and Société de transport de Québec (RTC).
- (2) Loans mainly granted under the municipal infrastructure loan program related to residential housing in 2010-2011.
- (3) Includes school boards.
- (4) Commission des normes, de l'équité, de la santé et de la sécurité du travail, Institut de recherches cliniques de Montréal and Montreal Museum of Fine Arts.

Chart 3 shows the breakdown of principal repayments on long-term loans as at March 31, 2022. The average weighted term on that date was 6.3 years.

CHART 3

Schedule of principal repayments on long-term loans as at March 31, 2022



4.2.1 Long-term loan pricing

The applicable interest rate as well as the issuing and management fees charged by the Corporation on long-term loans have not been revised in 2021-2022.

Issuing fees range from 15 and 55 basis points depending on the term of the loan. Management fees are set at 2 basis points except for loans over 25 years, which are set at 5 basis points.

5. SOURCES OF FINANCING

To finance its short-term loan activities and meet its cash requirements, the Corporation has taken out short-term loans for an average amount of \$49.5 million in 2021-2022. As at March 31, 2022, the balance of outstanding short-term borrowings was \$20.3 million.

In 2021-2022, the financing of the Corporation's long-term lending activities was composed entirely of long-term advances from the general fund.

Table 5 presents the long-term advances received from the general fund during the fiscal year.

TABLE 5

Summary of advances obtained by the Corporation in 2021-2022

Fiscal year (maturity)	Face value (\$M)	Number of advances	Interest rate (%)
2026-2027	42.4	4	1.50 to 2.43
2031-2032	231.7	6	2.15 to 2.91
2036-2037	209.0	3	2.43 to 3.09
2037-2038	200.0	1	3.12
2041-2042	882.5	13	2.39 to 3.36
2046-2047	30.6	1	2.50
TOTAL	1 596.2	28	

6. WORKFORCE MANAGEMENT AND CONTROL

The *Act respecting workforce management and control within government departments, public sector bodies and networks and state-owned enterprises* (CQLR, chapter G-1.011) applies to the Corporation.

Pursuant to the Act, the Corporation must report, in its annual report, on its workforce and on the entering into of any service contracts involving an expenditure of \$25 000 or more determined by the Conseil du trésor.

Under *Règlement numéro 2 relatif à l'effectif, aux normes et barèmes de rémunération et aux autres conditions de travail des employés de Financement-Québec*, the workforce is limited to 12 permanent positions and is composed of an officer, professionals and technicians or administrative assistants. Seven people comprised the workforce as at March 31, 2022.

During fiscal year 2021-2022, no service contracts of \$25 000 or more were entered into by the Corporation.

7. CODE OF ETHICS AND PROFESSIONAL CONDUCT

To manage its assets efficiently and transparently, the Corporation adopted a code of ethics and professional conduct applicable to the members of the board of directors, management and personnel. Under the code, these individuals undertake to act with integrity and responsibly in the exercise of their duty.

Since the Code was adopted, no violation of its principles and rules has been reported. Consequently, no decision has been handed down in this regard. In accordance with the *Act respecting the Ministère du Conseil exécutif* (CQLR, chapter M-30), an English translation of the code of ethics and professional conduct is published in an appendix to this report.

8. REMUNERATION OF OFFICERS

In accordance with the June 2001 decision of the Conseil du trésor, the Corporation publishes the remuneration of its officers.

No remuneration was paid to the Corporation's officers and directors during fiscal year 2021-2022.

9. SUSTAINABLE DEVELOPMENT

On March 4, 2016, the Corporation adopted its 2015-2020 sustainable development action plan, in accordance with the government's sustainable development strategy and the *Sustainable Development Act* (CQLR, chapter D-8.1.1). This plan has been extended until March 31, 2022. It presents the Corporation's objectives and actions to achieve them, as described below.

☐ **Government objective 1.1**

Strengthen eco-responsible management practices in the public administration (indispensable action).

☐ **Government objective 1.2**

Broaden recognition by government departments and public bodies of the principles of sustainable development (indispensable action).

☐ **Government objective 1.4**

Pursue development in the public administration of knowledge and skills relating to sustainable development.

The Corporation entered into a service agreement with the Ministère des Finances. During fiscal year 2021-2022, it proposed awareness-raising activities to its employees through the Ministère des Finances to promote practices underpinning eco-responsible management. Pursuant to the agreement, the Corporation is contributing to the initiatives of the Ministère des Finances through eco-responsible procurement, minimum use of paper, reduced energy consumption, and the reuse and recycling of resources.

Furthermore, as a result of its mission, the Corporation is involved in a continuous process of support and services to its clients in connection with the oversight of financial transactions stipulated in the *Financial Administration Act* (CQLR, chapter A-6.001) and related regulations, with the aim of contributing to the attainment of the government's objectives.

During fiscal year 2021-2022, the Corporation pursued its efforts to reduce the amount of paper used. What is more, it is encouraging payments by electronic transfer or direct debit payment and reliance on new technologies for the transmission and preservation of documents. The documents required for the meetings of the board of directors of the Corporation are prepared on technological media, which reduces the need for printed documents.

10. LANGUAGE POLICY

The Office québécois de la langue française requires government departments and public bodies to adopt a language policy consistent with the government policy on the use and quality of the French language in the civil administration.

On March 31, 2017, the Corporation's board of directors adopted the language policy of the Ministère des Finances, approved in January 2017. The Corporation abides by the general principles of the policy.

FINANCIAL STATEMENTS

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MANAGEMENT'S REPORT

The financial statements of Financement-Québec were drawn up by my management, which is responsible for their preparation and their presentation, including significant judgments and estimates. This responsibility includes the selection of appropriate accounting methods that satisfy Canadian public sector accounting standards. The financial information contained in the operational report agrees with the information given in the financial statements.

To carry out its responsibilities, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are protected and that operations are correctly accounted for in a timely fashion, are duly approved and are such as to produce reliable financial statements.

Financement-Québec acknowledges that it is responsible for managing its affairs in accordance with the laws and regulations that govern it.

The board of directors oversees how management at Financement-Québec carries out its responsibilities in terms of financial information and approves the financial statements.

The Auditor General of Québec has audited Financement-Québec's financial statements in accordance with Canadian generally accepted accounting standards. Its independent auditor's report sets out the nature and extent of the audit and expresses its opinion.

The Auditor General of Québec may, without limitation, meet with the board of directors to discuss anything concerning its audit.

Original French version signed

President and Chief Executive Director

Original French version signed

Vice-President, Finance

Québec, June 20, 2022



INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of Financement-Québec (the "Entity"), which comprise the statement of financial position as at March 31, 2022, and the statement of operations and accumulated surplus, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flows for the year then ended, and notes for the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2022 and its results of operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the entity in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Operational Report, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be misstated. I obtained the Operational Report prior to the date of this auditor's report. If, based on the work I have performed on this other information, I conclude that there is a material misstatement of this other information, I am required to report that fact in this auditor's report. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to attain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

As required by the *Auditor General Act* (CQLR, chapter V-5.01), I report that, in my opinion, these accounting policies have been applied on a basis consistent with that of the preceding year.

On behalf of the Auditor General of Québec,

Original French version signed

Christine Roy, CPA auditor
Deputy Auditor General

Québec, June 20, 2022

FINANCIAL STATEMENTS

Statement of operations and accumulated surplus

Fiscal year ended March 31, 2022

(thousands of dollars)

	2022		2021
	Budget	Actual results	Actual results
Net interest income			
Interest on loans	243 723	239 449	236 895
Interest on investments	608	44	150
	244 331	239 493	237 045
Interest on borrowings and advances (note 3)	(228 751)	(224 749)	(214 210)
	15 580	14 744	22 835
Operations and administration expenses			
Wages and fringe benefits	1 043	789	723
Depreciation of fixed assets	304	305	304
Others	34	1	2
Expenses assumed by the Financing Fund	(1 034)	(812)	(750)
	347	283	279
OPERATING SURPLUS FOR THE YEAR	15 233	14 461	22 556
ACCUMULATED OPERATING SURPLUS AT BEGINNING OF YEAR	424 936	424 923	402 367
ACCUMULATED OPERATING SURPLUS AT END OF YEAR	440 169	439 384	424 923

The notes are an integral part of the financial statements.

Statement of remeasurement gains and losses
Fiscal year ended March 31, 2022
(thousands of dollars)

	2022	2021
ACCUMULATED REMEASUREMENT GAINS AT BEGINNING OF YEAR	269 033	431 345
Unrealized losses attributable to the following:		
Fair value – Financial derivatives	(45 669)	(162 146)
Amounts reclassified in the statement of operations:		
Fair value – Financial derivatives	(1)	(166)
NET REMEASUREMENT LOSSES FOR THE YEAR	(45 670)	(162 312)
ACCUMULATED REMEASUREMENT GAINS AT END OF YEAR	223 363	269 033

The notes are an integral part of the financial statements.

Statement of financial position
as at March 31, 2022
(thousands of dollars)

	2022	2021
Financial assets		
Cash and cash equivalents (note 4)	1 405	868
Accounts receivable	2 663	2 938
Accrued interest on loans	63 328	61 233
Loans (note 5)	8 592 842	8 063 106
Financial derivatives (notes 8 and 9)	264 614	354 756
	8 924 852	8 482 901
Liabilities		
Accounts payable	384	394
Net accrued interest on borrowings and advances	63 948	61 387
Borrowings and advances (note 6)	8 167 231	7 652 455
Financial derivatives (notes 8 and 9)	31 176	75 648
	8 262 739	7 789 884
Net financial assets	662 113	693 017
Non financial assets		
Tangible fixed assets	734	1 039
CAPITAL STOCK (NOTE 11)	100	100
ACCUMULATED SURPLUS	662 747	693 956
Accumulated surplus consists of:		
Accumulated operating surplus	439 384	424 923
Accumulated remeasurement gains	223 363	269 033
TOTAL	662 747	693 956

EVENT AFTER THE DATE OF THE FINANCIAL STATEMENTS (NOTE 14)

The notes are an integral part of the financial statements.

For the Board of Directors,

Original French version signed

President and Chief Executive Officer

Original French version signed

Vice-president, Finance

Statement of change in net financial assets
Fiscal year ended March 31, 2022
(thousands of dollars)

	2022		2021
	Budget	Actual results	Actual results
OPERATING SURPLUS FOR THE YEAR	15 233	14 461	22 556
Depreciation of fixed assets	304	305	304
Net remeasurement losses for the year	(26 265)	(45 670)	(162 312)
DECREASE IN NET FINANCIAL ASSETS	(10 728)	(30 904)	(139 452)
NET FINANCIAL ASSETS AT BEGINNING OF YEAR	810 297	693 017	832 469
NET FINANCIAL ASSETS AT END OF YEAR	799 569	662 113	693 017

The notes are an integral part of the financial statements.

Statement of cash flow
Fiscal year ended March 31, 2022
(thousands of dollars)

	2022	2021
Operating surplus		
Operating surplus for the year	14 461	22 556
Items not affecting cash and cash equivalents:		
Adjustment of loans to the effective rate	(5 886)	(5 705)
Interest income charged to loan balances	(229)	(286)
Adjustment of borrowings and advances to the effective rate	(2 069)	(1 100)
Reclassification to the statement of operations – Fair value of financial derivatives	(1)	(166)
Depreciation of fixed assets	305	304
	<u>6 581</u>	<u>15 603</u>
Change in financial assets and liabilities related to operations (note 12)	732	2 026
Cash flows from operating activities	<u>7 313</u>	<u>17 629</u>
Investment activities		
Loans made	(1 806 223)	(1 227 536)
Loan repayments	1 282 602	796 324
Cash flows from investment activities	<u>(523 621)</u>	<u>(431 212)</u>
Financing activities		
Short-term borrowings and advances	1 088 783	5 362 222
Long-term borrowings and advances	1 587 783	1 174 407
Repayments of short-term borrowings and advances	(1 327 902)	(5 834 007)
Repayments of long-term borrowings and advances	(831 819)	(289 943)
Cash flows from financing activities	<u>516 845</u>	<u>412 679</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>537</u>	<u>(904)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>868</u>	<u>1 772</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 4)	<u>1 405</u>	<u>868</u>

The notes are an integral part of the financial statements.

FINANCEMENT-QUÉBEC

AS AT MARCH 31, 2022

NOTES TO THE FINANCIAL STATEMENTS

1. Establishment, purpose and financing

Financement-Québec (the “Corporation”) was established under the *Act respecting Financement-Québec* (CQLR, chapter F-2.01), which entered into force on October 1, 1999.

The Corporation’s mission is to provide financial services to public bodies covered by its statute of incorporation. The Corporation finances them directly by granting loans to them and by issuing titles of indebtedness in their name. It advises them with a view to facilitating their access to credit and minimizing the cost of financing and, for that purpose, develops financing programs. It may also manage the financial risks assumed by the public bodies. The Corporation may, in addition, provide technical services to them in the field of financial analysis and management.

The Corporation charges loan issue expenses to borrowers to offset those incurred by it on borrowings made. It also charges administration expenses to borrowers. The level of expenses charged is subject to government approval.

The Corporation issues titles of indebtedness, all of which are guaranteed by the Québec government.

Until September 30, 2022, the Corporation is a legal person with share capital, is mandatory of the State. Consequently, it is not subject to Québec and Canadian income tax. However, starting on October 1, 2022, as described in note 14, the Corporation will become a legal person established in the public interest.

2. Significant accounting policies

Basis of accounting

The financial statements are established in accordance with the CPA Canada Public Sector Accounting Handbook. Use of any other source of generally accepted accounting principles must be consistent with that handbook.

Use of estimates

In accordance with Canadian public sector accounting standards, the preparation of the Corporation’s financial statements requires that management make use of accounting estimates and assumptions. These have an impact on the recognition of assets and liabilities, the presentation of potential assets and liabilities as of the date of the financial statements, and the recognition of income and charges of the fiscal year presented in the financial statements.

Financial derivatives are the main elements for which management established estimates and formulated hypotheses. The actual results may differ from management’s best estimates.

Financial instruments

Upon their initial recognition, financial instruments are classified either in the category of financial instruments valued at fair value or in the category of financial instruments valued at cost or at amortized cost.

On the date of the transaction, issue expenses for financial instruments valued at fair value are expensed, while those for financial instruments valued at cost or at amortized cost are added to the book value of such instruments.

2. Significant account policies (cont.)

The Corporation has classified financial derivatives in the category of financial instruments valued at fair value.

The Corporation has classified cash and cash equivalents, accounts receivable, accrued interest on loans, loans, accounts payable and net accrued interest on borrowings and advances, as well as borrowings and advances, in the category of financial instruments valued at cost or at amortized cost.

Financial assets and liabilities are offset, and the net balance is shown in the statement of financial position, if and only if the Corporation has a legally enforceable right to offset the amounts recognized and if it intends either to settle the net amount or to simultaneously to realize the asset and settle the liability.

A financial instrument is derecognized when the contractual obligations are terminated at maturity or the Corporation transfers the contractual rights to receive the cash flow linked to the financial instruments under a transaction in which practically all the risks and benefits inherent in the ownership of the financial instrument are transferred.

Cash and cash equivalents

Cash and cash equivalents include bank balances and investments that are easily convertible into a known amount of cash whose value is not likely to change significantly. These short-term investments generally expire in three months or less from the date of acquisition and are held to meet short-term cash commitments rather than for investment purposes.

Loans

Loans are recorded at the amount disbursed at the time of issue, adjusted by the discount or premium and issue expenses, and are valued at amortized cost using the effective interest rate method.

Interest income on loans, valued using the effective interest rate method, is recognized when earned.

Borrowings and advances

Borrowings and advances from the general fund of the Consolidated Revenue Fund are recorded at the amount received at the time of issue, including the discount or premium and issue expenses. After their initial recognition, borrowings and advances from the general fund of the Consolidated Revenue Fund are valued at amortized cost using the effective interest rate method. The corresponding interest expenses are shown under the heading "Interest on borrowings and advances" in the statement of operations.

Financial derivatives

The Corporation makes use of financial derivatives to reduce risk related to fluctuations in interest rates. Because of its risk management policies, the Corporation does not use financial derivatives for speculative purposes.

Financial derivatives with a positive value are entered as financial assets and financial derivatives with a negative value are shown as liabilities.

The change in the fair value of each financial derivative is recorded in the statement of remeasurement gains and losses until it is derecognized. The cumulative balance of remeasurement gains and losses associated with financial derivatives is then reclassified in the statement of operations.

2. Significant accounting principles (cont.)

Inter-entity transactions

Inter-entity transactions are transactions conducted between entities controlled by the Québec government or subject to its joint control.

Services received free of charge are not recognized. The other inter-entity transactions have been realized at exchange value, that is, at the agree amount for the consideration given in exchange for the item transferred or the service provided.

3. Interest on borrowings and advances

Summary

(thousands of dollars)

	2022	2021
Interest on borrowings and advances	(240 345)	(223 820)
Interest on financial derivatives recorded under liabilities	(13 661)	(31 373)
	<u>(254 006)</u>	<u>(255 193)</u>
Interest on financial derivatives recorded under assets	29 257	40 983
TOTAL	(224 749)	(214 210)

4. Cash and cash equivalents

Cash as at March 31, 2022 consists of an advance to the general fund of the Consolidated Revenue Fund, bearing interest at the overnight borrowing rate for Québec, that is, a rate of 0.44% (0.25% at March 31, 2021).

5. Loans

Loans by borrower

(thousands of dollars)

	2022	Effective rates (%) ⁽¹⁾	2021
Entities included in the government's reporting entity:			
Health and social services institutions	565 306	3.16 to 8.56	618 993
School service centres and school boards	180 664	3.08 to 6.74	195 221
General and vocational colleges	52 498	2.93 to 5.50	59 706
Université du Québec and its constituents	105 055	3.04 to 5.35	115 655
	903 523		989 575
Entities excluded from the government's reporting entity:			
Private universities	3 320 342	0.84 to 5.21	3 137 993
Municipal bodies	3 789 455	1.35 to 6.03	3 296 859
Municipalities	455 820	2.56 to 4.12	511 212
Fiduciary and non-profit organizations	123 702	1.25 to 3.87	127 467
	7 689 319		7 073 531
TOTAL	8 592 842		8 063 106

(1) Effective rates exclude those applicable to floating rate loans, totalling \$244.0 million (\$95.0 million at March 31, 2021). Short-term loans bear interest at the one-month bankers' acceptance rate less a margin of 0.10% (same rate at March 31, 2021). Long-term loans bear interest at the one-month bankers' acceptance rate plus a margin of 0.30% and the three-month bankers' acceptance rate (same rates at March 31, 2021).

Principal repayment amounts with regard to loans over the next fiscal years break down as follows:

Schedule of principal repayments

(thousands of dollars)

2023	1 508 716
2024	778 846
2025	648 424
2026	630 091
2027	891 293
2028-2032	2 274 043
2033-2037	1 275 887
2038-2042	591 418
2043-2047	29 536
TOTAL	8 628 254

Loans maturing during the fiscal year ended March 31, 2023 include short-term loans of \$218.6 million (\$67.8 million at March 31, 2022). For long-term loans, maturities and interest rates on loans made by the Corporation are, with a few exceptions, identical to those of borrowings and advances contracted for this purpose, taking into consideration any interest rate swap contracts.

6. Borrowings and advances

Summary

(thousands of dollars)

	2022	Effective rates (%) ⁽¹⁾	2021
Advances from the general fund of the Consolidated Revenue Fund	6 161 305	0.84 to 9.56	5 346 073
Borrowings on markets	1 566 403	1.64 to 5.62	1 806 825
Canada Mortgage and Housing Corporation (CMHC)	425 341	3.28 to 4.12	480 647
Special funds of the government	14 182	6.78	18 910
TOTAL	8 167 231		7 652 455

(1) Effective rate paid on long-term borrowings, advances and interest rate swap contracts. Excludes floating rate borrowings and swaps, which bear interest at the rates of three-month bankers' acceptances with a spread ranging between minus 0.32% and plus 1.23% (same conditions as at March 31, 2021).

Borrowings and advances schedule

(thousands of dollars)

Maturity	Advances from the general fund	Borrowings on markets	CMHC	Special funds of the government	Total 2022	Total 2021
2022						760 782
2023	540 566	20 302	—	14 182	575 050	583 913
2024	74 590	—	—	—	74 590	83 201
2025	9 479	—	—	—	9 479	12 634
2026	30 460	—	120 102	—	150 562	185 686
2027	642 553	—	—	—	642 553	635 270
2028-2032	1 526 291	—	305 239	—	1 831 530	1 714 381
2033-2037	521 859	1 546 101	—	—	2 067 960	1 887 010
2038-2042	2 435 001	—	—	—	2 435 001	1 430 727
2043-2047	380 506	—	—	—	380 506	358 851
TOTAL	6 161 305	1 566 403	425 341	14 182	8 167 231	7 652 455

Market borrowings maturing in the fiscal year ending March 31, 2023 include short-term borrowings of \$20.3 million (\$259.3 million at March 31, 2022). These short-term borrowings bear interest at a rate of 0.51% (0.20% at March 31, 2021).

6. Borrowings and advances (cont.)

The amounts of principal payments to be made on borrowings and advances over the coming fiscal years are as follows:

Schedule of principal repayments

(thousands of dollars)

	2023	2024	2025	2026	2027	2028 and following
Advances from the general fund of the Consolidated Revenue Fund	889 452	407 062	341 945	339 681	759 372	3 405 146
Borrowings on markets	20 302	—	—	—	—	1 522 350
CMHC	57 374	59 520	61 746	64 056	33 745	148 899
Special funds of the government	14 182	—	—	—	—	—
TOTAL	981 310	466 582	403 691	403 737	793 117	5 076 395

7. Determination of fair value

The fair value of a financial instrument corresponds to the price at which it would be traded between parties acting under normal competitive conditions. The Corporation applies widely used valuation techniques reflecting best practices and incorporating data observed on markets. The methodology the Corporation uses to arrive at the fair value of its financial instruments consists in discounting future financial flows receivable less those payable.

Interest rate swap contracts are traded on an over-the-counter market and prices are not published for these financial instruments. The fair value of these financial instruments is estimated using swap and CDOR rate curves published on recognized financial information systems available to all stakeholders, as well as financial discounting methods consistent with best practices. Futures contracts on three-month Canadian bankers' acceptances are exchange-traded and their fair value is determined on the basis of the daily settlement price.

7. Determination of fair value (cont.)

By way of indication, the fair value of the Corporation's financial instruments as at March 31 is shown in the following table:

Fair value of financial instruments

(thousands of dollars)

	2022		2021	
	Book value	Fair value	Book value	Fair value
Loans – Total	8 592 842	8 596 891	8 063 106	8 581 545
Borrowings and advances				
Advances from the general fund of the Consolidated Revenue fund	6 161 305	6 013 933	5 346 073	5 540 407
Borrowings on markets	1 566 403	1 868 728	1 806 825	2 287 993
CMHC	425 341	442 670	480 647	531 356
Special funds of the government	14 182	14 747	18 910	20 790
TOTAL	8 167 231	8 340 078	7 652 455	8 380 546
Financial derivatives				
Financial assets				
Interest rate swap contracts	264 614	264 614	354 756	354 756
Liabilities				
Interest rate swap contracts	31 176	31 176	75 648	75 648
TOTAL	233 438	233 438	279 108	279 108

In view of the nature or the short-term maturity of other financial instruments, their fair value corresponds essentially to book value.

8. Financial derivatives

Financial derivatives and financial contracts the value of which fluctuates on the basis of the underlying security and which do not require that the underlying security itself be held or delivered. This underlying item may be financial in nature (interest rate, currency, security or stock index), or merchandise (precious metal, commodity, oil).

The outstanding face amount of a financial derivative represents the theoretical value of the principal, to which applies a rate or a price to determine the exchange of future cash flows and does not reflect the credit risk pertaining to the derivative.

The Corporation uses two types of financial derivatives to manage its financial risks, i.e., interest rate swap contracts and futures contracts on three-month Canadian bankers' acceptances. Since April 2018, the advances made have had the same capital amortization structure as the loans granted.

Interest rate swap contracts

The Corporation uses interest rate swap contracts to manage exposure to interest rate risk on long-term financial instruments. Interest rate swap contracts give rise to periodic interest payments without an exchange of the reference face amount on which the payments are based.

As at March 31, 2022, the total outstanding face value of interest rate swap contracts stood at \$2 702 million (\$3 415 million at March 31, 2021).

8. Financial derivatives (cont.)

Futures contracts on three-month Canadian bankers' acceptances (BAX)

The Corporation uses futures contracts on three-month Canadian bankers' acceptances (BAX) to hedge the interest rate risk arising from its short-term financing activities. These positions are revalued and revised every day and daily financial offsets are applied to them based on the closing prices of the contracts. As at March 31, 2022, the Corporation held a long position with an outstanding face value of \$5 million (same position and amount at March 31, 2021).

9. Hierarchy of fair value valuations

The fair value valuations of the Corporation's financial derivatives are classified according to a hierarchy that reflects the importance of the data used. The hierarchy of fair value valuations consists of the following levels:

- a) prices (unadjusted) quoted on active markets for identical assets or liabilities (level 1);
- b) data, other than the quoted prices mentioned in level 1, that are observable for the asset or the liability, directly (i.e. prices) or indirectly (i.e. price derivatives) (level 2);
- c) data relating to the asset or liability that are not based on observable market data (non observable data) (level 3).

The following table shows the financial instruments recognized at fair value in the statement of financial position and classified according to the valuation hierarchy described above:

Hierarchical structure of fair value valuations

At March 31, 2022

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
Financial derivatives				
Financial assets				
Interest rate swap contracts	—	264 614	—	264 614
Liabilities				
Interest rate swap contracts	—	31 176	—	31 176
TOTAL	—	233 438	—	233 438

Hierarchical structure of fair value valuations

At March 31, 2021

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
Financial derivatives				
Financial assets				
Interest rate swap contracts	—	354 756	—	354 756
Liabilities				
Interest rate swap contracts	—	75 648	—	75 648
TOTAL	—	279 108	—	279 108

10. Financial risk and risk management

The Corporation's philosophy is to avoid unnecessary risk and to limit, as much as possible, any risk associated with its activities. The Corporation avoids taking any risk not related to the normal course of its business. It does not engage in speculative activities but recognizes that the conduct of its activities exposes it to various risks, including credit, liquidity and market risks, and that it must manage these risks on an ongoing basis.

To limit the effect of these risks on its results and on its financial position, the Corporation gives preference to ongoing risk management through its day-to-day financing operations. Therefore, since April 2018, advances made have the same capital amortization structure as loans granted, which completely eliminates interest rate risk. The Corporation may also make use of financial derivatives. Financial derivatives are used solely for risk management purposes.

a) Credit risk

Credit risk is the risk that the Corporation suffers a financial loss as a result of the failure of the counterparty of a financial instrument to fulfil a financial commitment.

The Corporation's credit risk is negligible in view of the securities put in place and, consequently, the book value of the financial assets adequately represents the maximum credit risk exposure of the financial instruments.

The credit risk associated with cash and cash equivalents is essentially minimal, since these amounts are invested in lending assets whose listing is higher than or equal to that of Québec government securities.

Bodies receiving a subsidy for the repayment of long-term borrowings contracted with the Corporation must pledge this subsidy in favour of the Corporation as security.

For other unsubsidized loans, the Minister responsible for the body undertakes to intervene in the event of the body's default, so that the body remedies the situation as soon as possible.

An element of credit risk is associated with financial derivatives, where the counterparty does not perform its obligations.

The Corporation has very little exposure to credit risk. In all cases of default, the Québec government's intervention is stipulated under the terms of the various contracts in question, both for the Corporation's assets and liabilities. Accordingly, the Québec government is the ultimate counterparty of the financial instruments held or incurred by the Corporation, be they loans or financial derivatives. The Québec government thus assumes all credit risks.

b) Liquidity risk

Liquidity risk is the risk that the Corporation is unable to honour its financial commitments when they are due.

The Corporation forecasts cash flows to ensure that it has the necessary funds to meet its obligations in a timely fashion. The Corporation is of the view that the cash flows generated by ongoing operations and available sources of funding are sufficient to satisfy its obligations as they arise.

The Corporation obtains funding through long-term borrowings and short-term credit facilities, ensuring sufficient entries of funds to meet financial commitments when required. The Corporation is authorized, under a government-authorized borrowing plan, to contract long-term and short-term borrowings on financial markets. The government is also authorized to advance funds to the Corporation out of its authorized borrowings.

10. Financial risk and risk management (cont.)

As at March 31, 2022, the summary of maturities expressed in face value of cash flows of financial assets and liabilities is shown in the following table. The net exposure to liquidity risk shows, for each interval, the excess amount (positive) or shortfall (negative) of cash flows.

Maturity schedule of cash flows

As at March 31, 2022

(millions of dollars)

Due in	Financial assets		Liabilities		Net exposure	
	Non-derivatives ⁽¹⁾	Derivatives	Non-derivatives ⁽²⁾	Derivatives	By maturity	Cumulative, after reinvestment of available capital ⁽³⁾
2023	1 752	26	1 242	6	530	530
2024	983	24	695	5	307	855
2025	830	23	620	5	228	1 109
2026	793	25	609	4	205	1 345
2027	1 033	26	983	4	72	1 454
2028-2032	2 725	128	2 744	9	100	1 768
2033-2037	1 452	73	2 704	5	(1 184)	821
2038-2042	635	—	611	4	20	981
2043-2047	31	—	182	(1)	(150)	952

(1) Financial assets that limit liquidity risk are loans, accrued interest on loans, accounts receivable and cash equivalents.

(2) Liabilities that expose the Corporation to liquidity risk are borrowings and advances, net accrued interest on borrowings and advances, and accounts payable.

(3) In the normal course of its business, the Corporation reinvests its available capital productively to honour its financial commitments when they are due.

Maturity schedule of cash flows

As at March 31, 2021

(millions of dollars)

Due in	Financial assets		Liabilities		Net exposure	
	Non-derivatives ⁽¹⁾	Derivatives	Non-derivatives ⁽²⁾	Derivatives	By maturity	Cumulative, after reinvestment of available capital ⁽³⁾
2022	1 515	46	1 326	34	201	201
2023	1 385	43	1 076	22	330	533
2024	839	36	551	12	312	853
2025	689	30	479	6	234	1 105
2026	655	28	471	4	208	1 340
2027-2031	2 748	129	2 776	8	93	1 625
2032-2036	1 192	99	2 401	4	(1 114)	769
2037-2041	471	—	433	3	35	932
2042-2046	41	—	190	(1)	(148)	902

(1) Financial assets that limit liquidity risk are loans, accrued interest on loans, accounts receivable and cash equivalents.

(2) Liabilities that expose the Corporation to liquidity risk are borrowings and advances, net accrued interest on borrowings and advances, and accounts payable.

(3) In the normal course of its business, the Corporation reinvests its available capital productively to honour its financial commitments when they are due.

10. Financial risk and risk management (cont.)

c) Market risk

Market risk is the risk that changes in market price affect the value of the Corporation's financial instruments. Market risk includes currency risk, interest rate risk and other price risk. Considering that the Corporation does not conduct any transactions in foreign currencies and does not hold investments negotiated on a market, it is only exposed to interest rate risk.

i) Interest rate risk

Interest rate risk refers to uncertainty relating to the current fair value, value at maturity or future cash flows of financial securities taking into account possible changes in applicable interest rates, in the interval between the execution of a transaction on financial securities and the disposition or maturity of such securities.

The Corporation's interest rate risk exposure arises in the normal course of its operations as financial intermediary. The borrowings and advances made and the loans granted generate uncertainty on future interest rate determination dates.

To control interest rate risk, the Corporation's strategy is to match the maturities of future monetary flows of its assets and liabilities and, if necessary, change the composition of its portfolios using financial derivatives. By managing interest rate risk, the Corporation must be able to contain the effects of interest rate fluctuations within the limits it has set. Thus, the Corporation's strategy, given the Corporation's nature as financial intermediary, is intended to contain its net exposure to future interest rate fluctuations. Since April 2018, the advances made have had the same capital amortization structure as the loans granted, which optimizes the Corporation's interest rate risk management process.

The following table shows the net interest rate risk exposure of long-term financial assets and liabilities, as well as of short-term financial liabilities assigned to long-term financing transactions, broken down according to the sensitivity specific to each financial instrument and the attendant future cash flow. It shows the reinvestment and refinancing risks related to these financial instruments. Thus, the management strategy, which consists in matching future cash flows, is aimed at containing net interest rate risk exposure both globally and on a time-interval basis. Short-term financial instruments, that is, short-term loans, short-term borrowings other than those mentioned above, and short-term financial derivatives, are excluded from this table because the associated interest rate risk is eliminated by day-to-day risk management operations.

10. Financial risk and risk management (cont.)

As at March 31, 2022, the summary of face value maturities of future cash flows of financial assets and liabilities whose fair value is sensitive to fluctuations in interest rates is as follows:

Net interest rate exposure risk

As at March 31, 2022

(millions of dollars)

	Financial assets		Liabilities		Net exposure
	Loans	Derivatives	Borrowings and advances	Derivatives	
Floating rate	26	(51)	—	(193)	168
Fixed rate:					
2023	1 528	(102)	1 222	185	19
2024	980	(153)	695	120	12
2025	828	(109)	620	89	10
2026	791	(86)	609	87	9
2027	1 030	(61)	983	(31)	17
2028-2032	2 712	(178)	2 743	(224)	15
2033-2037	1 447	1 372	2 704	109	6
2038-2042	635	(6)	611	25	(7)
2043-2047	31	—	182	(184)	33
TOTAL	10 008	626	10 369	(17)	282

Net interest rate exposure risk

As at March 31, 2021

(millions of dollars)

	Financial assets		Liabilities		Net exposure
	Loans	Derivatives	Borrowings and advances	Derivatives	
Floating rate	27	(1 211)	—	(1 708)	524
Fixed rate:					
2022	1 442	216	1 067	563	28
2023	1 383	(1)	1 076	284	22
2024	836	(68)	551	205	12
2025	687	(64)	479	134	10
2026	653	(61)	471	112	9
2027-2031	2 737	482	2 777	407	35
2032-2036	1 184	1 533	2 401	310	6
2037-2041	471	(2)	433	43	(7)
2042-2046	41	(1)	190	(181)	31
TOTAL	9 461	823	9 445	169	670

10. Financial risk and risk management (cont.)

The following table shows the sensitivity of the annual operating surplus to the interest rate, measured by an increase or decrease in the applied interest rate of 100 basis points over the entire fiscal year:

Sensitivity of the annual operating surplus to the interest rate (thousands of dollars)

	2022	2021
Simulated interest rate shock – Estimated impact		
Increase of 100 basis points	2 636	1 431
Decrease of 100 basis points	(1 365)	(1 783)

The following table shows the sensitivity of the fiscal year's net remeasurement gains, measured by an increase or decrease in the rate of interest of 100 basis points over the entire fiscal year:

Sensitivity of net remeasurement losses for the fiscal year to the interest rate (thousands of dollars)

	2022	2021
Simulated interest rate shock – Estimated impact		
Increase of 100 basis points	(99 428)	(107 135)
Decrease of 100 basis points	115 925	131 798

11. Capital stock

Description

The Corporation's shares are part of the public domain and are attributes to the Minister of Finance of Québec.

Authorized

1 000 000 shares with a par value of \$100 each.

Issued and paid for

1 000 shares: \$100 000

The Corporation's shares are held by the Minister of Finance of Québec.

As described in note 14, the Corporation will redeem its capital stock from the Minister of Finance on October 1, 2022.

12. Cash flows

For the fiscal year ended March 31, 2022, the change in financial assets and liabilities relating to operations consists of the following items:

Change in financial assets and liabilities related to operations

(thousands of dollars)

	2022	2021
Accounts receivable	275	636
Accrued interest on loans	(2 095)	388
Accounts payable	(10)	(104)
Net accrued interest on borrowings and advances	2 561	983
Financial derivatives (BAX)	1	123
TOTAL	732	2 026

Interest received and paid by the Corporation

(millions of dollars)

	2022	2021
Interest received	231.2	231.3
Interest paid	224.3	215.9

13. Related party transactions

The Corporation is related to all entities that the Québec government controls or that are subject to its joint control. It is also related to its chief officers, their close relations and the entities in respect of which one or more of such persons have the power to guide these entities' financial and administrative decisions. The chief officers include the President and Chief Executive Officer, the Vice-President, Finance, and other members of the board of directors.

The Corporation did not conclude any related party transactions at a value that differs from the value that would have been established were the parties not related. No transaction was concluded between the Corporation and its chief officers, their close relations and the entities in respect of which such persons have the power to guide financial and administrative policies.

14. Event after the date of the financial statements

The *Act respecting the implementation of certain provisions of the Budget Speech of 25 March 2021 and amending other provisions* (S.Q. 2022, chapter 3), assented to on February 24, 2022, amends the *Act respecting Financement-Québec*. The amendments come into force on October 1, 2022, pursuant to Order in Council No. 721-2022 dated April 27, 2022.

The main changes for the Corporation are the following:

- The corporate form of the Corporation is changed from a “legal person with share capital” to a “legal person established in the public interest.”
- The Corporation will no longer be a corporation with share capital.
- The Corporation’s board of directors will be abolished and replaced by a governance committee, which will ensure that the Corporation provides financial and technical services to public bodies in accordance with criteria determined by the government.

On October 1, 2022, the Corporation will redeem its share capital from the Minister of Finance at its par value of \$100 000 plus a share redemption premium of \$9 900 000, for a total amount of \$10 000 000. Pursuant to Order in Council No. 722-2022 dated April 27, 2022, the Corporation will also pay a dividend of \$415 023 538 to the general fund of the Consolidated Revenue Fund on or before September 29, 2022.

LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF MANAGEMENT

Financement-Québec's Board of Directors comprises nine members appointed by the Minister of Finance. The chair of the board and the chief executive officer of Financement-Québec are also designated by the Minister of Finance.

The board of directors is composed of the following members:

Name	Position(s) with Financement-Québec	Position outside Financement-Québec
1. Alain Bélanger	President and Chief Executive Officer	Assistant Deputy Minister, Financing, Debt Management and Banking and Financial Operations Ministère des Finances
2. Marie-Pierre Hillinger	Vice-Chair of the Board and Vice-President, Finance	Managing Director, Financing of Public Bodies and Consulting Ministère des Finances
3. Gino Ouellet	Secretary of the Board of Directors	Director General, Banking and Financial Operations Ministère des Finances
4. Guillaume Pichard	Director	Managing Director, Treasury and Capital Markets Ministère des Finances
5. Sylvain Périgny	Director	Assistant Deputy Minister, Accessibility to Education, Infrastructure and Information Resources Ministère de l'Enseignement supérieur
6. Harold Garneau	Director	Director General, Finance Ministère des Transports
7. Jocelyn Savoie	Director	Assistant Deputy Minister, Municipal Infrastructure and Finance Ministère des Affaires municipales et de l'Habitation
8. Nathalie Giroux	Director	Assistant Secretary, Public Infrastructure Secrétariat du Conseil du trésor
9. Jean Monfet	Director	Corporate Director

APPENDIX – CODE OF ETHICS AND PROFESSIONAL CONDUCT

Foreword

The mission of Financement-Québec (the “Corporation”) is to provide financial services to public bodies covered by its statute of incorporation. In particular, the Corporation may finance the public bodies directly by granting loans or by issuing titles of indebtedness in their name. It advises them with a view to facilitating their access to credit and minimizing the cost of financing and, for that purpose, it may, moreover, develop and implement financing programs. The Corporation may also manage the financial risks assumed by the public bodies, in particular cash and currency risks. It may, in addition, provide them with a whole range of technical services in the field of financial analysis and management.

In view of the Corporation’s role and mission, it seems legitimate, while complying with the standards of ethics and professional conduct enacted by the Regulation respecting ethics and professional conduct of public office holders adopted by the Québec government pursuant to Order in Council 824-98 of June 17, 1998 (the “Regulation”), that high standards of honesty and conduct be codified and adhered to by the members of its board of directors, as well as by members of its management and its personnel, to efficiently and transparently manage its assets. This Code of Ethics and Professional Conduct (the Code”) brings together within a single document the various applicable rules, so they can be known by the persons concerned and prompt greater awareness and consciousness regarding integrity and responsibility of conduct on the part of any person involved in the activities of the Corporation.

1. GENERAL PROVISIONS

1.1. Definitions:

- 1.1.1. “*ethics committee*” means the ethics committee stipulated in section 9 of this Code.
- 1.1.2. “*conflict of interest*” means any real, apparent, potential or eventual situation in which a director, officer or employee of the Corporation may be inclined to favour one person (including himself and persons to whom he is related) to the detriment of another, due to the fact that such director, officer or employee holds, directly or indirectly, an interest of any kind in any of these persons or in any of the persons with whom such person is directly or indirectly related. Any situation likely to affect the loyalty, integrity or judgment of a director, officer or employee of the Corporation is also subject to this definition.
- 1.1.3. “*officer*” means the chair of the board, the chief executive officer, the vice-chair of the board, the executive vice president, the vice president for finance and the secretary of the Corporation, as well as any person holding administrative office.
- 1.1.4. “*employee*” means any person who is a permanent or temporary member of the staff of the Corporation, whether on a full-time or a part-time basis.
- 1.1.5. “*subsidiary*” is a legal person of which the Corporation holds over 50% of the voting rights associated with all the issued and outstanding shares of such legal person or a corporation of which it holds over 50% of the shares. Any legal person or corporation of which the Corporation can elect the majority of directors is also a subsidiary of the Corporation.
- 1.1.6. “*confidential information*” means any strategic or management information relating to the Corporation, or any information that is not publicly known and that, were it known by a person who is not a director, officer or employee, could provide him with an advantage or compromise the achievement of an operation in which the Corporation is involved.

1.2. Field of application

- 1.2.1. The provisions of this Code apply to the members of the board of directors of the Corporation, to its officers and to its employees.

1.3. Directives

- 1.3.1. The provisions of this Code do not in any way exclude the duly authorized formulation of additional directives or rules or ones that are more specific to certain situations.

2. BASIC PRINCIPLES

2.1. Confidential information

- 2.1.1. A director, officer or employee of the Corporation must keep the information to which he may have access confidential and communicate it only to those persons authorized to know it. In addition, such information must not be used by a director, officer or employee of the Corporation for his personal advantage or that of other persons.

2.2. Conflict of interest

2.2.1. To ensure that his honesty and impartiality are above suspicion, a director, officer or employee of the Corporation must avoid placing himself in a situation of conflict between his personal interest and the obligations of his duties.

2.3. Loyalty, honesty and integrity

2.3.1. A director, officer or employee of the Corporation must act with loyalty, honesty and integrity.

2.4. Utilization of resources

2.4.1. A director, officer or employee of the Corporation must use the resources available to him in accordance with the purposes for which they are intended and in compliance with the policies and directives issued regarding their utilization.

2.5. Illegality

2.5.1. A director, officer or employee of the Corporation must not participate in any way whatsoever in illicit operations or operations likely to be perceived as such.

3. TREATMENT OF CONFIDENTIAL INFORMATION

3.1. Field of application

3.1.1. The provisions of this section 3 apply to a director, officer or employee of the Corporation in the execution of his duties, as well as when he is called upon to represent the Corporation or one of its subsidiaries or to act on its behalf with a legal person or corporation in which the Corporation holds an interest and who is likely because of that fact to have access to confidential information. The obligations of this section 3 regarding the protection of confidential information and the restrictions as to its use continue to hold after the mandate of a director or officer of the Corporation has expired, as well as after the termination of employment of an employee of the Corporation.

3.2. Protection of confidential information

3.2.1. A director, officer or employee of the Corporation has a duty of discretion concerning matters of which he has knowledge in the exercise or on the occasion of the exercise of his duties and must, at all times, uphold the confidential nature of the information thus received.

3.3. Utilization of confidential information

3.3.1. A director, officer or employee of the Corporation who possesses confidential information must refrain from communicating or using such information for purposes other than those for which it was supplied to him. The effect of this obligation is not to prevent a director, officer or employee representing or related to a specific interest group from consulting with it or reporting to it, unless the information is confidential pursuant to the law or if the board of directors of the Corporation requires that it be kept confidential.

3.3.1.1. In case of doubt over the disclosure of confidential information, it is incumbent on the director, officer or employee of the Corporation to obtain the necessary legal opinions.

3.4. Measures to protect confidential information

3.4.1. A director, officer or employee of the Corporation must take the necessary measures to keep information confidential, in particular:

- 3.4.1.1. by not leaving documents containing such information open to the view of persons not concerned;
- 3.4.1.2. by taking appropriate measures to physically protect documents containing such information;
- 3.4.1.3. by using the apparatus set aside for such purposes to reproduce or transmit such information;
- 3.4.1.4. by taking appropriate measures to dispose of documents containing such information, such as shredding and archiving;
- 3.4.1.5. by not giving an interview that directly or indirectly concerns the affairs of the Corporation without having been previously authorized to do so by a member of the ethics committee;
- 3.4.1.6. by identifying on documents intended for circulation that they contain confidential information and must be treated accordingly;
- 3.4.1.7. by returning documents containing confidential information to the Corporation when their duties cease.

3.4.2. In the event of inadvertent disclosure of confidential information, the director, officer or employee concerned must report the occurrence to the chair of the board of directors, who shall recommend the measures considered necessary.

3.5. Disclosure of confidential information after expiry of mandate

3.5.1. A director, officer or employee of the Corporation who has ceased to carry out his duties must not disclose confidential information he obtained nor give anyone advice based on information not available to the public concerning the Corporation or any other body or enterprise with which he had significant direct relations during the year preceding the end of his mandate.

3.5.2. A director, officer or employee of the Corporation is forbidden, during the year following the end of his duties, to act in the name or on behalf of others in relation to a proceeding, a negotiation or any other operation in which the Corporation is a party and on which he holds information not publicly available.

4. PRIORITY OF DUTIES

4.1. Neutrality and reserve

- 4.1.1. A director, officer or employee of the Corporation must take the required measures to remain constantly impartial in the execution of his tasks and responsibilities. In this regard, the director, officer or employee must make his decisions independently of any partisan political considerations and must be reserved in the public display of his political opinions.
- 4.1.2. In addition, a director, officer or employee of the Corporation who intends to submit his candidacy for elected public office must submit to the rules enacted in Chapter III of the Regulation.

4.2. Exclusivity

- 4.2.1. An employee of the Corporation must carry out his duties exclusively unless the authority who appointed or designates him also appoints or designates him to other duties. In such case, the employee concerned must declare, in writing, such activities to the board of directors of the Corporation.

4.3. Compliance with this Code

- 4.3.1. The exercise of external activities by a director, officer or employee of the Corporation must not be likely to contravene the rules enacted by this Code; in case of doubt, the director, officer or employee concerned must consult the ethics committee, which may make recommendations in this regard.

5. CONFLICTS OF INTEREST

5.1. Conflicts of interest

- 5.1.1. A director, officer or employee of the Corporation must avoid placing himself in a situation of conflict between his personal interest and the obligations arising from his duties. In particular, he must declare, in writing, to the ethics committee, any situation where it is reasonable to believe that such a situation exists, as well as any direct or indirect interest he has in a body, enterprise or association likely to place him in a situation of conflict of interest, as well as the rights he may assert against the Corporation, by indicating, as the case may be, their nature and value. In addition, he must comply, if necessary, with any directive set pursuant to this Code.

5.2. Personal affairs

- 5.2.1. A director, officer or employee of the Corporation must, upon taking up his duties, arrange his personal affairs so as to avoid any situation likely to place him in a conflict of interest.

5.3. Prohibited situations

- 5.3.1. A director, officer or employee of the Corporation may not, upon pain of dismissal, have a direct or indirect interest in a body, enterprise or association placing his personal interest and that of the Corporation in conflict. However, such dismissal will not occur if he receives such interest through gift or inheritance, provided he waives it or disposes of it with diligence.
- 5.3.2. A director, officer or employee of the Corporation who has a direct or indirect interest in a body, enterprise or association that places his personal interest and that of the Corporation in conflict must, under pain of dismissal, waive such interest in writing to the ethics committee and, if necessary, abstain from participating in any deliberation of the board of directors of the Corporation and in any decision bearing on the body,

Financement-Québec enterprise or association in which he has such interest. However, the director or officer of the Corporation is allowed to express himself on general application measures relating to working conditions within the body or enterprise that may also affect him.

6. GIFTS, TOKENS OF HOSPITALITY AND OTHER BENEFITS

- 6.1. A director, officer or employee of the Corporation may not accept any gift, token of hospitality or other benefit that could have an effect on the execution of his responsibilities or that would be likely to prejudice the credibility of the Corporation.
- 6.2. However, a gift, token of hospitality or benefit of a symbolic nature and of modest value may be accepted by the director, officer or employee of the Corporation. Any other gift, token of hospitality or benefit received must be returned to the giver or to the Corporation.

7. LOYALTY, HONESTY AND INTEGRITY

- 7.1. A director, officer or employee of the Corporation must not mix the assets of the Corporation with his and may not use them for his benefit or that of third parties.
- 7.2. A director, officer or employee of the Corporation must not, directly or indirectly, grant, solicit or accept an undue benefit or favour for himself or a third party.
- 7.3. A director, officer or employee of the Corporation, in reaching his decisions, must not allow himself to be influenced by offers of employment.
- 7.4. A director, officer or employee of the Corporation who has ceased to exercise his duties must conduct himself in such a way as not to derive undue advantage from his former duties in the service of the Corporation.

8. DISCIPLINARY PROCESS

8.1. Basic principles

- 8.1.1. Each director, each officer and each employee of the Corporation undertakes to read and comply with this Code, as well as with any special instruction or directive he may receive regarding its application. A copy of the Code and the Regulation is given to each person covered by this Code when he takes up his duties.
- 8.1.2. In cases of ambiguity as to the scope or application of any provision of this Code and Regulation, it is incumbent on the director, officer or employee of the Corporation to consult the members of the ethics committee.
- 8.1.3. This Code and Regulation apply to all directors, to all officers and to all employees of the Corporation throughout the period of exercise of their duties and, in certain circumstances, after their duties cease.

8.2. Authority

- 8.2.1. The ethics committee must see that directors, officers and employees of the Corporation adhere to the principles of ethics and the rules of professional conduct. It is the competent authority to act regarding a director, officer or employee of the Corporation who violates the said principles and rules.

8.3. Sanctions

- 8.3.1. A director, officer or employee of the Corporation who is alleged to have committed a breach of ethics or of professional conduct may be provisionally relieved of his duties, with pay, so that an appropriate decision may be reached in the case of an urgent situation requiring prompt intervention or in a presumed case of serious breach.
- 8.3.2. The ethics committee shall inform the director, officer or employee concerned of the alleged breaches, as well as of the sanction that may be imposed. The director, officer or employee concerned may, within seven days, submit his observations to the ethics committee or, if he so requests, be heard on this matter.
- 8.3.3. If it is concluded that the director, officer or employee of the Corporation has violated the law, the Regulation or this Code, the ethics committee shall impose a sanction on him that may consist of a reprimand, suspension without pay for a maximum of three months, or dismissal. Any sanction imposed on a director, officer or employee of the Corporation, as well as the decision to relieve him provisionally of his duties, must be written and give reasons.

9. ETHICS COMMITTEE

9.1. Formation and membership

- 9.1.1. An ethics committee is formed by the board of directors of the Corporation, which appoints its members upon recommendation of the chair of the board, if need be.

9.2. Mandate

- 9.2.1. The ethics committee is authorized to make any recommendation regarding any subject included in this Code or which results from its application.

9.3. Rules of operation

- 9.3.1. The ethics committee consists of three (3) members appointed by the board of directors of the Corporation.
- 9.3.2. The chair and the secretary of the ethics committee are appointed by the board of directors of the Corporation.
- 9.3.3. The meetings of the ethics committee are convened by the secretary at the request of the chair of the ethics committee or of the chair of the board of directors of the Corporation.
- 9.3.4. The ethics committee meets periodically as needed.
- 9.3.5. The agenda of the meetings of the ethics committee is set by its chair on the basis of proposals sent to him by any member of the ethics committee. The agenda is submitted to the members of the ethics committee at the beginning of each meeting and each member may propose changes to it before it is adopted.
- 9.3.6. Quorum at the meetings of the ethics committee is two (2) members.
- 9.3.7. The ethics committee may hold a meeting by conference call or provide opinions following a verbal or written consultation of each of its members. In the case of a verbal consultation, the secretary must record the content in writing.

9.3.8. The secretary of the ethics committee is charged with drawing up the minutes of the meetings of the ethics committee.

9.4. Role of the board of directors

9.4.1. The board of directors of the Corporation periodically receives a report on the activities of the ethics committee.

9.4.2. At any time, the board of directors of the Corporation may examine any situation covered by this Code and recommend to the ethics committee any measure to apply regarding such situation.

9.4.3. At any time, the board of directors of the Corporation may revise or give its views regarding any sanction imposed by the ethics committee further to a violation of this Code.

9.4.4. Any situation that involves a member of the ethics committee is submitted to the board of directors of the Corporation.

9.4.5. This section is applicable only when an ethics committee is created by the Corporation in accordance with article 9.1.1.

