

# OPERATIONAL REPORT 2023-2024

FINANCEMENT-QUÉBEC

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FINANCEMENT-QUÉBEC

Operational Report 2023-2024  
Financement-Québec

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July 16, 2024

Ms. Nathalie Roy  
President of the National Assembly  
Parliament Building  
1045, rue des Parlementaires  
Québec (Québec) G1A 1A4

Madam President,

As the Minister responsible for administering the *Act respecting Financement-Québec* (CQLR, c. F-2.01) and in accordance with the provisions in the Act, I am submitting the operational report of Financement-Québec for the fiscal year ending March 31, 2024, and the financial statements covering the same period.

The report presents the entity's activities and accomplishments over the past year and comments on the results achieved.

Sincerely,

***Original French version signed***

Eric Girard  
Minister of Finance



June 14, 2024

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

Mr. Minister,

As Chief Executive Officer, I am pleased to submit the 2023-2024 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, 2023 and ending March 31, 2024.

Yours truly,

***Original French version signed***

Guillaume Pichard  
Chief Executive Officer



# TABLE OF CONTENTS

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Declaration attesting the reliability of data.....	1
1. The Corporation .....	3
1.1 Financement-Québec in brief .....	3
1.2 Objectives .....	3
2. Highlights .....	7
3. Activities of the Corporation.....	9
3.1 Short-term loans .....	9
3.2 Long-term loans.....	10
3.3 Sources of financing .....	12
3.4 Extranet – Transactional component.....	13
3.5 Rate structure .....	13
3.6 Portfolio investments .....	14
4. Analysis of the financial statements.....	15
5. Financial statements .....	19
6. Governance .....	47
6.1 List of members of direction and the governance committee.....	47
6.2 Workforce management and control .....	48
6.3 Sustainable development .....	48
6.4 Code of ethics and professional conduct .....	48
6.5 Language policy .....	49
6.6 Acces to documents and privacy.....	49
6.7 Disclosure of wrongdoing relating to public bodies .....	49



# Declaration attesting the reliability of data

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The reliability of the information in the *Operational Report 2023-2024* of Financement-Québec is our responsibility. The report accurately describes the organization, mission, objectives, and activities of Financement-Québec.

It presents the attainment of the objectives stipulated in the *Operational Report 2023-2024* and the activities carried out and the outcomes.

We declare that, to our knowledge, this report accurately presents Financement-Québec's situation as at March 31, 2024, and the information and data that it contains are accurate and reliable.

## *Original French version signed*

Guillaume Pichard  
Chief Executive Officer

June 14, 2024



# 1. The Corporation

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## 1.1 Financement-Québec in brief

Financement-Québec (the Corporation) is a legal person established in the public interest pursuant to the *Act respecting Financement-Québec* (CQLR, chapter F-2.01) and commenced 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. Accordingly, its clientele comprises bodies outside the government reporting entity, i.e., private universities, municipal bodies, and any other body determined by the government.

The bodies within the government reporting entity, that is, bodies in the health and social services network, CEGEPs, school service centres, school boards, and the Université du Québec and its constituents, which, prior to April 1, 2013 borrowed from the Corporation, are now borrowing from the Minister of Finance, as the person responsible for the Financing Fund. The Corporation is preserving until the loan term the long-term loans made to such bodies prior to that date.

## 1.2 Objectives

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

### ❑ **First objective: Reducing 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. The funds thus obtained enable the Corporation to fund its clients needs, mainly their government-subsidized investment projects. 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-and long-term loans made to bodies are determined according to the criteria established by the government and the *Policy for the Financing of Public Bodies* of the Ministère des Finances.

### ❑ **Second objective: Offer clients quality service**

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

#### ■ **Provide clients with a simpler way to obtain financing**

Bodies contract their short-term loans with the Corporation under a framework loan agreement. Accordingly, only a transaction request must be completed to obtain a short-term loan.

Moreover, to simplify the short-term lending process, the Corporation has introduced a transactional component on its extranet. The bodies can now complete and sign short-term loan applications directly on the extranet instead of using the transaction confirmation form to be completed, signed, and submitted by email.

Lastly, amendments to the *Financial Administration Act* have streamlined the short-term lending process. As a result of these changes, short-term loan applications require the signature of only one

authorized representative instead of the signature of two authorized officers as was previously the case.

#### ■ **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* of the Ministère des Finances.

#### □ **Third objective: Adequately manage financial risks**

##### ■ **Credit risk of borrowers**

To minimize the credit risk, Corporation requires certain guarantees for the loans granted. Accordingly, it demands:

- that the Minister responsible undertakes to intervene in the event of the body's default, so that the body remedies the situation as soon as possible;
- a chattel mortgage on the subsidy granted to reimburse the loan.

##### ■ **Liquidity risk**

The Corporation manages liquidity risk by coordinating the meeting of financing requirements, ensuring forward-looking matching of financial flows of its asset and liability portfolios, and maintaining access to credit to ensure that it can meet its commitments 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 by means of 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, 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 financial derivatives;
- management of the requisite advances from the General Fund;
- management of loans to bodies and follow-up;
- human and physical resources management.



## 2. Highlights

### Loans made in 2023-2024



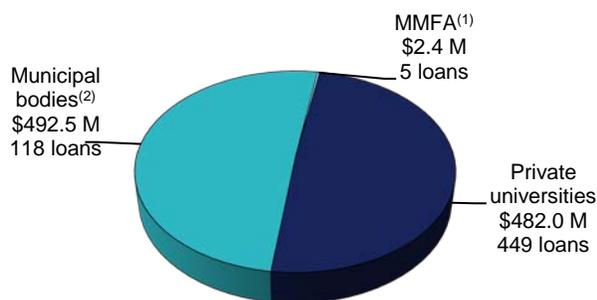
Short term

572 loans  
\$976.9 M  
20 clients

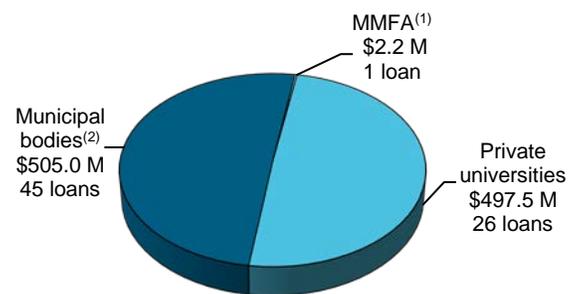
Long term

72 loans  
\$1 004.7 M  
19 clients

#### Short-term loans made



#### Long-term loans made



(1) Montreal Museum of Fine Arts.

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

### Statement of position as at March 31, 2024



	Short term	Long term	Total
Outstanding loans (\$M)	1 497.1	8 174.2	9 671.3
Number of loans	108	597	705
Number of clients	20	112	113
Outstanding borrowings and advances (\$M)	1 476.4	8 574.3	10 050.7

### Surplus for the year



\$8.9 M



\$3.9 M\$ in relation to 2022-2023



# 3. Activities of the Corporation

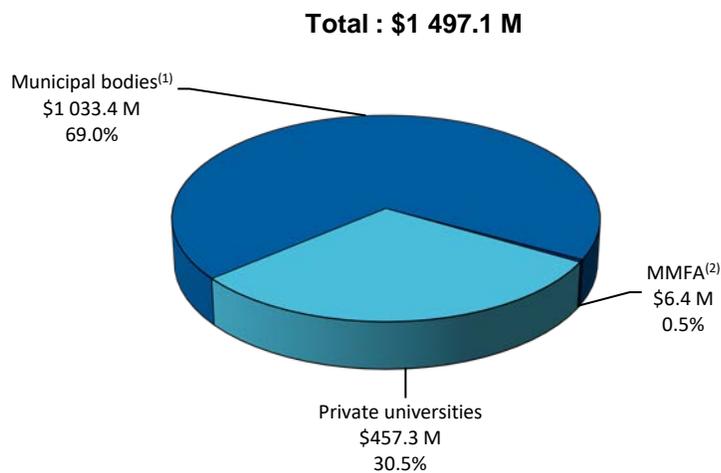
## 3.1 Short-term loans

During the 2023-2024 fiscal year, the average amount of short-term borrowings made by the Corporation stood at \$1 332.9 million (\$752.2 million in 2022-2023). The Corporation made 572 short-term loans in the form of lines of credit averaging \$1.7 million, compared to 523 loans averaging \$2.6 million in 2022-2023.

As at March 31, 2024, the balance of short-term loans stood at \$1 497.1 million. Chart 1 shows the breakdown of those loans by borrower.

CHART 1

### **Breakdown of outstanding short-term loans by client as at March 31, 2024**



(1) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, and Société de transport de Montréal.  
(2) Montreal Museum of Fine Arts.

Since 2021-2022, the Corporation has granted to all clients the short-term financing of the portion of investment projects subsidized by the Québec government.

The Corporation has thus improved its short-term loan service offering. This has made it possible, in particular, to minimize the cost of financing its clients' subsidized investment projects.

As a result, the balance of short-term loans continued to increase, from \$1 198.7 million at March 31, 2023, to \$1 497.1 million at March 31, 2024.

## Examples of subsidized projects that the Corporation financed with short-term loans

### Public transit companies

- Extension of the blue line of the Société de transport de Montréal
- Rollout of the Réseau express métropolitain (REM) of the Autorité régionale de transport métropolitain
- Extension and refitting of the operations centre of the Société de transport de Québec (RTC)

### Private universities

- Construction of McGill University's New Vic Project
- Construction of the Carrefour du savoir at the Campus de la santé de l'Université de Sherbrooke
- Acquisition and extension of the Pavillon J.-Armand-Bombardier of the Corporation de l'École Polytechnique de Montréal

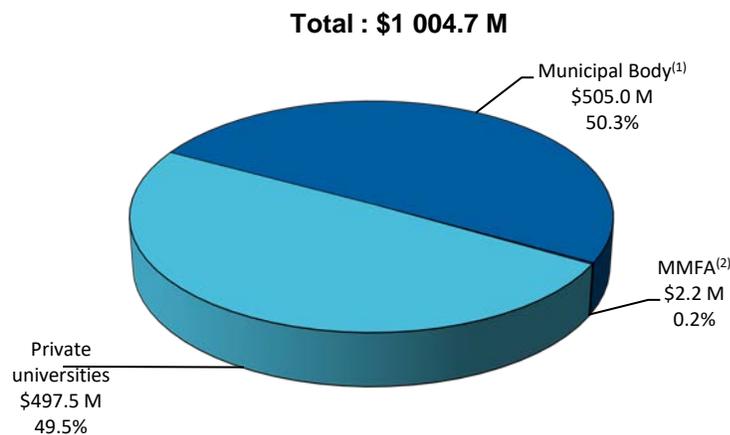
## 3.2 Long-term loans

The Corporation made 72 long-term loans totalling \$1 004.7 million in fiscal 2023-2024.

As illustrated in Chart 2, long-term loans to municipal bodies, private universities, and the Montreal Museum of Fine Arts represent, respectively, 50.3%, 49.5% and 0.2% of total loans.

CHART 2

### Breakdown of long-term loans made in 2023-2024



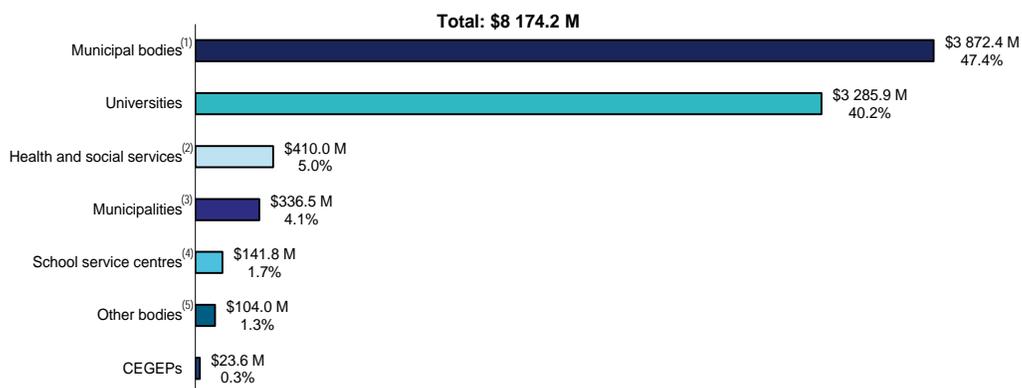
(1) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, and public transit companies.

(2) Montreal Museum of Fine Arts.

Chart 3 shows the breakdown of outstanding long-term loans by client as at March 31, 2024.

CHART 3

**Breakdown of outstanding long-term loans by client as at March 31, 2024**

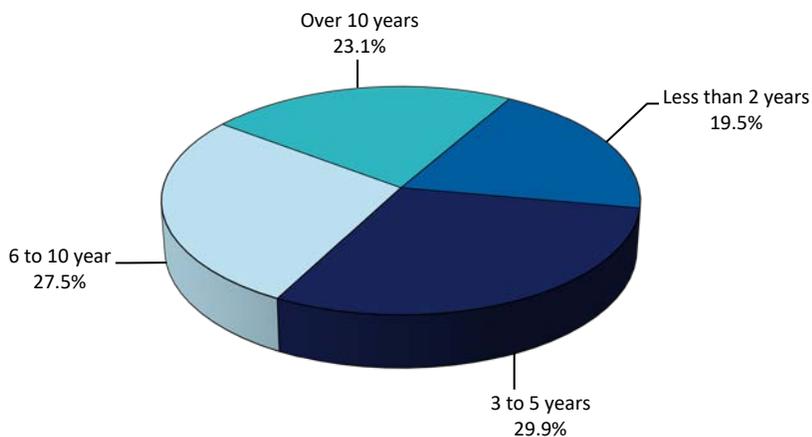


- (1) Autorité régionale de transport métropolitain, Réseau de transport métropolitain, and public transit companies.
- (2) Public establishments in the health and social services network.
- (3) Loans mainly granted under the municipal infrastructure loan program related to residential housing in 2010-2011.
- (4) Includes school boards.
- (5) Commission des normes, de l'équité, de la santé et de la sécurité du travail and Montreal Museum of Fine Arts.

Chart 4 shows the breakdown of principal repayments on long-term loans as at March 31, 2024. The average weighted term on that date was 6.4 years.

CHART 4

**Schedule of principal repayments on long-term loans as at March 31, 2024**



## Examples of subsidized projects that the Corporation financed with long-term loans

### Public transit companies

- Construction of the Terrebonne station (phase 1) of the Réseau de transport métropolitain
- Construction of a reserved lane in the corridor of Autoroute 13 and Autoroute 440 between Saint-Eustache and Laval of the Autorité régionale de transport métropolitain
- Extension of the garage in the operations centre of the Société de transport de Lévis
- Reconditioning of articulated buses of the Société de transport de Québec (RTC)

### Private universities

- Construction of the science complex on the new Outremont site of the Université de Montréal
- Renovation of the indoor and outdoor stadiums at the Université de Sherbrooke

## 3.3 Sources of financing

To finance its short-term loan activities and meet its cash requirements, the Corporation has received short-term advances from the General Fund. The average amount of such advances stood at \$1 303.7 million in 2023-2024. As at March 31, 2024, the balance of outstanding short-term advances was \$1 476.4 million.

The financing of the Corporation's long-term lending activities was composed of long-term advances from the General Fund.

Table 1 presents the long-term advances received from the General Fund during the fiscal year.

TABLE 1

### Summary of long-term advances received from the General Fund in 2023-2024

Fiscal year (maturity)	Face value (\$M)	Number of advances	Interest rate (%)
2026-2027	18.3	1	4.10
2028-2029	115.2	15	3.34 to 4.77
2030-2031	10.1	1	4.00
2032-2033	102.2	1	4.41
2033-2034	135.3	15	3.85 to 4.61
2038-2039	24.9	2	4.48 to 4.97
2043-2044	598.7	15	4.24 to 5.15
<b>TOTAL</b>	<b>1 004.7</b>	<b>50</b>	

## 3.4 Extranet – Transactional component

In 2023-2024, the Corporation added a transactional component to its extranet to enable its clients to contract short-term borrowings online instead of emailing transaction confirmations.

The new component allows the Corporation to offer enhanced service to its clients, whose short-term borrowings by volume are rising steadily. The Corporation supported its clients in this change by planning group and individual presentations and by means of a detailed user guide.

Since the rollout of the new functionality, nearly 70% of the Corporation's clients have made short-term borrowings through the transactional component of the extranet. This new feature has enabled it to optimize its processes.

## 3.5 Rate structure

### ❑ Short-term loan pricing

The rate applicable to short-term loans is the average rate for 3-month Québec Treasury Bills plus a management fee of 2 basis points.

The interest rate for short-term financing as well as issuing and management fees were revised in 2022-2023. The rate previously corresponded to that of 1-month bankers' acceptances less a 10-basis point margin.

On average, the rate offered in 2023-2024 under the new pricing schedule was 21.2 basis points lower than it would have been under the previous pricing schedule.

### ❑ Long-term loan pricing

The rate applicable to long-term loans corresponds to that of the advance that the Corporation receives to make loans.

The Corporation's fee schedule determines the issuing and management expenses as follows:

- issuing fees range from 15 to 55 basis points depending on the term of the loan;
- management fees correspond to 2 basis points except for loans over 25 years, which are set at 5 basis points.

Additional management fees are added to the interest rate of long-term loans if they display one of the following characteristics:

- the amortization term exceeds 30 years;
- the capital structure is non-amortizable; or
- a capital or interest moratorium applies.

In 2023-2024, the Corporation established a new fee schedule to increase the fees from 1% to 1.5%. Moreover, the additional management fees will apply when the term of a loan differs from the amortization term.

- During the fiscal year, all the loans that the Corporation made complied with the *Policy for the Financing of Public Bodies*. No additional management fees were applied.

## 3.6 Portfolio investments

Over the years, the Corporation's activities have generated net capital availabilities. In accordance with the investment policy,<sup>1</sup> \$302.0 million has been invested in Québec bonds, bearing interest at effective rates ranging from 3.86% to 4.52% and maturing on September 1, 2026 or 2027. At maturity, these investments will repay the long-term advances received by the Corporation.

TABLE 2

### Portfolio investments made in 2023-2024

Investment	Amount (\$M)	Effective rate (%)	Acquisition date	Date of maturity
Québec bonds	39.0	4.01	June 1, 2023	September 1, 2026
Québec bonds	84.0	3.86	June 1, 2023	September 1, 2027
Québec bonds	93.0	4.52	September 1, 2023	September 1, 2026
Québec bonds	36.0	4.03	December 1, 2023	September 1, 2027
Québec bonds	50.0	3.98	March 1, 2023	September 1, 2027
<b>TOTAL</b>	<b>302.0</b>			

<sup>1</sup> The policy is related to Financement-Québec's Fonds de placements aux fins de remboursement d'un emprunt et d'avances à long terme.

## 4. Analysis of the financial statements

This section presents the Corporation's operating results for the fiscal year ending March 31, 2024, and its financial situation. It must be read in conjunction with the financial statements presented in the following section.

### □ Operating results

The annual surplus related to the Corporation's activities stands at \$8.9 million for the fiscal year ending March 31, 2024, a \$3.9-million decrease in relation to the previous fiscal year.

TABLE 3

**Summary of the operating results for the fiscal year ending March 31, 2024**  
(thousands of dollars, unless otherwise indicated)

	2023-2024	2022-2023	Change	Change (%)
<b>Net interest income</b>				
Interest on loans	330 406	276 967	53 439	19.3
Other interest income <sup>(1)</sup>	42 766	27 320	15 446	56.5
	<b>373 172</b>	<b>304 287</b>	<b>68 885</b>	<b>22.6</b>
Interest on borrowings and advances	(363 965)	(291 175)	(72 790)	(25.0)
	<b>9 207</b>	<b>13 112</b>	<b>(3 905)</b>	<b>(29.8)</b>
<b>Operations and administration expenses</b>				
Wages and fringe benefits, depreciation of fixed assets, and others	537	1 063	(526)	(49.5)
Expenses assumed by the Financing Fund	(222)	(779)	557	71.5
	<b>315</b>	<b>284</b>	<b>31</b>	<b>10.9</b>
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>8 892</b>	<b>12 828</b>	<b>(3 936)</b>	<b>(30.7)</b>

(1) Interest on financial derivatives, interest on portfolio investments, and temporary investments.

### □ Significant changes

#### ■ Interest on loans

The \$53.4-million change in interest income (19.3%) is attributable to:

- a \$38.7-million increase stemming from the higher average volume of outstanding short-term loans and higher short-term interest rates;
- a \$15.2-million increase due to higher long-term interest rates and a slight increase in outstanding long-term loans.

#### ■ Other interest income

The \$15.4-million change in interest income is attributable to:

- a \$9.4-million increase in interest on portfolio investments mainly attributable to a \$305.0-million increase in their amount outstanding;
- a \$6.0-million increase in revenues on financial instruments attributable to higher interest rates.

## ■ Interest on borrowings and advances

The \$72.8-million change in the interest expense is attributable to:

- a \$41.0-million increase stemming from the increased volume of short-term loans used to finance short-term loans and higher short-term interest rates;
- a \$31.3-million increase due to higher long-term interest rates and an increase in outstanding advances from the General Fund used to finance long-term loans.

## ■ Wages and fringe benefits, depreciation of fixed assets, and others

The \$0.5-million change is mainly explained by a \$0.4-million decrease in the wages and fringe benefits expense as a result of the staff reduction from six to three employees during the fiscal year.

## ■ Expenses assumed by the Financing Fund

The \$0.6-million change stems mainly from the reduction in wages mentioned earlier, which reduced the amount of the expenses assumed by the Financing Fund, in keeping with the service agreement between the two parties.

## □ Statement of financial position

The Corporation's accumulated surplus stood at \$151.2 million for the fiscal year ending March 31, 2024, a \$50.8-million decrease in relation to the previous fiscal year.

TABLE 4

### Statement of financial position as at March 31, 2024 (thousands of dollars, unless otherwise indicated)

	2023-2024	2022-2023	Change	Change (%)
<b>Financial assets</b>				
Loans	9 671 293	9 233 554	437 739	4.7
Portfolio investments	387 697	82 737	304 960	368.6
Financial derivatives	176 919	229 598	(52 679)	(22.9)
Other assets <sup>(1)</sup>	98 379	72 233	26 146	36.2
	<b>10 334 288</b>	<b>9 618 122</b>	<b>716 166</b>	<b>7.4</b>
<b>Liabilities</b>				
Borrowings and advances	10 050 727	9 303 404	747 323	8.0
Financial derivatives	44 156	38 204	5 952	15.6
Other liabilities <sup>(2)</sup>	88 158	74 624	13 534	18.1
	<b>10 183 041</b>	<b>9 416 232</b>	<b>766 809</b>	<b>8.1</b>
<b>Net financial assets</b>	<b>151 247</b>	<b>201 890</b>	<b>(50 643)</b>	<b>(25.1)</b>
<b>Non-financial assets</b>				
Tangible fixed assets	240	430	(190)	(44.2)
<b>ACCUMULATED SURPLUS</b>	<b>151 247</b>	<b>202 320</b>	<b>(50 833)</b>	<b>(25.1)</b>

(1) Accrued interest on loans, accounts receivable, and cash equivalents.

(2) Accrued interest on borrowings and advances and expenses due and accrued.

## □ Significant changes

### ■ Loans

The \$437.7-million change in outstanding loans is attributable to:

- a \$298.4-million increase in outstanding short-term loans;
- a \$139.3-million increase in outstanding long-term loans stemming from the realization of new loans net of the capital repayments received.

### ■ Portfolio investments

The \$305.0-million change is mainly due to principal repayment amounts of loans that generated liquid assets during the fiscal year. They were invested in Québec bonds.

### ■ Financial derivatives

The \$52.7-million decrease is mainly explained by higher interest rates in 2023-2024. Indeed, since the value of financial derivatives varies according to interest rates, which increased in 2023-2024, the value of the financial derivatives presented in the financial assets decreased by 22.9%.<sup>2</sup>

### ■ Borrowings and advances

The \$747.3-million change in outstanding borrowings and advances is attributable to:

- a \$506.2-million increase in long-term advances from the General Fund, which allowed for the financing of new long-term loans;
- a \$302.2-million increase in short-term advances from the General Fund, which allowed for the financing of the upturn in short-term loans;
- a \$59.5-million decrease in borrowings from the Canada Mortgage and Housing Corporation (CMHC) because of repayments made in 2023-2024.

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<sup>2</sup> Since the Corporation will conserve the derivative financial instruments until maturity, this decrease in value has no impact on current and future financial results.



# 5. Financial Statements

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## TABLE OF CONTENTS

<b>MANAGEMENT'S REPORT .....</b>	<b>21</b>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>23</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>27</b>
STATEMENT OF OPERATIONS .....	27
STATEMENT OF ACCUMULATED OPERATIONS SURPLUS .....	27
STATEMENT OF REMEASUREMENT GAINS AND LOSSES.....	28
STATEMENT OF FINANCIAL POSITION .....	29
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS.....	30
STATEMENT OF CASH FLOW .....	31
NOTES TO THE FINANCIAL STATEMENTS.....	33



## MANAGEMENT'S REPORT

The financial statements of Financement-Québec were drawn up by 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 governance committee ensures that the management of Financement-Québec fulfills its responsibilities, particularly with respect to financial services, in accordance with the criteria determined by the Québec government and the directives and other decisions issued in its regard.

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 Chief Executive Officer to discuss anything concerning its audit.

*Original French version signed*

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CEO

*Original French version signed*

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Vice-President, Finance

June 14, 2024



## INDEPENDENT AUDITOR'S REPORT

To the National Assembly

### 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, 2024, and the statement of operations, statement of accumulated operations surplus, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flow for the year then ended, and notes to 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, 2024, 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 audit 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 materially 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 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.

## Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain 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 management 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 14, 2024

# FINANCIAL STATEMENTS

## Statement of operations Fiscal year ended March 31, 2024 (thousands of dollars)

	2024		2023
	Budget	Actual results	Actual results
<b>Net interest income</b>			
Interest on loans	341 726	330 406	276 967
Interest on financial derivatives	26 723	32 689	26 685
Interest on portfolio investments	11 040	10 058	633
Interest on temporary investments	160	19	2
	<b>379 649</b>	<b>373 172</b>	<b>304 287</b>
Interest on borrowings, advances, and financial derivatives	(369 982)	(363 965)	(291 175)
	<b>9 667</b>	<b>9 207</b>	<b>13 112</b>
<b>Operations and administration expenses</b>			
Wages and fringe benefits	1 258	340	754
Depreciation of fixed assets	190	190	304
Other	35	7	5
Expenses assumed by the Financing Fund	(1 085)	(222)	(779)
	<b>398</b>	<b>315</b>	<b>284</b>
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>9 269</b>	<b>8 892</b>	<b>12 828</b>

The notes are an integral part of the financial statements.

## Statement of accumulated operations surplus Fiscal year ended March 31, 2024 (thousands of dollars)

	2024		2023
	Budget	Actual results	Actual results
<b>ACCUMULATED OPERATING SURPLUS AT BEGINNING OF YEAR</b>	<b>27 227</b>	<b>27 288</b>	<b>439 384</b>
Operating surplus for the year	9 269	8 892	12 828
Dividend paid	—	—	(415 024)
Premium on redemption of shares	—	—	(9 900)
<b>ACCUMULATED OPERATING SURPLUS AT END OF YEAR</b>	<b>36 496</b>	<b>36 180</b>	<b>27 288</b>

The notes are an integral part of the financial statements.

**Statement of remeasurement gains and losses**  
**Fiscal year ended March 31, 2024**  
(thousands of dollars)

	2024	2023
<b>ACCUMULATED REMEASUREMENT GAINS AT BEGINNING OF YEAR</b>	<b>175 032</b>	<b>223 363</b>
<b>Unrealized losses attributable to the following:</b>		
Fair value – Financial derivatives	(59 999)	(48 587)
<b>Amounts reclassified in the statement of operations:</b>		
Fair value – Financial derivatives	274	256
<b>NET REMEASUREMENT LOSSES FOR THE YEAR</b>	<b>(59 725)</b>	<b>(48 331)</b>
<b>ACCUMULATED REMEASUREMENT GAINS AT END OF YEAR</b>	<b>115 307</b>	<b>175 032</b>

The notes are an integral part of the financial statements.

**Statement of financial position**  
**As at March 31, 2024**  
(thousands of dollars)

	<b>2024</b>	<b>2023</b>
<b>Financial assets</b>		
Cash and cash equivalents (note 3)	98	50
Accounts receivable	16 506	2 385
Accrued interest on loans	81 775	69 798
Portfolio investments (note 4)	387 697	82 737
Loans (note 5)	9 671 293	9 233 554
Financial derivatives (notes 7 and 8)	176 919	229 598
	<b>10 334 288</b>	<b>9 618 122</b>
<b>Liabilities</b>		
Accounts payable	369	283
Net accrued interest on borrowings and advances	87 789	74 341
Borrowings and advances (note 6)	10 050 727	9 303 404
Financial derivatives (notes 7 and 8)	44 156	38 204
	<b>10 183 041</b>	<b>9 416 232</b>
<b>Net financial assets</b>	<b>151 247</b>	<b>201 890</b>
<b>Non-financial assets</b>		
Tangible fixed assets	240	430
<b>ACCUMULATED SURPLUS</b>	<b>151 487</b>	<b>202 320</b>
Accumulated surplus consists of:		
Accumulated operating surplus	36 180	27 288
Accumulated remeasurement gains	115 307	175 032
<b>TOTAL</b>	<b>151 487</b>	<b>202 320</b>

The notes are an integral part of the financial statements.

*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, 2024**  
(thousands of dollars)

	2024		2023
	Budget	Actual results	Actual results
<b>OPERATING SURPLUS FOR THE YEAR</b>	<b>9 269</b>	<b>8 892</b>	<b>12 828</b>
Depreciation of fixed assets	190	190	304
Net remeasurement losses for the year	(14 293)	(59 725)	(48 331)
Dividend paid	—	—	(415 024)
Redemption of shares	—	—	(10 000)
<b>DECREASE IN NET FINANCIAL ASSETS</b>	<b>(4 834)</b>	<b>(50 643)</b>	<b>(460 223)</b>
<b>NET FINANCIAL ASSETS AT BEGINNING OF YEAR</b>	<b>161 674</b>	<b>201 890</b>	<b>662 113</b>
<b>NET FINANCIAL ASSETS AT END OF YEAR</b>	<b>156 840</b>	<b>151 247</b>	<b>201 890</b>

The notes are an integral part of the financial statements.

**Statement of cash flow**  
**Fiscal year ended March 31, 2024**  
(thousands of dollars)

	<b>2024</b>	<b>2023</b>
<b>Operating activities</b>		
Operating surplus for the year	8 892	12 828
Items not affecting cash and cash equivalents:		
Adjustment of loans to the effective rate	(5 454)	(5 862)
Interest income charged to loan balances	(63 816)	(22 714)
Adjustment of borrowings and advances to the effective rate	(1 344)	(1 757)
Adjustment of portfolio investments to the effective rate	(2 960)	(107)
Reclassification to the statement of operations – Fair value of financial derivatives	274	256
Depreciation of fixed assets	190	304
	<u>(64 218)</u>	<u>(17 052)</u>
Change in financial assets and liabilities related to operations (note 11)	(3 072)	(1 074)
<b>Cash flows from operating activities</b>	<b><u>(67 290)</u></b>	<b><u>(18 126)</u></b>
<b>Investment activities</b>		
Acquisition of portfolio investments	(302 000)	(82 630)
Financial derivatives linked to portfolio investments	—	(1 369)
Loans made	(1 978 250)	(2 310 220)
Loan repayments	1 598 810	1 698 084
<b>Cash flows from investment activities</b>	<b><u>(681 440)</u></b>	<b><u>(696 135)</u></b>
<b>Financing activities</b>		
Net short-term borrowings and advances	302 200	1 153 868
Long-term borrowings and advances	999 892	945 736
Repayments of long-term borrowings and advances	(553 314)	(961 674)
Dividend	—	(415 024)
Redemption of shares	—	(10 000)
<b>Cash flows from financing activities</b>	<b><u>748 778</u></b>	<b><u>712 906</u></b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b><u>48</u></b>	<b><u>(1 355)</u></b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>50</u></b>	<b><u>1 405</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (NOTE 3)</b>	<b><u>98</u></b>	<b><u>50</u></b>

The notes are an integral part of the financial statements.



# FINANCEMENT-QUÉBEC AS AT MARCH 31, 2024

## 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 came into force on October 1, 1999. The Corporation is a legal person established in the public interest.

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 can issue titles of indebtedness, all of which are guaranteed by the Québec government.

The Corporation is not subject to Québec or Canadian income taxes.

### 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.

The main items for which management has made estimates and assumptions are financial derivatives, loans, and borrowings and advances. 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.

## **2. Significant accounting policies (cont.)**

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.

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, portfolio investments, loans, accounts payable and 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 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.

### ***Portfolio investments***

Portfolio investments are valued at amortized cost. At each financial statement date, the Corporation assesses whether there is any objective indication that the portfolio investments may be impaired. If any such indication exists, the Corporation must assess whether the investment in question has suffered a permanent decline in value and, if so, reduce the carrying value of the investment to reflect this impairment. The reduction in the carrying value is taken into account in the results for the year and cannot be reversed.

### ***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.

## 2. Significant accounting policies (cont.)

### *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.

### *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 agreed amount for the consideration given in exchange for the item transferred or the service provided.

## 3. Cash and cash equivalents

Cash as at March 31, 2024 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 5.00% (4.50% as at March 31, 2023).

## 4. Portfolio investments

The Corporation's portfolio investments comprise Québec bonds, with the following maturity dates:

### **Portfolio investments** (thousands of dollars)

	2024	Effective rates (%)	2023	Effective rates (%)
September 1, 2026	133 468	4.01 to 4.52	—	—
September 1, 2027	254 229	3.37 to 4.03	82 737	3.37 to 3.89
<b>TOTAL</b>	<b>387 697</b>		<b>82 737</b>	

## 5. Loans

### Loans by borrower (thousands of dollars)

	2024	Effective rates (%) <sup>(1)</sup>	2023	Effective rates (%) <sup>(1)</sup>
Entities included in the government's reporting entity:				
Health and social services institutions	409 960	3.62 to 7.01	451 144	3.62 to 7.01
School service centres and school boards	141 843	3.75 to 5.58	153 947	3.75 to 5.58
General and vocational colleges	23 615	4.66 to 5.50	25 672	4.66 to 5.50
Université du Québec and its constituents	84 115	5.35	92 410	5.35
	<b>659 533</b>		<b>723 173</b>	
Entities excluded from the government reporting entity:				
Private universities	3 659 071	0.84 to 5.23	3 501 183	0.84 to 5.09
Municipal bodies	4 905 829	1.35 to 5.45	4 496 056	1.35 to 5.45
Municipalities	336 498	2.56 to 4.12	397 232	2.56 to 4.12
Fiduciary and non-profit organizations	110 362	1.25 to 4.15	115 910	1.25 to 3.90
	<b>9 011 760</b>		<b>8 510 381</b>	
<b>TOTAL</b>	<b>9 671 293</b>		<b>9 233 554</b>	

(1) Effective rates exclude those applicable to floating rate loans, totalling \$1 518.3 million (\$1 222.1 million as at March 31, 2023). Short-term loans bear interest at the average rate of 3-month Québec Treasury bills increased by 0.02% (the same rate as at March 31, 2023). The long-term loan bears interest at the 3-month bankers' acceptances rate (1-month bankers' acceptances rate plus a spread of 0.30% and at the 3-month bankers' acceptances rate as at March 31, 2023).

## 5. Loans (cont.)

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

### Schedule of principal repayments

(thousands of dollars)

2025	2 311 732
2026	788 983
2027	1 046 571
2028	813 552
2029	595 991
2030-2034	2 253 143
2035-2039	1 332 077
2040-2044	559 550
2045-2047	3 677
<b>TOTAL</b>	<b>9 705 276</b>

Loans maturing during the fiscal year ended March 31, 2025 include short-term loans of \$1 497.1 million (\$1 198.7 million as at March 31, 2024). 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)

	2024	Effective rates (%) <sup>(1)</sup>	2023	Effective rates (%) <sup>(1)</sup>
Advances from the General Fund of the Consolidated Revenue Fund	8 199 223	0.84 to 5.22	7 390 823	0.84 to 4.77
Borrowings on markets	1 543 058	1.97 to 5.62	1 544 615	1.97 to 5.62
Canada Mortgage and Housing Corporation (CMHC)	308 446	3.28 to 4.12	367 966	3.28 to 4.12
<b>TOTAL</b>	<b>10 050 727</b>		<b>9 303 404</b>	

(1) Effective rate paid on borrowings, advances, and long-term interest rate swap contracts. Excludes floating rate borrowings and swaps, which bear interest at the rates of 3-month bankers' acceptances with a spread ranging between minus 0.32% and plus 1.23% (same conditions as at March 31, 2023).

## 6. Borrowings and advances (cont.)

### Borrowings and advances schedule (thousands of dollars)

Due in	Advances from the general fund	Borrowings on markets	CMHC	Total 2024	Total 2023
2024					1 240 168
2025	1 488 019	—	—	1 488 019	22 081
2026	19 676	—	62 123	81 799	120 991
2027	573 940	—	—	573 940	599 083
2028	701 316	—	—	701 316	727 258
2029	217 194	—	—	217 194	122 452
2030-2034	1 167 299	—	246 323	1 413 622	1 320 883
2035-2039	815 841	1 543 058	—	2 358 899	2 392 854
2040-2044	3 187 881	—	—	3 187 881	2 728 363
2045-2049	28 057	—	—	28 057	29 271
<b>TOTAL</b>	<b>8 199 223</b>	<b>1 543 058</b>	<b>308 446</b>	<b>10 050 727</b>	<b>9 303 404</b>

Advances from the General Fund maturing during the fiscal year ending March 31, 2025 include short-term borrowings of \$1 476.4 million (\$1 174.2 million as at March 31, 2024). These short-term borrowings bear interest at rates ranging between 4.93% and 4.99% (rates varying from 4.47% to 4.58% as at March 31, 2023).

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)

	2025	2026	2027	2028	2029	2030 and following
Advances from the General Fund of the Consolidated Revenue Fund	1 984 577	498 599	914 676	1 041 289	417 741	3 333 267
Borrowings on markets	—	—	—	—	—	1 522 350
CMHC	61 746	64 056	33 745	35 083	36 474	77 342
<b>TOTAL</b>	<b>2 046 323</b>	<b>562 655</b>	<b>948 421</b>	<b>1 076 372</b>	<b>454 215</b>	<b>4 932 959</b>

## 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 3-month Canadian bankers' acceptances are exchange-traded and their fair value is determined on the basis of the daily settlement price.

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)

	2024		2023	
	Book value	Fair value	Book value	Fair value
<b>Loans – Total</b>	<b>9 671 293</b>	<b>9 432 110</b>	<b>9 233 554</b>	<b>9 052 417</b>
<b>Portfolio investments – Total</b>	<b>387 697</b>	<b>388 342</b>	<b>82 737</b>	<b>83 508</b>
<b>Borrowings and advances</b>				
Advances from the General Fund of the Consolidated Revenue Fund	8 199 223	7 893 250	7 390 823	7 106 258
Borrowings on markets	1 543 058	1 686 716	1 544 615	1 757 399
CMHC	308 446	312 064	367 966	376 935
<b>TOTAL</b>	<b>10 050 727</b>	<b>9 892 030</b>	<b>9 303 404</b>	<b>9 240 592</b>
<b>Financial derivatives</b>				
<b>Financial assets</b>				
Interest rate swap contracts	176 919	176 919	229 598	229 598
<b>Liabilities</b>				
Interest rate swap contracts	44 130	44 130	38 185	38 185
3-month futures contracts on the Canadian Overnight Repo Rate Average	26	26	—	—
Futures contracts on 3-month Canadian bankers' acceptances	—	—	19	19
	44 156	44 156	38 204	38 204
<b>TOTAL</b>	<b>132 763</b>	<b>132 763</b>	<b>191 394</b>	<b>191 394</b>

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 are 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 3-month futures contracts on the Canadian Overnight Repo Rate Average (futures contracts on 3-month Canadian bankers' acceptances until December 2023). 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.

The total outstanding face value of interest rate swap contracts stood at \$2 781 million as at March 31, 2024 (\$2 560 million as at March 31, 2023).

### *3-month futures contracts on the Canadian Overnight Repo Rate Average (CRA)*

The Corporation uses 3-month futures contracts on the Canadian Overnight Repo Rate Average (CRA) 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.

## 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).

## 9. Hierarchy of fair value valuations (cont.)

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

As at March 31, 2024

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
<b>Financial derivatives</b>				
<b>Financial assets</b>				
Interest rate swap contracts	—	176 919	—	176 919
<b>Liabilities</b>				
Interest rate swap contracts	—	44 130	—	44 130
3-month futures contracts on the Canadian Overnight Repo Rate Average	26	—	—	26
	26	44 130	—	44 156
<b>TOTAL</b>	<b>(26)</b>	<b>132 789</b>	<b>—</b>	<b>132 763</b>

### Hierarchical structure of fair value valuations

As at March 31, 2023

(thousands of dollars)

	Level 1	Level 2	Level 3	Total
<b>Financial derivatives</b>				
<b>Financial assets</b>				
Interest rate swap contracts	—	229 598	—	229 598
<b>Liabilities</b>				
Interest rate swap contracts	—	38 185	—	38 185
Futures contracts on 3-month Canadian bankers' acceptances	19	—	—	19
	19	38 185	—	38 204
<b>TOTAL</b>	<b>(19)</b>	<b>191 413</b>	<b>—</b>	<b>191 394</b>

## 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.

The credit risk associated with portfolio investments is not significant, since these investments consist of Québec government securities.

The credit risk associated with loans is minimal since the 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 its 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) Concentration of credit risk

The concentration of credit risk is the risk for the Corporation that corresponds to the likelihood of a significant portion of outstanding loans being confined in a subset of borrowers displaying common characteristics and that might make it vulnerable to changes in the economic position of a group of borrowers.

This risk is minimal for the Corporation considering the government guarantee on such loans and the breakdown of the loans as indicated in note 5.

## 10. Financial risk and risk management (cont.)

### c) 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's financial requirements are covered by advances from the Minister of Finance, paid from the Consolidated Revenue Fund. The Corporation's short-term financial requirements (operating requirements and short-term loans payable) are met by the Corporation's surpluses and short-term advances from the Minister of Finance, paid from the Consolidated Revenue Fund. The amounts required for long-term loans come from long-term advances from the Minister of Finance, drawn from the Consolidated Revenue Fund.

As at March 31, 2024, 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, 2024

(millions of dollars)

Due in	Financial assets		Liabilities		Net exposure	
	Non-derivatives <sup>(1)</sup>	Derivatives	Non-derivatives <sup>(2)</sup>	Derivatives	By maturity	Cumulative, after reinvestment of available capital <sup>(3)</sup>
2025	2 609	19	2 348	9	271	271
2026	1 038	20	843	9	206	488
2027	1 404	20	1 206	7	211	716
2028	1 261	21	1 304	3	(25)	715
2029	754	22	659	1	116	855
2030-2034	2 774	89	2 494	7	362	1 425
2035-2039	1 537	23	2 855	10	(1 305)	206
2040-2044	607	—	752	9	(154)	96
2045-2049	4	—	4	—	—	112

(1) Financial assets that limit liquidity risk are loans, accrued interest on loans, portfolio investments, 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.)

### Maturity schedule of cash flows

As at March 31, 2023

(millions of dollars)

Due in	Financial assets		Liabilities		Net exposure	
	Non-derivatives <sup>(1)</sup>	Derivatives	Non-derivatives <sup>(2)</sup>	Derivatives	By maturity	Cumulative, after reinvestment of available capital <sup>(3)</sup>
2024	2 311	20	1 991	6	334	334
2025	951	22	738	6	229	575
2026	903	24	716	5	206	798
2027	1 137	26	1 085	4	74	893
2028	968	26	1 191	3	(200)	718
2029-2033	2 655	115	2 317	7	446	1 325
2034-2038	1 521	44	2 804	8	(1 247)	197
2039-2043	594	—	584	10	—	237
2044-2048	12	—	166	(1)	(153)	104

(1) Financial assets that limit liquidity risk are loans, accrued interest on loans, portfolio investments, 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.

#### 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 carry out any transactions in foreign currencies and that portfolio investments in Québec government securities will be held until maturity, as stipulated in the investment policy adopted by the Corporation, 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.

## 10. Financial risk and risk management (cont.)

The following table shows the net interest rate risk exposure of financial assets and liabilities assigned to 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.

As at March 31, 2024, 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 risk exposure

As at March 31, 2024

(millions of dollars)

	Financial assets		Liabilities		Net exposure
	Loans and portfolio investments	Derivatives	Borrowings and advances	Derivatives	
Floating rate	1 519	99	—	182	1 436
Fixed rate:					
2025	1 086	(138)	2 343	77	(1 472)
2026	1 035	(115)	843	74	3
2027	1 402	(126)	1 206	48	22
2028	1 259	(320)	1 304	(381)	16
2029	751	(68)	659	20	4
2030-2034	2 760	(188)	2 493	75	4
2035-2039	1 537	1 342	2 855	21	3
2040-2044	607	(1)	752	(174)	28
2045-2049	4	—	4	—	—
<b>TOTAL</b>	<b>11 960</b>	<b>485</b>	<b>12 459</b>	<b>(58)</b>	<b>44</b>

## 10. Financial risk and risk management (cont.)

### Net interest rate risk exposure

As at March 31, 2023

(millions of dollars)

	Financial assets		Liabilities		Net exposure
	Loans and portfolio investments	Derivatives	Borrowings and advances	Derivatives	
Floating rate	1 223	(7)	—	77	1 139
Fixed rate:					
2024	1 102	(168)	1 989	109	(1 164)
2025	949	(122)	738	79	10
2026	900	(100)	716	77	7
2027	1 135	(73)	1 085	(40)	17
2028	965	(108)	1 191	(342)	8
2029-2033	2 643	(208)	2 317	108	10
2034-2038	1 518	1 345	2 804	53	6
2039-2043	594	(2)	584	16	(8)
2044-2048	13	—	166	(186)	33
<b>TOTAL</b>	<b>11 042</b>	<b>557</b>	<b>11 590</b>	<b>(49)</b>	<b>58</b>

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)

	2024	2023
<b>Simulated interest rate shock – estimated impact</b>		
Increase of 100 basis points	(235)	1 392
Decrease of 100 basis points	233	(1 367)

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)

	2024	2023
<b>Simulated interest rate shock – estimated impact</b>		
Increase of 100 basis points	(77 858)	(90 965)
Decrease of 100 basis points	88 920	104 537

## 11. Cash Flows

For the fiscal year ended March 31, 2024, 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)

	2024	2023
Accounts receivable <sup>(1)</sup>	663	278
Accrued interest on loans <sup>(1)</sup>	(15 818)	(6 470)
Financial derivatives recognized as assets <sup>(2)</sup>	(368)	2 891
Financial derivatives recognized as liabilities <sup>(2)</sup>	(971)	(2 963)
Accounts payable <sup>(3)</sup>	(76)	(101)
Accrued interest on loans and advances <sup>(3)</sup>	13 498	5 291
<b>TOTAL</b>	<b>(3 072)</b>	<b>(1 074)</b>

(1) The amount for 2024 has been adjusted to consider accounts receivable pertaining to the amounts of loan repayments in the amount of \$14 784 253 for the accounts receivable and \$3 841 351 for accrued interest on loans.

(2) As at March 31, 2024, the balance of accrued interest included in derivatives recognized as assets is \$7 017 175 (\$6 648 793 as at March 31, 2023), and the balance for derivatives recognized as liabilities is \$1 048 390 (\$1 597 503 as at March 31, 2023).

(3) The amount for 2024 has been adjusted to consider accounts payable pertaining to the amounts of repayments of advances from the General Fund of the Consolidated Fund in the amount of \$49 982 for the interest accrued on loans and advances item and \$162 482 for accounts payable.

### Interest received and paid by the Corporation (millions of dollars)

	2024	2023
Interest received	256.3	242.5
Interest paid	319.8	260.6

## **12. 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 Chief Executive Officer and the Vice-President, Finance.

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 these persons have the power to guide financial and administrative policies.

## **13. Comparative figures**

Certain figures for 2023 have been reclassified to bring them into line with the presentation adopted in 2024.

## 6. Governance

### 6.1 List of members of direction and the governance committee

Financement-Québec's Chief Executive Officer is designated by the Minister of Finance. Its governance committee comprises nine members, including the chair of the board, who are also appointed by the Minister of Finance.

The following table lists the members of management and the governance committee as at March 31, 2024:

Name	Position(s) with Financement-Québec	Position outside Financement-Québec
1. Guillaume Pichard	Chief Executive Officer	Assistant Deputy Minister, Financing, Debt Management and Banking and Financial Operations Ministère des Finances
2. Marie-Pierre Hillinger	Vice-President, Finance, and member of the governance committee	Managing Director, Financing of Public Bodies and Consulting Ministère des Finances
3. Bertrand Cayouette	Chair of the governance committee	Assistant Deputy Minister, Corporate Tax Policy, Economic Development and State-Owned Enterprises Ministère des Finances
4. Bernard Asselin	Member of the governance committee	Managing Director, Treasury and Capital Markets Ministère des Finances
5. Gino Ouellet	Member of the governance committee	Director General, Banking and Financial Operations Ministère des Finances
6. François Leclerc	Member of the governance committee	Assistant Deputy Minister, Financing, Budget, and Infrastructure Ministère de l'Enseignement supérieur
7. Harold Garneau	Member of the governance committee	Director General, Finance Ministère des Transports et de la Mobilité durable
8. Jocelyn Savoie	Member of the governance committee	Assistant Deputy Minister, Climate Impacts, Taxation, Finance and Infrastructure Ministère des Affaires municipales et de l'Habitation
9. Jean Monfet	Member of the governance committee	Corporate Director
10. Nathalie Giroux	Member of the governance committee	Assistant Secretary, Public Investments Secrétariat du Conseil du trésor

## 6.2 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.

The Corporation has a workforce of seven permanent employees comprising an officer, professionals, and technicians or administrative assistants.

As at March 31, 2024, three full-time positions were filled, that is, an officer and two professionals.

- In recent years, the volume of loans made by Financement-Québec has decreased appreciably in relation to that of the Financing Fund, in particular in the wake of the reintegration of public bodies in the health and education networks into the government's reporting entity.
- Accordingly, positions have been transferred from Financement-Québec to the Financing Fund to more accurately reflect their assignment according to the volume of lending activities for each of the entities.
- The staff transfer continued in 2023-2024.

During the 2023-2024 fiscal year, no service contract in the amount of \$25 000 or more was concluded by the Corporation.

## 6.3 Sustainable development

Each year, the Corporation must report, in accordance with the *Sustainable Development Act* (CQLR, c. D-8.1.1.), on the objectives that are contributing to the implementation of the *Government Sustainable Development Strategy 2023-2028*.

- In keeping with what has been agreed between the Corporation, the Ministère des Finances, and the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs, the Ministère des Finances' sustainable development action plan is incorporating for the period specified the Corporations' sustainable development activities and objectives.

## 6.4 Code of ethics and professional conduct

In 2023-2024 the Corporation updated its code of ethics and professional conduct applicable to the members of the governance committee, management, and personnel, to manage its operations efficiently and transparently. The Corporation's code of ethics and professional conduct is available only in French at:

[https://www.finances.gouv.qc.ca/ministere/financement/financement\\_regroupe/](https://www.finances.gouv.qc.ca/ministere/financement/financement_regroupe/)

The code stipulates, in particular, the commitment of the members to act with integrity and responsibly in the exercise of their duty.

## 6.5 Language policy

In the wake of the coming into force of amendments to the *Charter of the French language*, the government adopted the *Language Policy of the State*, which stipulates new obligations applicable, in particular, to the Corporation.

During the 2023-2024 fiscal year, the Corporation complied with the requirements of the *Charter of the French language* and the *Language Policy of the State*.

The Corporation drafted, in collaboration with the Ministère des Finances, a specific directive pertaining to the application of the *Language Policy of the State*.

## 6.6 Access to documents and privacy

### Dissemination

The information concerning the Corporation, its mandate, clients, financing products, and documents of public interest are available on its website at:

[https://www.finances.gouv.qc.ca/ministere/financement/financement\\_regroupe/](https://www.finances.gouv.qc.ca/ministere/financement/financement_regroupe/).

### Treatment of access to information requests

The Corporation did not receive any information request pursuant to the *Act respecting Access to documents held by public bodies and the Protection of personal information* (CQLR, c. A-2.1) during the 2023-2024 fiscal year.

## 6.7 Disclosure of wrongdoing relating to public bodies

In accordance with the *Act to facilitate the disclosure of wrongdoings relating to public bodies* (CQLR, c. D-11.1), the Corporation must report on the number of complaints received and treated during the year in its annual management report or in any other report deemed appropriate.

— The Corporation did not receive any complaint during the fiscal year ending March 31, 2024.



