

2010-2011 OPERATIONAL REPORT

2010-2011 Operational Report
Financement-Québec

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Québec City, August 11, 2011

Mr. Jacques Chagnon
President of the National Assembly
Parliament Building
1045, rue des Parlementaires
Québec (Québec) G1A 1A4

Dear Sir,

I have the honour of submitting the operational report and financial statements of Financement-Québec for the fiscal year beginning April 1st, 2010 and ending March 31st, 2011.

Yours truly,

Original French version signed
Raymond Bachand

Encl.

Québec City, July 5th, 2011

Mr. Raymond Bachand
Minister of Finance
12, rue Saint-Louis, 1^{er} étage
Québec (Québec) G1R 5L3

Mr. Minister,

On behalf of the Board of Directors, I am pleased to submit the 2010-2011 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 *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) and reflect the activities carried out during fiscal year 2010-2011, i.e. from April 1st, 2010 to March 31st, 2011.

Yours truly,

Original French version signed
Bernard Turgeon
Chairman of the Board

Encl.

c. c. Gilles Paquin, Deputy Minister of Finance

PROFILE OF FINANCEMENT-QUÉBEC

Financement-Québec (the “Corporation”) was incorporated under *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) which entered into force on October 1, 1999. The Corporation’s chief mission is to offer financial services to eligible public bodies, in particular by making loans to them. Its clients include mainly public institutions of the education and the health and social services networks, including school boards, GEGEPs, universities and hospitals. As at March 31, 2011, Financement-Québec had \$21.9 billion in loans outstanding.

During fiscal year 2010-2011, Financement-Québec issued long term borrowings for a total of \$4.5 billion. As at March 31, 2011, outstanding borrowings of Financement-Québec amounted to \$21.8 billion.

FISCAL YEAR AT A GLANCE**ACTIVITIES**

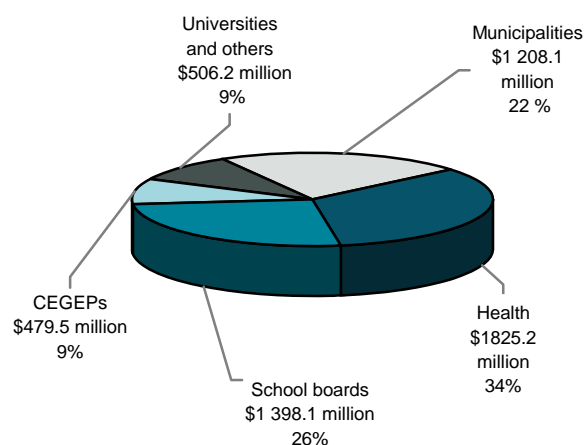
	2010-2011	2009-2010
Long-term loans made (\$ million)	5 417.1	3 721.9
Number of loans	567	270
Number of clients	284	160
Short-term loans made (\$ million)	8 543.3	4 949.0
Number of loans	1 483	332
Number of clients	222	222
Long-term borrowings made (\$ million)	4 513.3	3 294.3
Number of borrowings	27	21

FINANCIAL RESULTS

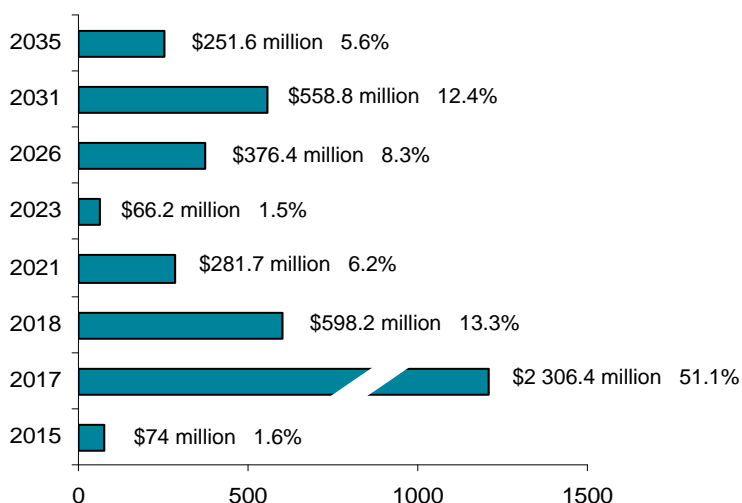
	2010-2011	2009-2010
Net earnings (\$ million)	49.4	45.5

**STATEMENT OF OUTSTANDING LOANS
AND BORROWINGS**

	March 31, 2011			
	Long-term	Short-term	Total	March 31, 2010
Outstanding loans (\$ million)	19 465.4	2 393.6	21 859.0	16 850.5
Number of loans	2 503	1 661	4 164	2 320
Number of clients	334	218	366	332
Outstanding short-term investments	—	125.8	125.8	—
Outstanding borrowings (\$ million)	19 329.9	2 454.5	21 784.4	16 691.9

BREAKDOWN OF LONG-TERM LOANS MADE IN 2010-2011**Total: \$5 417.1 million****BREAKDOWN BY MATURITY OF LONG-TERM BORROWINGS MADE IN 2010-2011****Total: \$4 513.3 million**

Due in

**OBJECTIVES**

Financement-Québec seeks to achieve four main objectives as part of its mission. The purpose of this section is to provide a better understanding of how Financement-Québec's activities contribute to the achievement of its objectives.

First objective: Minimize the cost of financing of all organizations of Québec's public sector

Financement-Québec makes long-term loans to school boards, CEGEPs, universities and public organizations of the health and social services network. In view of the Québec government's unconditional guarantee on the borrowings of Financement-Québec, its clients have access to funding opportunities enabling them to reduce their funding costs.

In addition, short-term loans are made to school boards, CEGEPs, universities and public organizations of the health and social services network that cannot borrow at the conditions stipulated by the Regulation respecting borrowings made by a body (the "Regulation"). The Regulation stipulates that the interest rate applicable to temporary financing may not exceed the rate of Canadian bankers' acceptances plus 0.30%. Most organizations obtain financing from financial institutions at levels below or equal to what the Regulation stipulates.

The savings associated with the pooled financing process consist of direct savings of interest and issuance expenses for organizations that borrow from Financement-Québec.

Second objective: Offer the customer quality service

To meet its customers' needs, Financement-Québec improves existing financing processes, adds new adapted services and works with certain organizations to negotiate and assess traditional or structured financing offers.

Provide public organizations with a simpler way to obtain financing

Organizations adopt borrowing plans to streamline the financing process. The borrowing plan sets the maximum amount of borrowings to be made, the limits and characteristics applicable to these borrowings and a period of validity. It also allows the organization to delegate to at least two of its officers the authority to jointly set the terms and conditions of the borrowings to be made. This authority must be exercised in accordance with the characteristics and limits laid down in the borrowing plan. In 2010-2011, all long-term financing transactions were carried out under borrowing plans.

In addition, to simplify the long-term borrowing process, changes were made to the documentation required to borrow. Accordingly, a single loan agreement and a single certificate attesting to functions and signatures are signed annually by each organization, at the time their borrowing plan is adopted. As a result, the organization can make several long-term borrowings under the same agreement. At the time a borrowing is contracted, only the note and deed of hypothec are required.

Adapt loan conditions to the customer's needs

Loan conditions are adapted to the needs of the borrowing organizations or the ministries concerned.

Third objective: Adequately manage financial risks

Credit risk of borrowers

Public organizations receiving a subsidy for the repayment of long-term debts contracted with Financement-Québec must pledge this subsidy in favour of Financement-Québec as security.

For the other loans without subsidy, the Minister responsible for the organization undertakes to act in the event of the organization's default so that it remedies the situation as soon as possible.

These approaches enable Financement-Québec to reduce the credit risk of borrowers to the level of the credit risk of the Québec government.

Exchange risk

The exchange risk management policy consists in incurring no such risk. Accordingly, on the issue date, borrowings in foreign currencies are translated into Canadian dollars using currency swap contracts.

Interest rate risk

Financement-Québec manages interest risk using matching methods such as those used by financial institutions for their intermediation activities, thus limiting the net exposure of its assets and liabilities to fluctuations in interest rates, in accordance with the policy adopted to that effect.

Fourth objective: Self-financing and efficient operations

Financement-Québec must be self-financing while offering its customers 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 minimize operating costs

For purposes of efficiency and lower costs, Financement-Québec has entered into a service agreement with the Ministère des Finances. Under this agreement, it receives, for compensation, the following services:

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

FINANCING OF ORGANIZATIONS

Short-term financing

During fiscal year 2009-2010, Financement-Québec made 1 483 short-term loans to public organizations of the education and the health and social services networks for a total of \$8 543.3 million.

This amount includes the transfer of short-term financial intermediation portfolios from the Corporation d'hébergement du Québec (CHQ) to Financement-Québec, completed on March 18, 2011.

As at March 31, 2011, short-term loans outstanding stood at \$2 393.6 million.

BREAKDOWN OF SHORT-TERM LOANS AS AT MARCH 31, 2011

(Millions of dollars)

	Floating rate notes	Short-term loans	Line of credit	Total	%
CEGEPs	0.0	0.0	4.5	4.5	0.2
Universities and others	0.0	9.7	77.8	87.5	3.6
Health and social services	1 769.6	521.2	10.8	2 301.6	96.2
Total	1 769.6	530.9	93.1	2 393.6	100.0

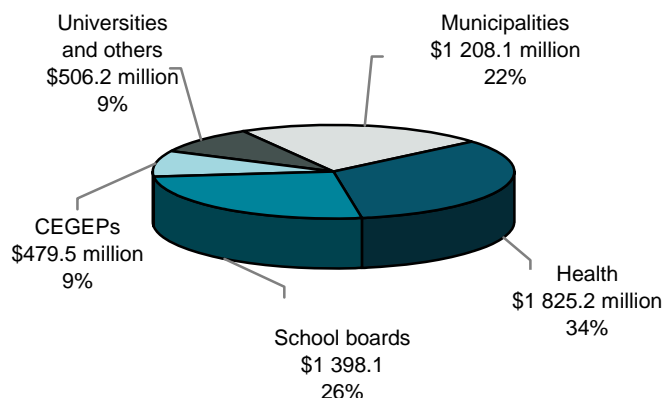
Long-term financing

Long-term loans by Financement-Québec in 2010-2011

During fiscal year 2010-2011, Financement-Québec made 567 long-term loans to public organizations of the education and the health and social services networks and to municipalities, for a total of \$5 417.1 million.

BREAKDOWN OF LONG-TERM LOANS MADE IN 2010-2011

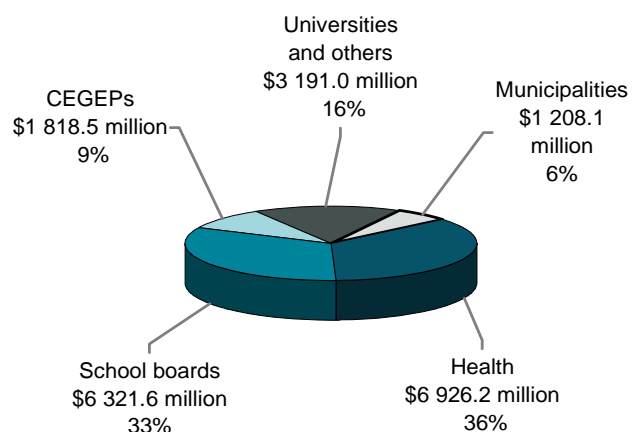
Long-term loans to public organizations of the education and the health and social services networks and to municipalities respectively account for 44%, 34% and 22% of loans granted in 2010-2011.



Outstanding long-term loans of Financement-Québec as at March 31, 2011

BREAKDOWN OF OUTSTANDING LONG-TERM LOANS AS AT MARCH 31, 2011

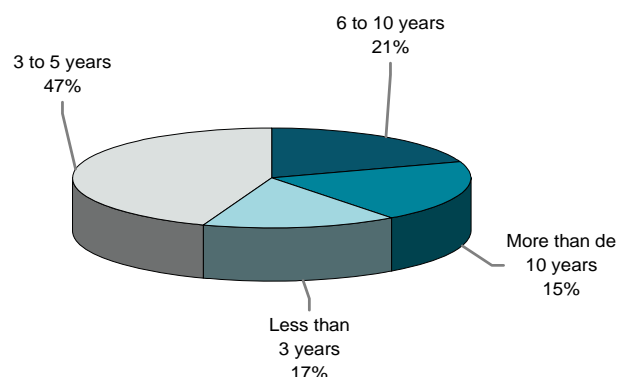
Outstanding long-term loans to public organizations of the education and the health and social services networks and to municipalities respectively account for 58%, 36% and 6% of loans.



Financement-Québec long-term loan maturities

BREAKDOWN BY MATURITY OF OUTSTANDING LONG-TERM LOANS AS AT MARCH 31, 2011

The average term to maturity of long-term loans was 5.9 years as at March 31, 2011.



Loans to municipalities

Financement-Québec made long-term loans to municipalities under the municipal infrastructure loan program related to residential housing. This federal program, under Canada's Economic Action Plan, made \$2 billion in reduced-interest-rate loans available to Canadian municipalities until March 31, 2011. The borrowings of Québec municipalities with Financement-Québec then outstanding under this program amounted to \$1 208.1 million. Financement Québec funded this amount by borrowings from Canada Mortgage and Housing Corporation (CMHC), in accordance with the agreement reached in March 2010. The terms and conditions of the loans to municipalities made by Financement-Québec are the same as for the borrowings made for that purpose. Accordingly, these loans have no effect on Financement-Québec's net interest margin.

Transfer of long-term loans from CHQ

A portfolio of CHQ long-term loans amounting to \$154.2 million was transferred to Financement-Québec on March 31, 2011.

**SUMMARY OF LONG-TERM FINANCINGS
IN 2010-2011**

(Millions of dollars)⁽¹⁾

	Amount	Average amount	Number of loans
Loans made by Financement-Québec			
• School boards	1 398.1	12.8	109
• CEGEPs	479.5	7.4	65
• Universities and others	506.2	28.1	18
• Health and social services	1 825.2	5.6	327
• Municipalities	1 208.1	25.2	48
Total financing	5 417.1	9.6	567

Note: The amounts in this table correspond to the realization values, i.e. face value plus the premium or less the discount at issue.

⁽¹⁾ Except for numbers.

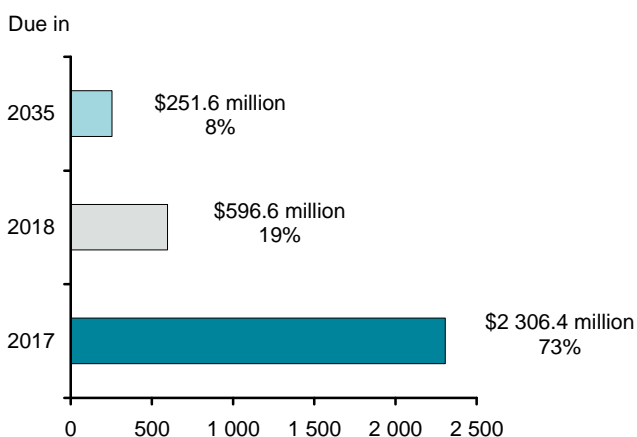
BORROWINGS ON FINANCIAL MARKETS IN 2010-2011

Long-term borrowings made in 2010-2011 totalled \$3 156.2 million in face value, representing realization value of \$3 154.6 million. Realization value corresponds to face value adjusted for the premium or discount at issue. These borrowings were all made on the Canadian market.

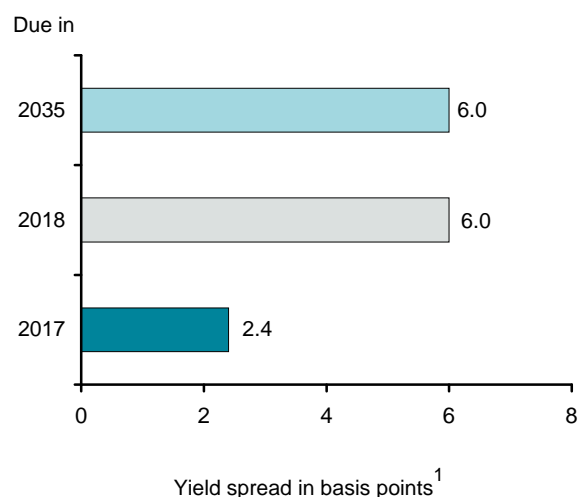
Of the borrowings issued in 2010-2011, 73% will mature in 2017, 19% in 2018 and 8% in 2035.

BREAKDOWN BY MATURITY OF LONG-TERM BORROWINGS MADE ON FINANCIAL MARKETS IN 2010-2011

Total: \$3,154.6 million



AVERAGE YIELD SPREADS AT ISSUE BETWEEN FINANCEMENT-QUÉBEC SECURITIES AND THOSE OF THE QUÉBEC GOVERNMENT ISSUED IN 2010-2011



¹ One basis point corresponds to 0.01%.

Average yield spreads at issue between Financement-Québec securities and those of the Québec government issued in 2010-2011 were 2.4 basis points for securities maturing in 2017, 6.0 basis points for securities maturing in 2018 and 6.0 basis points for securities maturing in 2035.

The average yield spread weighted by face value of issues corresponded to 3.3 basis points.

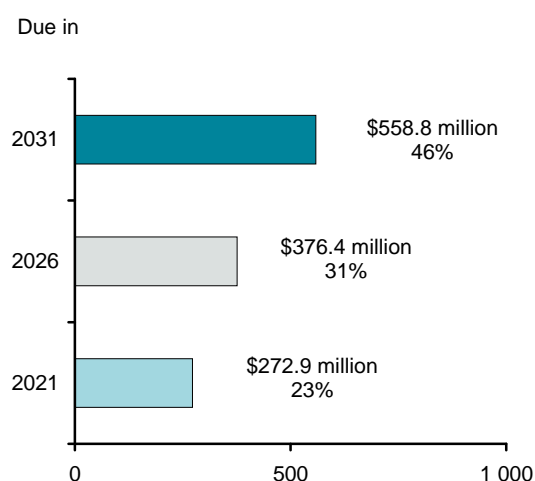
BORROWINGS BY FINANCEMENT-QUÉBEC FROM CMHC IN 2010-2011

Long term loans contracted in 2010-2011 by Financement-Québec with CMHC totalled \$1 208.1 million.

This sum constitutes the total amount borrowed by Financement-Québec from CMHC since the municipal infrastructure loan program related to residential housing began and ended during this fiscal year.

BREAKDOWN BY MATURITY OF LONG-TERM BORROWINGS MADE WITH CMHC IN 2010-2011

Total: \$1 208.1 million



BORROWINGS ASSUMED BY FINANCEMENT-QUÉBEC ARISING FROM THE TRANSFER OF LONG-TERM LOANS FROM CHQ

Further to the transfer of long-term loans, Financement-Québec has assumed the long-term debt associated with these loans, totalling \$150.6 million.

SOURCES OF LONG-TERM FINANCING

Sources of long-term financing consist of long-term borrowings, temporary borrowings and internal sources. Internal sources of financing correspond to net annual principal repayments received by Financement-Québec and are generally used to make new loans.

SOURCES AND UTILIZATION OF FUNDS IN 2010-2011

(Millions of dollars)

Sources of financing	
• Long-term borrowings	3 154.6
• Borrowings from CMHC	1 208.1
• Internal sources	903.8
• Borrowings assumed from CHQ ⁽¹⁾	150.6
TOTAL	5 417.1
Utilization of funds	
• Loans to organizations	5 417.1
TOTAL	5 417.1

⁽¹⁾ Includes a \$2.5-million discount at issue of the loan.

LONG-TERM BORROWINGS MADE IN 2010-2011

Amount received in Canadian dollars	Interest rate ⁽¹⁾	Issue date	Maturity date	Price to the investor ⁽²⁾	Yield to the investor ⁽³⁾
(\$ million)	(%)				(%)
34.2	5.25	May 4, 2010	June 1, 2034	102.202	5.090
25.6	5.25	May 4, 2010	June 1, 2034	102.202	5.090
20.4	5.25	May 4, 2010	June 1, 2034	102.202	5.090
8.7	5.25	May 4, 2010	June 1, 2034	102.202	5.090
6.3	5.25	May 4, 2010	June 1, 2034	102.202	5.090
108.3	5.25	May 4, 2010	June 1, 2034	102.202	5.090
16.4	5.25	May 4, 2010	June 1, 2034	102.202	5.090
31.7	5.25	May 4, 2010	June 1, 2034	102.202	5.090
19.9	Variable ⁽⁴⁾	May 14, 2010	June 2, 2016	99.371	Variable ⁽⁴⁾
490.5	3.50	June 18, 2010	December 1, 2016	98.099	3.835
513.9	3.50	August 26, 2010	December 1, 2016	102.787	3.008
168.4	Variable ⁽⁴⁾	October 8, 2010	June 2, 2016	99.072	Variable ⁽⁴⁾
49.6	Variable ⁽⁴⁾	October 15, 2010	June 2, 2016	99.131	Variable ⁽⁴⁾
49.6	Variable ⁽⁴⁾	October 15, 2010	June 2, 2016	99.131	Variable ⁽⁴⁾
323.2	Variable ⁽⁴⁾	October 29, 2010	June 2, 2016	99.433	Variable ⁽⁴⁾
99.4	Variable ⁽⁴⁾	November 1, 2010	June 2, 2016	99.436	Variable ⁽⁴⁾
14.9	Variable ⁽⁴⁾	November 2, 2010	June 2, 2016	99.435	Variable ⁽⁴⁾
99.4	Variable ⁽⁴⁾	November 2, 2010	June 2, 2016	99.435	Variable ⁽⁴⁾
29.8	Variable ⁽⁴⁾	November 5, 2010	June 2, 2016	99.438	Variable ⁽⁴⁾
198.9	Variable ⁽⁴⁾	November 5, 2010	June 2, 2016	99.438	Variable ⁽⁴⁾
99.4	Variable ⁽⁴⁾	November 9, 2010	June 2, 2016	99.441	Variable ⁽⁴⁾
49.9	Variable ⁽⁴⁾	November 17, 2010	June 2, 2016	99.700	Variable ⁽⁴⁾
99.6	Variable ⁽⁴⁾	December 10, 2010	June 2, 2016	99.560	Variable ⁽⁴⁾
596.6	3.50	January 21, 2011	December 1, 2017	99.430	3.594
3 154.6					

⁽¹⁾ Interest payable semi-annually unless indicated otherwise.

⁽²⁾ The price to the investor corresponds to a price in dollars for \$100 of face value.

⁽³⁾ The yield to the investor is shown on the basis of interest payable semi-annually.

⁽⁴⁾ Interest payable quarterly.

EXPENDITURE REDUCTION POLICY

Further to the entry into force, in 2010, of An Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014 (S.Q. 2010, c. 20), Financement-Québec implemented an internal policy setting out the measures to take to reduce its operating expenditures and thus participate in the government's process of reducing the debt and returning to a balanced budget.

For fiscal year 2010-2011, the targets set by this policy were:

- \$15 424 reduction in administrative operating expenditures, including \$925 for advertising, training and travel expenses;
- \$6 691 of additional reduction in remuneration and/or operating expenditures.

These expenditure reduction targets were achieved.

CODE OF ETHICS AND PROFESSIONAL CONDUCT

To manage its assets efficiently and transparently, Financement-Québec has adopted a Code of Ethics and Professional Conduct applicable to the members of the board of directors, management and personnel. Under the Code of Ethics and Professional Conduct, these individuals undertake to act responsibly and with integrity in the exercise of their duties.

Since the Code was adopted, no violation of its principles and rules has been reported. Consequently, no decision has been taken in this regard. In accordance with *the Act respecting the ministère du Conseil exécutif* (R.S.Q., c. M-30), the Code of Ethics and Professional Conduct is published in an appendix to this report.

REMUNERATION OF OFFICERS OF THE CORPORATION

In accordance with the decision of the Conseil du trésor of June 26, 2001, Financement-Québec publishes the remuneration of its officers.

The Chairman of the Board, the President and Chief Executive Officer, the Vice Chairman of the Board, the Executive Vice President and the Secretary of the Board are not remunerated for their duties with Financement-Québec.

Currently, two individuals occupy these positions, namely the position of President and Chief Executive Officer and Chairman of the Board of directors and that of Executive Vice President and Secretary and Vice Chairman of the Board of Directors. These two individuals are not remunerated for their duties with Financement-Québec.

SUSTAINABLE DEVELOPMENT

On June 17, 2009, Financement-Québec adopted its Sustainable Development Action Plan (2009-2013) (the Plan).

This Plan includes the following government objectives:

1. Government objective 1: Promote the sustainable development initiative by sensitizing and training personnel;
2. Government objective 6: Foster the application of concrete environmental management and eco-responsible procurement practices;
3. Government objective 17: Leave healthy public finances for future generations.

Government objective 1:

Financement-Québec has a service agreement with the Ministère des Finances. Accordingly, during 2010-2011, activities to sensitize its employees were carried out via the Ministère des Finances.

Government objective 6:

Financement-Québec completed the revision of financial documentation. This work helped to streamline documentation needed for the funding of organizations. In addition, Financement-Québec encourages the use of new technologies for the transmission of the required documents. These initiatives have helped to reduce the amount of paper used for the documentation of Financement-Québec loan transactions with its customers, and the use of traditional mail services for sending and receiving it.

Financement-Québec also contributes to the actions of the Ministère des Finances for eco-responsible procurement, minimum use of paper, reduced energy consumption, reuse and recycling of resources.

Government objective 17:

Financement-Québec assists its customers following the implementation of new provisions of the Financial Administration Act and its regulations. As a result of its mission, Financement-Québec is involved in a continuous process of support and services to its customers in connection with the oversight of financial transactions introduced by the aforementioned legislative amendments.

MANAGEMENT'S REPORT

The financial statements of Financement-Québec have been drawn up by the management of the Corporation, which is responsible for their preparation and their presentation, including significant judgements and estimates. This responsibility includes choosing appropriate accounting practices that satisfy Canadian generally accepted accounting methods. The financial information contained in the rest of the operational report agrees with the information given in the financial statements.

To carry out its responsibilities, the management of the Corporation 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.

The Corporation acknowledges that it is responsible for managing the affairs of the Corporation in accordance with the laws and regulations that govern it.

The Board of Directors must oversee how the Corporation's management carries out the responsibilities incumbent on it in terms of financial information and it has approved the financial statements.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards, and his Independent auditor's report sets out the nature and extent of this audit and expresses his opinion.

The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Executive Vice President

President and Chief Executive Officer

Québec City, June 13, 2011,

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of Financement-Québec, which comprise the statement of financial position as at March 31, 2011, statement of income and accumulated surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information included in the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Financement-Québec as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these standards have been applied on a basis consistent with those of the preceding year.

Renaud Lachance, FCA Auditor
Auditor General of Québec
Quebec City, June 13, 2011

FINANCIAL STATEMENTS
Income and Accumulated Surplus
For the fiscal year ended March 31, 2011
 (Thousands of dollars)

	2011	2010
NET INTEREST INCOME		
Interest on loans	732 456	644 928
Amortization of discounts and premiums on loans	47	139
Interest on borrowings and advances	(700 978)	(611 665)
Amortization of discounts and premiums on borrowings and advances	(1 508)	(1 935)
Interest on short-term investments	5 949	2 524
	<u>35 966</u>	<u>33 991</u>
OTHER OPERATIONS		
Net issuance expenses charged to borrowers	10 363	8 899
Administration expenses charged to borrowers	4 099	3 726
	<u>14 462</u>	<u>12 625</u>
	<u>50 428</u>	<u>46 616</u>
OPERATION AND ADMINISTRATION EXPENSES		
Wages, salaries and allowances	711	669
Professional, administrative and other services	285	203
Service agreement with the Financing Fund	(67)	231
Other	62	46
	<u>991</u>	<u>1 149</u>
SURPLUS FOR THE YEAR	49 437	45 467
ACCUMULATED SURPLUS AT THE BEGINNING	150 326	104 859
ACCUMULATED SURPLUS AT THE END	199 763	150 326

The notes are an integral part of the financial statements.

Statement of Financial Position
As at March 31, 2011
 (Thousands of dollars)

	2011	2010
ASSETS		
Loans (note 3)	21 858 995	16 850 464
Accrued interest on loans	231 071	177 235
	22 090 066	17 027 699
Cash position	39	8
Short-term investment, at the rate of 1%, maturing April 1 st , 2011	125 800	—
Accounts receivable	736	819
Fixed assets	454	—
	22 217 095	17 028 526
LIABILITIES		
Borrowings and advances (note 4)	21 784 386	16 691 839
Accrued interest on borrowings and advances	220 757	174 756
Accounts payable	1 119	981
Deferred income	1 070	624
	22 007 332	16 868 200
NET ASSETS		
Capital stock (note 6)	100	100
Contributed surplus	9 900	9 900
Accumulated surplus	199 763	150 326
	22 217 095	17 028 526

The notes are an integral part of the financial statements.

FOR THE BOARD OF DIRECTORS

 Executive Vice President

 President and Chief Executive Officer

Cash Flows**For the fiscal year ended March 31, 2011**

(Thousands of dollars)

	2011	2010
OPERATING ACTIVITIES		
Surplus for the year	49 437	45 467
Adjustments for:		
Amortization of discounts and premiums on loans	(47)	(139)
Interest income charged to loans	(15 714)	(1 854)
Amortization of discounts and premiums on borrowings and advances	22 604	5 561
Change in non-cash items related to operating activities (note 7)	56 280	49 035
	(8 288)	11 057
Cash flows from operating activities	47 992	60 092
INVESTING ACTIVITIES		
Loans	(13 808 734)	(8 670 823)
Loan repayments	8 967 699	6 111 159
Acquisition of fixed assets	(455)	—
Cash flows used in investing activities	(4 841 490)	(2 559 664)
FINANCING ACTIVITIES		
Short-term borrowings	41 260 817	13 259 015
Long-term borrowings	4 349 306	3 318 224
Repayments of advances from the Consolidated Revenue Fund	(3 274)	(390 624)
Repayments of long-term borrowings	(400 000)	(1 500 000)
Repayments of short-term borrowings	(40 287 520)	(12 556 447)
Cash flows from financing activities	4 919 329	2 130 168
CHANGE IN CASH AND CASH EQUIVALENTS	125 831	(369 404)
CASH AND CASH EQUIVALENTS AT THE BEGINNING	8	369 412
CASH AND CASH EQUIVALENTS AT THE END (note 7)	125 839	8

The notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS**1. Constitution, Purpose and Financing**

Financement-Québec (the Corporation) was incorporated under *An Act respecting Financement-Québec* (R.S.Q., c. F-2.01) which entered into force on October 1, 1999. The Corporation is a legal person with share capital and is a mandatary of the State.

The Corporation's main mission is to supply financial services to public organizations covered by its act of incorporation. It finances them directly by granting them loans or by issuing debt securities on their behalf. It advises them to facilitate their access to credit and to minimize their financing costs and, to that end, it develops financing programs. It may also manage the financial risks of these organizations, in particular cash flow risks and exchange risks. The Corporation may also provide public organizations with technical services regarding financial analysis and management.

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

Financement-Québec issues debt securities that are guaranteed by the Québec government.

Financement-Québec is not subject to Québec or Canadian income tax.

2. Accounting Methods

For the purposes of preparing its financial statements, the Corporation primarily uses the CICA Public Sector Accounting Handbook. Use of any other source of generally accepted accounting principles is consistent with that Handbook.

In accordance with Canadian generally accepted accounting principles, the preparation of the Corporation's financial statements requires that management makes use of accounting estimates and assumptions. These have an impact on the recognition of assets and liabilities, the presentation of assets and contingent liabilities on the date of the financial statements and the recognition of proceeds and charges during the period covered by the financial statements. The actual results may differ from these estimates.

Loans

Loans are recorded at the amount received at the time of issue, adjusted by the premium or discount amortization over the remaining term of each security using the straight-line method.

Public organizations that receive a subsidy for the repayment of long-term borrowings contracted with Financement-Québec must pledge as collateral such subsidy in favour of Financement-Québec.

For other loans who do not carry a subsidy, the Minister responsible for the organization commits to act in the event of the organization's default so that it remedied the situation as quickly as possible.

Short-term Investments

Short-term investments are recorded at the lesser of cost and market value.

Borrowings and Advances

Borrowings and advances from the Consolidated Revenue Fund are recorded at the amount received at the time of issue, adjusted by the premium or discount amortized over the remaining term of each security using the straight-line method, to obtain the amount of principal repayable at maturity.

Currency Translation

Borrowings denominated in foreign currencies and repayable in Canadian currency under currency swap contracts are valued at the exchange rate stipulated in such contracts.

Cash and Cash Equivalents

The Corporation presents, under cash and cash equivalents, bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is not likely to change significantly.

Financial Derivatives

Financement-Québec uses financial derivatives to manage interest rate and exchange risks. It is the policy of the Corporation not to use financial derivatives for trading or speculative purposes.

The Corporation documents in due form the relations between hedging instruments and hedged items by associating all the financial derivatives used in hedging operations with specific assets and liabilities shown on the balance sheet or the statement of cash flows. The exchange risk management strategy and objective on which the various hedging operations are based are also documented. It also methodically determines, both when implementing the hedge and subsequently, whether the derivatives used in hedging operations effectively offset the changes in currencies of the hedged items.

Gains and losses realized on derivatives by the Corporation are posted to the income statement at the same time as those associated with the hedged assets or liabilities.

3. Loans

Borrowers

(Thousands of dollars)

	2011	2010
School boards	6 321 628	5 453 604
General and vocational colleges	1 822 952	1 503 330
Health and social services institutions and agencies	9 227 811	6 920 395
University institutions and others	3 278 494	2 973 135
Municipalities	1 208 110	—
	21 858 995	16 850 464

Due in	2011	2010
2011	—	1 836 701
2012	4 068 647	1 811 716
2013	1 673 204	1 801 967
2014	2 812 665	2 878 477
2015	4 196 005	4 236 989
2016	2 146 342	1 943 760
2017-2036	6 962 132	2 340 854
	21 858 995	16 850 464

Loans maturing during the fiscal year ending March 31, 2012 include \$2 393 564 873 of short-term loans. For the long-term loans, maturities and interest rates on loans made by the Corporation are, with a few exceptions, identical to those of advances received from the Consolidated Revenue Fund and the borrowings contracted for this purpose taking into consideration currency and interest rate swap contracts, if any. However, depending on the amounts available, the Corporation may make new loans from repayments of loans. These new loans are made at interest rates and maturities that may differ from the conditions of the advance or borrowing initially received. The balance of discounts and premiums on loans to be amortized over subsequent years was \$2 587 221 as at March 31, 2011 (March 31, 2010: \$134 539)

4. Borrowings and advances

Summary

(Thousands of dollars)

	2011	2010
Borrowings on markets	20 221 257	16 482 266
Advances from the Consolidated Revenue Fund	204 404	209 573
Canada Mortgage and Housing Corporation (CMHC)	1 208 110	—
Financing Fund	76 591	—
Corporation d'hébergement du Québec (CHQ)	74 024	—
Total	21 784 386	16 691 839

Schedule and interest rates**Borrowings on markets⁽¹⁾**

(Thousands of dollars)

Due in	2011		2010
	Amount	Rate (%) ⁽²⁾	Amount
Repayable in Canadian currency			
2011	—		1 860 082
2012	4 354 475	4.16 to 5.28	1 900 000
2013	1 020 000	4.13 to 5.06	1 020 000
2014	3 656 000	3.14 to 5.12	3 656 000
2015	3 442 000	2.82 to 4.72	3 442 000
2016	1 809 400	3.07 to 6.39	1 809 400
2017	3 034 000	2.52 to 3.84	724 000
2018	600 000	3.50 to 3.87	—
2035	1 522 350	4.88 to 5.58	1 276 150
	19 438 225		15 687 632
Plus:			
Currency swap contracts in Canadian currency	782 000		782 000
Unamortized discounts and premiums	1 032		12 634
Total in Canadian currency	20 221 257		16 482 266
Repayable in United States currency			
2013	782 000	5.39 to 5.82	782 000
Less:			
Currency swap contracts in Canadian currency	782 000		782 000
Total in United States currency	—		—
Total borrowings	20 221 257		16 482 266

⁽¹⁾ All these borrowings are repayable solely at maturity. Borrowings maturing during the fiscal year ending March 31, 2012 include \$2 454 474 833 of short-term borrowings. All borrowings are guaranteed by the Québec government. Short-term borrowings bear interest at rates varying from 0.99% to 1.40%. (March 31, 2010: rates varying from 0.18% to 0.48%).

⁽²⁾ Also includes floating rate borrowings, at the rate of 3-month bankers' acceptances plus a spread varying between minus 0.67% and plus 1.80%.

Advances from the Consolidated Revenue Fund

(Thousands of dollars)

Due in	2011		2010
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2012	58 292	9.50	59 826
2023	143 445	9.38	145 185
	201 737		205 011
Plus: Unamortized discounts and premiums	2 667		4 562
Total advances from the Consolidated Revenue Fund	204 404		209 573

Borrowings from CMHC

(Thousands of dollars)

Due in	2011		2010
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2021	272 892	2.77 to 3.54	—
2026	376 423	3.28 to 3.92	—
2031	558 795	3.50 to 4.12	—
Total borrowings from CMHC	1 208 110		—

Borrowings from the Financing Fund
 (Thousands of dollars)

Due in	2011		2010
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2018	1 596	9.38	—
2021	8 961	9.38	—
2023	66 184	6.79	—
Minus:	76 741		—
Unamortized discounts and premiums.	(150)		—
Total Borrowings from Financing Fund	76 591		—

Borrowings from CHQ
 (Thousands of dollars)

Due in	2011		2010
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2015	74 024	10.3	—
Total borrowings from CHQ	74 024		—

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

(Thousands of dollars)

	2012	2013	2014	2015	2016
Borrowings on markets	4 354 475	1 802 000	3 656 000	3 442 000	1 809 400
Advances from the Consolidated Revenue Fund	60 032	1 740	1 740	1 740	1 740
Borrowings from CMHC	61 774	63 985	66 276	68 650	71 110
Borrowings from the Financing Fund	5 852	5 852	5 852	5 852	5 852
Borrowings from CHQ	16 955	17 216	18 962	20 890	—
Total	4 499 088	1 890 793	3 748 830	3 539 132	1 888 102

5. Complementary information on financial risks

Financement-Québec uses interest rate swap contracts to manage interest rate risks on its financial intermediation activities. Interest rate swap contracts give rise to the periodic exchange of interest payments without an exchange of the reference face amount on which the payments are based and are recorded as an adjustment to the interest expense on the hedged borrowing instrument. The volume of interest rate swap contracts in Canadian currency as at March 31, 2011 is \$17 240 million (March 31, 2010: \$14 882 million).

Financement-Québec also uses currency swap contracts to manage its risk exposure under certain borrowing instruments denominated in foreign currencies. The Corporation shows currency swap contracts as hedging of its firm commitments to pay the principal and interest on the debt denominated in foreign currencies, failing which it would be exposed to a foreign exchange risk. Exchange gains and losses on the principal covered by swap contracts are offset by corresponding exchange losses and gains on the debt denominated in foreign currencies.

The fair value of Financement-Québec's assets and liabilities as at March 31, 2011 was valued by discounting cash flows at the market rate for similar fixed-rate securities. Interest rate and currency swap contracts are used solely for hedging purposes and are valued in the same way as assets and liabilities.

(Thousands of dollars)

	2011		2010	
	Book value	Fair value	Book value	Fair value
Borrowings and Advances				
Borrowings on markets	20 221 257	20 387 068	16 482 266	16 540 589
Advances from the Consolidated Revenue Fund	204 204	267 957	209 573	275 601
Borrowings from CMHC	1 208 110	1 170 557	—	—
Borrowings from the Financing Fund	76 591	92 391	—	—
Borrowings from CHQ	74 024	91 544	—	—
Currency swap contracts	—	269 964	—	237 754
Interest rate swap contracts	—	75 717	—	182 165
Total for borrowings and advances	21 784 386	22 355 198	16 691 839	17 236 109
Loans				
Total for loans	21 858 995	22 454 189	16 850 464	17 439 899

The fair value of short-term financial instruments presented in this table and the value of the other financial instruments corresponds essentially to book value in view of their nature or maturity.

6. Capital Stock

Description

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.

7. Cash Flows

(Thousands of dollars)

	2011	2010
Cash and cash equivalents		
Cash position	39	8
Short-term investments	125 800	—
	125 839	8

Change in non-cash items related to operating activities
(Thousands of dollars)

	2011	2010
Accrued interest on loans	(53 836)	4 652
Accounts receivable	82	29
Accrued interest on borrowings and advances	44 882	6 640
Accounts payable	138	266
Deferred income	446	(530)
	(8 288)	11 057

Interest paid by the Corporation during the year amounted to \$646 797 297 (March 31st, 2010: \$610 188 002).

Operations not affecting cash flows

During the fiscal year, a long-term loan portfolio amounting \$151 735 286 was transferred to the Corporation from CHQ. In return, it assumes repayment of the long-term debt related to these loans amounting \$150 614 863, and accrued interest on borrowings for an amount of \$1 120 423.

8. Related Party Transactions

In addition to the related party transactions already disclosed in the financial statements and recorded at exchange value, the Corporation is related to all the ministries and special funds as well as all the organizations and enterprises controlled directly or indirectly by the Québec government or subject either to joint control or to significant common influence by the Québec government. All the Corporation's business transactions with these related parties were carried out in the normal course of its activities and under usual business conditions. These transactions are not separately disclosed in the financial statements.

9. Comparative Figures

Some figures for 2010 have been reclassified for consistency with the presentation adopted in 2011.

LIST OF MEMBERS OF THE BOARD OF DIRECTORS AND MEMBERS OF THE MANAGEMENT OF FINANCEMENT-QUÉBEC

Financement-Québec is administered by a nine-member board of directors appointed by the Minister of Finance. The Chairman of the Board and the President and Chief Executive Officer of Financement-Québec are appointed by the Minister of Finance. The members of the board of directors of Financement-Québec are:

Name	Position with Financement-Québec	Position outside Financement-Québec
1. Bernard Turgeon	Chairman of the Board, President and Chief Executive Officer	Associate Deputy Minister, Federal-Provincial Policy, Financing, Debt Management and Financial Operations, Ministère des Finances
2. Nathalie Parenteau	Vice Chairman of the Board, Executive Vice President and Secretary, Vice President Finance	Senior Director, Financing of Public Organizations and Financial Documentation Ministère des Finances
3. Alain Bélanger	Director	Director General, Financing and Debt Management, Ministère des Finances
4. Brigitte Guay	Director	Assistant Deputy Minister Mission Support and Student Financial Assistance Services Ministère de l'Éducation, du Loisir et du Sport
5. Jean Monfet	Director	Director General, Municipal Finances, Ministère des Affaires municipales, des Régions et de l'Occupation du territoire
6. Claude Ouellet	Director	Assistant Director General for the Budget, Ministère de la Santé et des Services sociaux
7. Jean Pronovost	Director	Corporate Director
8. Vacant		
9. Vacant		

APPENDIX – CODE OF ETHICS AND PROFESSIONAL CONDUCT

Foreword

The mission of Financement-Québec (the "Corporation") is to supply financial services to public organizations. In particular, it can finance these public organizations directly by granting them loans or by issuing debt securities on their behalf. It advises them to facilitate their access to credit and to minimize their financing costs and, to that end, it can, among other things, develop and implement financing programs. The Corporation may also manage the financial risks of these organizations, in particular cash flow risks and currency risks. In addition, it may also provide them with technical services regarding 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 practice enacted by the *Regulation respecting the 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 the 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 judgement of a director, officer or employee of the Corporation is also subject to this definition.
- 1.1.3 “*officer*” means the Chairman of the Board, the President and Chief Executive Officer, the Vice Chairman 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 Utilisation 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 utilisation.

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 Utilisation 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.

3.3.2 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 purpose 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 his 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 chairman 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 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 organization 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 an organization, 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 an organization, 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 an organization, 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 organization, 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 organization 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 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 chairman 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 chairman 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 chairman of the ethics committee or of the Chairman 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 chairman 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.

