Fonds
d'assurance
des municipalités
du Québec

Une division de la
Fédération québécoise des municipalités

2023

Annual report

Financial Statements for the year ended December 31, 2023

The only damage insurance property of the Quebec municipal world

Municipality of Saint-Thècle, Mékinac RCM
Photographer: David Rouault

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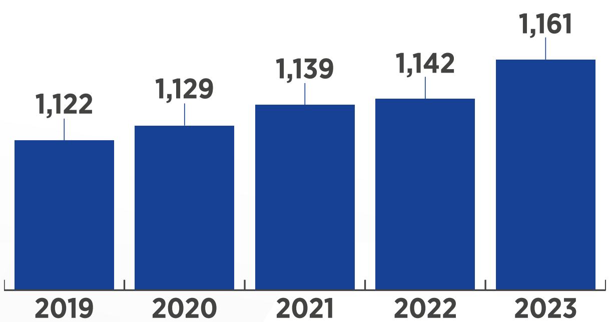
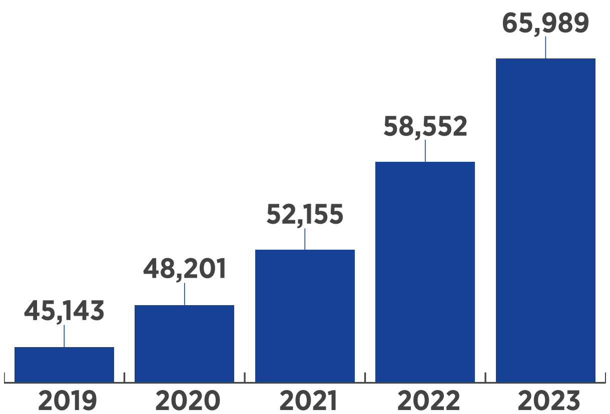
HIGHLIGHTS

Financial data

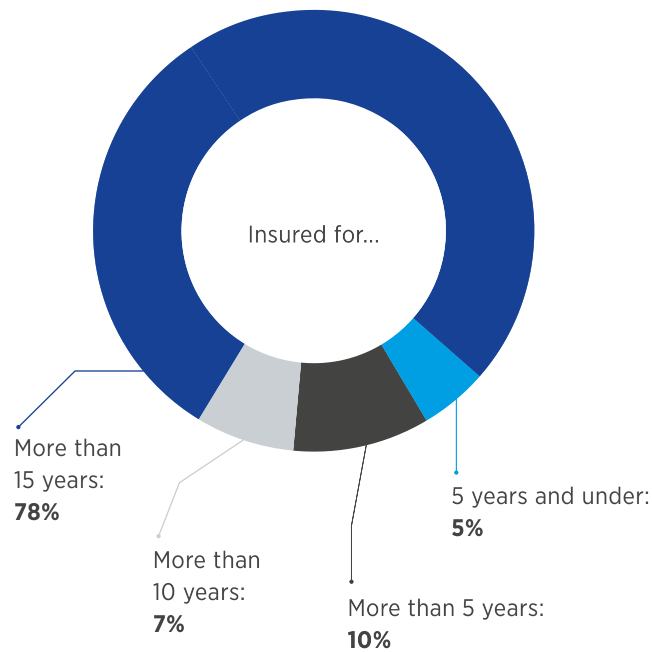
Number of policyholders



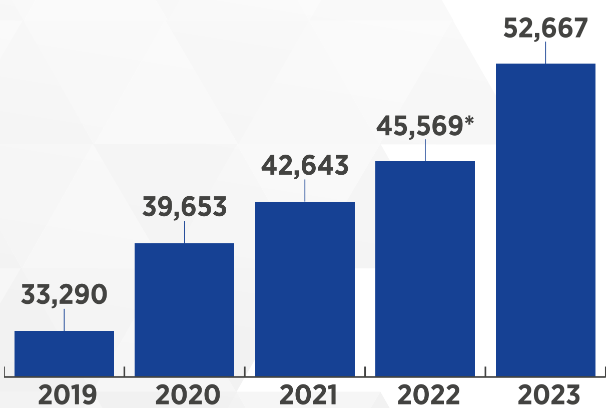
Written premiums
(in thousands of $)



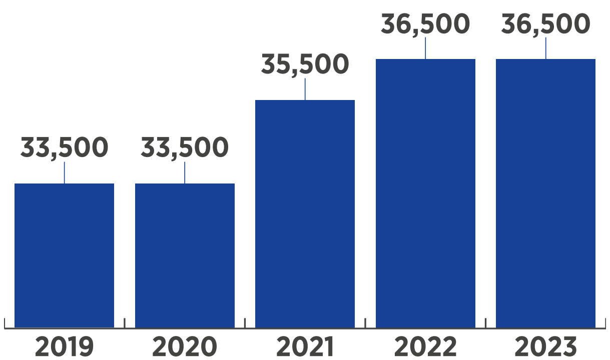
Sustainability of policyholders



FAMQ's equity
(in thousands of $)



Accumulated interest
(in thousands of $)



*FAMQ's equity adjusted. See Statement of FAMQ's equity on page 16.

HIGHLIGHTS

Services to policyholders

	2023	2022	2021
INSPECTIONS			
Fire and site safety			
Number of insured municipalities inspected	526	339	326
Number of buildings inspected	3,889	2,938	3,050
Electrical safety			
Number of insured municipalities inspected	404	237	217
Total number of buildings inspected	2,275	1,147	3,832
TOTAL: FIRE AND SITE SAFETY AND ELECTRICAL SAFETY			
Total number of buildings inspected	6,164	4,085	3,583
Pressure installations			
Number of units inspected	272	528	835
Sports and recreation			
Number of insured municipalities inspected	148	232	
TRAINING			
Fund training and conferences			
Number of participants	405	796	387
Training in partnership with municipal associations			
Number of participants	1,175	554	362
TOTAL: FUND AND PARTNERSHIP TRAINING			
Number of participants	1,580	1,350	749
DISTANCE SUPPORT AND RISK ANALYSIS			
Number of requests for member support	451	659	695
Number of analyses for underwriting	41	18*	127
Number of post-disaster analyses	3	21	23
LEGAL ASSISTANCE			
Number of files processed	692	651	594

*A legal resource is now assigned to the Underwriting Department for complex cases, including dam assessments.

MESSAGE

from the Chair of the Board

Mr. Jacques Demers

20 YEARS OF SERVICE TO QUÉBEC MUNICIPALITIES

In 2023, the Fonds d'assurance des municipalités du Québec (hereinafter the FAMQ) celebrated the 20th anniversary of its creation to protect Québec municipalities from fluctuating premiums imposed by insurance companies. Twenty years on, the FAMQ stands out as an essential partner for Québec municipalities.

More than ever, the FAMQ offers a consistent, fluid, and personalized approach to every stage of the policyholder's pathway – the benchmark in municipal property and disaster-prevention insurance. The expertise of the FAMQ organization, combined with the multidisciplinary know-how of FQM teams, enables the FAMQ to offer the municipal world products and services that are truly adapted to its needs and to the real issues it faces.

It was with this in mind that, last June, the FAMQ decided to offer elected officers and municipal employees, as well as their immediate families, an insurance product to help them in such situations. This coverage is now included in the La Municipale[MD] insurance policy taken out with the FAMQ, for all policyholders.

Ensuring long-term viability

As you know, the vagaries of climate change have been very difficult for the entire insurance industry in recent years. This has led to a considerable increase in reinsurance costs for all insurers, including the FAMQ. The Board of Directors tasked with managing the FAMQ decided to implement a strategy aimed at increasing the FAMQ's equity capital, so as to be in a position to reduce reinsurance premiums in the future, by increasing retention.

The first step in this direction was taken at the time the reinsurance agreements were renewed on June 1, 2023, when the cost of claims assumed entirely by the FAMQ was substantially increased. In fact, the portion of claims assumed by the FAMQ (commonly referred to as “retention”) was increased by approximately $1 million (from $835,000 to $1,862,500), meaning that the FAMQ now fully assumes all claims costing less than $1.8 million.

In the same vein, considering the current context marked by extreme weather events affecting the entire insurance market, and also considering that the first year with the new retention program has not yet ended, the Board of Directors has prudently decided not to pay interest for the year ending December 31, 2023.

Thanks to a committed team!

Of course, I must underline the unwavering commitment of the entire FAMQ team to the municipalities of Québec. My sincere thanks go to the permanent staff, the Board of Directors, and the members of the Property and Casualty Insurance Decision-Making Committee, whose expertise guides the FQM's decisions in managing the FAMQ.

Jacques Demers

Jacques Demers
Mayor of Sainte-Catherine-de-Hatley and Reeve of the Memphrémagog RCM

MESSAGE

from the General Manager

Mr. Sylvain Lepage

A YEAR OF DEVELOPMENT AND INNOVATION!

Another eventful year for the Fonds d'assurance des municipalités du Québec (hereinafter the FAMQ), which celebrated its 20th anniversary in 2023! Our expanded team has emerged even stronger from the merger process with the Fédération québécoise des municipalités (FQM), and the synergy is more evident than ever. There's no shortage of projects to ensure that our products and services continue to meet the changing needs of the municipal world.

More and more disgruntled members of the general public are threatening, harassing, and bullying elected officers, municipal employees, and even their close friends and family. This scourge not only jeopardizes the well-being of municipal elected officers, even leading some to resign, but also undermines the democratic process itself.

Faced with the explosion in the number of cases of bullying in the municipal world in recent years, the FAMQ has decided to offer elected officers and municipal employees, as well as their immediate families, an insurance product that provides them with support in such situations. It comprises two components: coverage of legal costs and a psychological assistance program.

As a result, since the summer of 2023, any municipality or RCM that is a member of the FQM or insured by the FAMQ can benefit from coverage of legal costs to counter bullying, free of charge for one year. Thereafter, the coverage is integrated into the insurance policy taken out with the FAMQ, for all insured parties, to ensure long-term protection.

In closing, let me underline the commitment and excellence of the employees working in the FAMQ's various departments, and the synergy that is more effective than ever. Our team pursued its mission throughout the year to provide Québec municipalities with extraordinary property and casualty insurance services. Our policyholders benefit from the expertise of a dynamic and motivated team that is truly committed to protecting the interests of municipal organizations.

Happy reading!

Sylvain Lepage

GOVERNANCE

Board of Directors of FQM Assurances inc.

The Board of Directors of the Fédération québécoise des municipalités locales et régionales (FQM) is tasked with the governance of the Fonds d'assurance des municipalités du Québec (hereinafter the FAMQ). However, except for the exclusive powers reserved to this Board under the *Insurers Act*, the duties and powers relating to the governance of the FAMQ are exercised by the Property and Casualty Insurance Decision-Making Committee and the identically composed Board of Directors of FQM Assurances Inc. (FQMA).

The members of these bodies guide and oversee the management of the FAMQ's activities to ensure that they respect the rights of FQM members and all parties insured by the FAMQ, in accordance with applicable regulations and processes. They oversee the FAMQ's financial stability, sound governance, and long-term development.

Jacques Demers

Chair of the Board
Mayor of Sainte-Catherine-de-Hatley
Reeve of the Memphrémagog RCM

Louis-Georges Simard

Vice-Chair of the Board
Mayor of Rivière-Ouelle

Mario Alain

Director
Mayor of Portneuf

Jocelyn Couture

Director
President and CEO of Tink

Jacques Lefebvre

Director
Certified Corporate Director
Trainer at the Collège des administrateurs de sociétés
Companion of the Ordre des comptables professionnels du Québec

André Normandin

Director
Actuary and President and Founder of Normandin Actuaries

Donna Salvati

Director
Mayor of Val-Morin

Robert Sauvé

Director
Retired manager of the Québec government's senior public service and strategic advisor to public bodies and academic institutions

Nancy St-Pierre

Director
Mayor of Saint-Joseph-de-Kamouraska

Non-elected officer

Me Sylvain Lepage

General Manager of the Federation and FQMA and Secretary of the FQMA Board of Directors

GOVERNANCE

Committees

Property and Casualty Insurance Decision-Making Committee

The Property and Casualty Insurance Decision-Making Committee has exclusive jurisdiction and exercises all the functions and powers that are mandatorily delegated under the Insurers Act, that is to say the guidelines that may give rise to coverage under the insurance contracts entered into, including the approval of the claims processing procedure, the determination of the amount of a claim settlement and all functions and decisions relating to compensation.

The Committee may also make such recommendations to the Board of Directors of the Federation or its Executive Committee as it deems appropriate on any matter within it's exclusive competence.

Committee members: Jacques Demers (Chair), Mario Alain, Jocelyn Couture, Jacques Lefebvre, André Normandin, Donna Salvati, Robert Sauvé, Louis-Georges Simard and Nancy St-Pierre.

Ethics, Governance and Human Resources Committee

The mandate of the Ethics, Governance, and Human Resources Committee is to ensure that the FAMQ rigorously complies with the rules of professional conduct, ethics, and conflict of interest that it has set for itself based on the highest standards in this domain. To this end, the Committee has developed and implemented a governance program aimed at fostering a democratic, effective, and ethical governance culture based on the FAMQ's mission and values. It oversees compensation programs, working conditions, strategy, policies, and programs governing human resources management.

Committee members: Jacques Lefebvre (Chair), Mario Alain, Claire Bolduc and Jocelyn Couture.

Information and Communication Technologies Committee

The mandate of the Information and Communication Technology Committee is to make recommendations to the Management and Board of the Federation regarding the investment, profitability, efficiency, security, and quality of the FAMQ's technological infrastructures. To this end, the Committee proposes strategic orientations regarding the technologies to be implemented, evaluates the available technological options, and validates and approves the Information Technology Master Plan. It works with the objective of supporting the FAMQ in its technological transformation project while ensuring the sustainability of its IT infrastructures.

Committee members: Jocelyn Couture (Chair), Mario Alain and Éric Blanchard.

Insurance and Claim Prevention

The Insurance and Claim Prevention Committee advises management, the FQMA Board of Directors, and the Federation on the orientations to be adopted with respect to underwriting and compensation. To this end, any changes to the underwriting parameters and filed rates are submitted to the Committee and it is informed of any addition or cancellation of coverage offered by the FAMQ. It reviews all changes to the policies and directives of the claims department and ensures that underwriting and claims files are managed in accordance with the values of the FAMQ. In the event of a suspension of benefits or cancellation of coverage, it analyzes the files and ensures the fairness of all decisions rendered, as it does in the event of a claim settlement dispute or denial of coverage.

Committee members: Martin Dulac (Chair), Guy-Lin Beaudoin, Jaclin Bégin, Patrick Bousez, Yves Corriveau, Jean-François Downing, Serge Dufresne, Jean-Claude Dumas, John Emory, Raymond Francoeur, Michel Giroux, Louise Labonté, Guillaume Lamoureux, Raymond Noël, Michaël Pilote and Francis St-Pierre.

Audit and Integrated Risk Management Committee

The Audit and Integrated Risk Management Committee is responsible for reviewing the financial statements and other financial information of the FAMQ. It ensures compliance with accounting and actuarial practices and monitors the activities of the External Auditor and the Appointed Actuary. The Committee is also mandated to analyze risk control and management mechanisms and to ensure the effectiveness of and compliance with operational control measures. The Board has also mandated the Committee to monitor the FAMQ's investment practices.

Committee members: André Normandin (Chair), Arthur Gobeil, Robert Sauvé, Louis-Georges Simard and Guy St-Pierre.

MANAGEMENT'S RESPONSIBILITY

with respect to financial reporting

The Fonds d'assurance des municipalités du Québec (FAMQ) was established by the Fédération québécoise des municipalités locales et régionales (FQM). It began its activities on January 1, 2022 and, as of that date, succeeded to the rights and obligations of La Mutuelle des municipalités du Québec (MMQ).

FAMQ's management is responsible for the preparation and accurate presentation of its financial statements in accordance with International Financial Reporting Standards (IFRS). To provide reliable and relevant financial information, FAMQ maintains rigorous accounting and administrative systems of internal control.

The Audit and Integrated Risk Management Committee reviews FAMQ's financial statements and any other financial information before they are presented to the Board of Directors of FQM Assurance Inc. (FQMA), which manages FAMQ's day-to-day operations. The Committee also reviews the financial risk management and control mechanisms and ensures the effectiveness of and compliance with operational control measures. It monitors FAMQ's investment strategies, as well as compliance with accounting and actuarial practices, and ensures that these practices are prudent and appropriate.

FAMQ's financial statements have been audited by the external audit firm KPMG LLP, in accordance with Canadian generally accepted auditing standards. Following a competitive bidding process, this auditor was recommended by the MMQ Board of Directors and was appointed at each annual meeting of the MMQ's mutual members held from 2019 to 2021. Following the coming into force, on January 1, 2022, of the *Act respecting the insurer activities of the Fédération québécoise des municipalités locales et régionales (FQM) and its amalgamation with, by absorption of, La Mutuelle des municipalités du Québec* (PL 21-202) (hereinafter referred to as the Federation Act), the contract with KPMG was transferred to FAMQ.

The policy liabilities were valued by the appointed actuary, Julie-Linda Laforce of the firm Axxima, in accordance with International Financial Reporting Standards and accepted actuarial practice in Canada. Ms. Laforce was appointed by the MMQ Board of Directors at its April 2021 meeting and the service contract was transferred to FAMQ following the coming into force of the Federation Act, and then was renewed by the FAMQ for 2023 and 2024.

The external auditors and the appointed actuary have had unrestricted access to the Audit and Integrated Risk Management Committee. Upon completion of their audit, they presented the conclusions of their analysis to members of the committee.

After reviewing the auditor's report, the Audit and Integrated Risk Management Committee recommended the approval of the financial statements to the FQMA Board of Directors and the latter recommended their approval to the Federation Executive Committee, which approved them at their meeting held on February 23, 2024.

The audited financial statements and related reports were then filed with the *Autorité des marchés financiers* (AMF).

Sylvain Lepage
General Manager

François Beaupré, CPA
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Fédération Québécoise des municipalités locales et régionales

Opinion

We have audited the financial statements of Fonds d'assurance des municipalités du Québec (the "Entity"), which comprise:

- The statement of financial position as at December 31, 2023
- The statement of income for the year then ended
- The statement of comprehensive income for the year then ended
- The statement of equity for the year then ended
- The statement of cash flows for the year then ended
- And notes to the financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Comparative Information

We draw attention to Note 3b) to the financial statements, which explains that certain comparative information presented:

- as at and for the year ended December 31, 2022 has been adjusted
- as at January 1, 2022 has been derived from the financial statements for the year ended December 31, 2021 which have been adjusted (not presented herein).

Note 3b) explains the reason for the adjustments.

Our opinion is not modified in respect of this matter.

Other Matter – Changes in Accounting Policies and Comparative information

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to adjust certain comparative information presented:

- as at and for the year ended December 31, 2022
- as at January 1, 2022

In our opinion, such adjustments are appropriate and have been properly applied.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Fédération Québécoise des municipalités locales et régionales

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 our 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 the financial statements.

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

We 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 our 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors of the Fédération Québécoise des municipalités locales et régionales

- 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.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG s.r.l./s.e.n.c.r.l.

Montréal, Canada
February 23, 2024

REPORT OF THE ACTUARY

Role of Actuary

The actuary is appointed by the Board of the Fonds d'assurance des municipalités du Québec ("FAMQ") pursuant to the Insurance Act. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities for the purpose of reporting in the financial statements in accordance with International Financial Reporting Standards. Policy liabilities include all policy liabilities, namely:

- Insurance contract liabilities, comprised of the liability for incurred claims (LIC) and liability for remaining coverage (LRC); and
- Reinsurance contract assets comprised of the asset for incurred claims (AIC) and asset for remaining coverage (ARC).

Examination of supporting data for accuracy and completeness is an important element of the work required to form this opinion. The actuary uses the work of the external and internal auditors in verifying data used for valuation purposes.

Appointed Actuary's Report

To the Subscribers of the Fonds d'assurance des municipalités du Québec :

I have valued the policy liabilities of the Company for its financial statements prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2023.

In my opinion, the amount of policy liabilities is appropriate for this purpose. The valuation conforms to accepted actuarial practice in Canada and the financial statements fairly present the results of the valuation.

Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries

February 23, 2024

STATEMENT OF INCOME

For the year ended December 31, 2023, with comparative information for 2022

	2023[1]	2022 (adjusted)
	$	$
Insurance revenue	62,033,530	55,535,734
Insurance service expenses (Notes 7 and 22)	50,643,232	49,063,139
Net income from insurance activities related to insurance contracts	**11,390,298**	**6,472,595**
Reinsurance premiums	10,435,098	9,703,935
Recoveries from reinsurers	2,417,657	2,483,493
Net expense on reinsurance contracts	**8,017,441**	**7,220,442**
Insurance service results	**3,372,857**	**(747,847)**
Net income from investing activities (Note 12)	4,554,188	1,899,709
Insurance finance income (finance expenses)	(2,875,697)	1,451,174
Reinsurance finance income (finance expenses)	926,521	(634,222)
Insurance finance results	**2,605,012**	**2,716,661**
Interest to policyholders (Note 13)	–	–
Net income	**5,977,869**	**1,968,814**

See notes to the financial statements.

[1] The information presented for the year ended December 31, 2023 takes into account IFRS 9, *Financial Instruments*, enacted as at January 1, 2023. Comparative data has not been restated. For more information, refer to Note 3, “Changes in Accounting Policies”.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023, with comparative information for 2022

	2023[1]	2022 (adjusted)
	$	$
Net income	**5,977,869**	**1,968,814**
Other comprehensive income		
Net change in financial assets measured at fair value through other comprehensive income	120,515	–
Total items to be reclassified at a later date in the statement of income	**120,515**	**–**
Comprehensive income	**6,098,384**	**1,968,814**

See notes to the financial statements.

[1] The information presented for the year ended December 31, 2023 takes into account IFRS 9, *Financial Instruments*, enacted as at January 1, 2023. Comparative data has not been restated. For more information, refer to Note 3, "Changes in Accounting Policies".

STATEMENT OF FAMQ'S EQUITY

For the year ended December 31, 2023, with comparative information for 2022

	Surplus $	Policyholder's share $	Capital contribution (Note 23) $	Accumulated OCI[1] $	Total $
Balance as at December 31, 2021, already established	**42,529,476**	**113,900**	**–**	**–**	**42,643,376**
Impact of initial application of IFRS 17 (note 3)	374,532	–	–	–	374,532
Restatement of reinsurance premiums prior to January 1, 2022 (Note 23)	696,100	–	–	–	696,100
Balance as at January 1, 2022, adjusted	**43,600,108**	**113,900**	**–**	**–**	**43,714,008**
COMPREHENSIVE INCOME – FISCAL YEAR					
Net income	1,968,814	–	–	–	1,968,814
Contributions from Mutual members during the year (Note 14)	–	300	–	–	300
Termination of membership rights (Note 14)	–	(114,200)	–	–	(114,200)
Balance, December 31, 2022, adjusted	**45,568,922**	**–**	**–**	**–**	**45,568,922**
COMPREHENSIVE INCOME – FISCAL YEAR					
Net income	5,977,869	–	–	–	5,977,869
Other comprehensive income	–	–	–	–	–
Unrealized gains	–	–	–	120,515	120,515
Reclassification of realized gains in the statement of income	–	–	–	–	–
Class A capital contribution	–	–	1,000,000	–	1,000,000
Balance as at December 31, 2023[2]	**51,546,791**	**–**	**1,000,000**	**120,515**	**52,667,306**

See notes to the financial statements.

[1] Other comprehensive income

[2] The information presented for the year ended December 31, 2023 takes into account IFRS 9, *Financial Instruments*, enacted as at January 1, 2023. Comparative data has not been restated. For more information, refer to Note 3, "Changes in Accounting Policies".

STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2023, with comparative information for 2022

	December 31, 2023[1] $	December 31, 2022 (adjusted) $	January 1, 2022 (adjusted) $
ASSETS			
Cash	3,942,842	10,148,952	6,381,906
Investments (Note 4)	98,515,657	77,514,326	73,657,623
Accounts receivable (Note 5)	2,002,003	872,148	495,603
Reinsurance contract assets (Note 6)	27,488,229	26,033,998	25,440,408
Prepaid expenses	1,910,592	2,059,892	647,479
Fixed assets (Note 8)	107,663	213,328	321,885
Right-of-use assets (Note 9)	24,422	73,286	128,159
Assets	**133,991,408**	**116,915,930**	**107,073,063**
FAMQ LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Note 7)	81,281,425	71,215,835	62,161,903
Interest payable to policyholders (Note 13)	(3,253)	(3,253)	972,920
Lease liabilities (Note 10)	45,930	134,426	224,232
Liabilities	**81,324,102**	**71,347,008**	**63,359,055**
FAMQ equity			
Surplus	51,546,791	45,568,922	43,600,108
Capital contribution (Note 23)	1,000,000	–	–
Accumulated other comprehensive income	120,515	–	–
Policyholders' share (Note 14)	–	–	113,900
FAMQ equity	**52,667,306**	**45,568,922**	**43,714,008**
	133,991,408	**116,915,930**	**107,073,063**

Commitments (Note 16)
Contingencies (Note 17)

See notes to the financial statements.

On behalf of the Board,

Jacques Demers

Jacques Demers, Director

Louis-Georges Simard

Louis-Georges Simard, Director

[1] The information presented for the year ended December 31, 2023 takes into account IFRS 9, *Financial Instruments*, enacted as at January 1, 2023. Comparative data has not been restated. For more information, refer to Note 3, "Changes in Accounting Policies".

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023, with comparative information for 2022

	2023[1] $	2022 (adjusted) $
OPERATING		
Net income	5,977,869	1,968,814
Items not affecting cash:		
Amortization of fixed assets	109,268	126,392
Amortization of right-of-use assets	48,864	54,873
Finance costs	4,711	9,029
Unrealized change in fair values of investments	(1,166,279)	–
	4,974,433	**2,159,108**
Reinsurance contract assets	(1,454,231)	(593,590)
Insurance contract liabilities	10,065,590	9,053,932
Interest earned	(4,554,188)	(1,899,709)
Finance costs paid	(4,711)	(9,029)
Change in non-cash operating working capital items (Note 15)	167,876	(2,368,872)
Total Operating	**9,194,769**	**6,341,840**
INVESTING		
Acquisition of investments	(95,531,105)	(40,977,188)
Proceeds from the sale of investments	76,356,857	37,019,704
Interest received	2,865,469	1,490,030
Acquisition of fixed assets	(3,603)	(17,834)
Total Investing	**(16,312,382)**	**(2,485,288)**
FINANCING		
Policyholder contributions	–	300
Capital contribution (Note 23)	1,000,000	–
Repayment of lease liabilities	(88,497)	(89,806)
Total Financing	**911,503**	**(89,506)**
Cash and cash equivalents at beginning	**10,148,952**	**6,381,906**
Net (decrease) increase in cash and cash equivalents	(6,206,110)	3,767,046
Cash and cash equivalents at end	**3,942,842**	**10,148,952**

See notes to the financial statements.

[1] The information presented for the year ended December 31, 2023 takes into account IFRS 9, *Financial Instruments*, enacted as at January 1, 2023. Comparative data has not been restated. For more information, refer to Note 3, “Changes in Accounting Policies”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

The Fonds d'assurance des municipalités du Québec (hereinafter referred to as FAMQ) was established by the Fédération québécoise des municipalités locales et régionales (FQM), a non-profit organization, in accordance with the *Act respecting the insurance activities of the Fédération québécoise des municipalités locales et régionales (FQM) and the amalgamation with, by absorption of, the Mutuelle des municipalités du Québec* (PL 21-202) (Federation Act), which authorizes the FQM to carry on the business of property and casualty (P&C) insurance and, for that purpose, to establish an Insurance Fund. The Fonds d'assurance des municipalités du Québec (hereinafter referred to as FAMQ), governed by the Insurers Act, began its activities on January 1, 2022 and, as of that date, succeeded to the rights and obligations of La Mutuelle des municipalités du Québec (MMQ). Like the MMQ, its mission is to underwrite property and casualty insurance products ("P&C") and to assist insured municipalities in their risk management. FAMQ's assets constitute a division of the FQM's assets, intended exclusively for its property and casualty insurance business, and are encumbered by commitments made in this regard. It shall also be distinguished by books, records, and accounts so as to be separate from the other assets of the FQM.

As of January 1, 2022, the FQM Board of Directors has delegated, except for matters reserved to it by law, the management of its property and casualty insurance business to FQM Assurances Inc. (FQMA), its wholly owned subsidiary, and to its Property and Casualty Insurance Decision-Making Committee, which was established by the FQM. The FQM's property and casualty insurance business is therefore overseen by the FQMA Board of Directors and by this committee. The latter is composed of nine directors, including five elected municipal officials, only two of whom may also be directors of the FQM, and four independent directors in that they may not be elected municipal officials. All policies and practices relating to property and casualty insurance in effect at the MMQ prior to the creation of FAMQ remain in place.

The head office of the FQM is located at 1134 Grande Allée Ouest, Suite RC 01, Québec City, Québec, G1S 1E5, Canada, however, the FQM maintains an office for the operation of the FAMQ at 7100 rue Jean-Talon Est, Suite 805, Montréal, Québec, H1M 3S3, Canada. Under the *Income Tax Act* (Canada) and the *Taxation Act* (Québec), FAMQ is exempt from federal and provincial income taxes as well as from the compensation tax for financial institutions. Expenses include goods and services tax and Québec sales tax where applicable. The FAMQ is not entitled to any input tax credits or input tax refunds.

The financial statements of the FAMQ were recommended by the FQMA Board of Directors on February 23, 2024 and approved by the Federation Executive Committee on February 23, 2024.

1. Role of Appointed Actuary and Independent Auditor

The Appointed Actuary is appointed by the FQM Board of Directors and is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities comply with accepted actuarial practice, the legislation in force, and any regulations or guidelines in this field. The Appointed Actuary must also provide an opinion to this effect on the appropriateness of the policy liability at the date of the statement of financial position with respect to all obligations to policyholders. The work of the Appointed Actuary is based on data provided and accounting policies retention by the FAMQ. The Appointed Actuary also considers the work of the independent auditor in auditing such information.

The services of the Independent Auditor have been retained following a competitive bidding process. The independent auditor's engagement is to conduct the audit of the financial statements in accordance with Canadian generally accepted auditing standards. In performing the audit, the Independent Auditor considers the work of the Appointed Actuary and the latter's report on the FAMQ's policy liabilities. The Independent Auditor's report outlines management's responsibility for the financial statements, the Auditor's responsibility, and the Auditor's opinion on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") published by the International Accounting Standards Board ("IASB") and reflect the following significant accounting policies. Unless otherwise indicated, these accounting policies have been applied consistently to all periods presented in the financial statements.

a) Basis of preparation

The financial statements, denominated in Canadian dollars, have been prepared on the historical cost basis, with the exception of assets measured at fair value and insurance and reinsurance contract assets and liabilities, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

b) Distinction between current and non-current classification

Assets are classified as current when it is expected that they will be realized in the normal course of the FAMQ's operating year. Liabilities are classified as current when it is expected that they will be settled within the FAMQ's normal operating cycle. All other assets and liabilities are classified as non-current. The FAMQ's statement of financial position does not distinguish between current and non-current assets and liabilities. However, the following items are generally classified as current: cash, receivables, prepaid expenses and interest payable to policyholders. The following items are generally classified as non-current: fixed assets and right-of-use assets. The remaining items are comprised of both current and non-current amounts. The current and non-current portions of these items are disclosed in the related notes or in the risk management section.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

c) Insurance and reinsurance contracts

i) Valuation methods

The carrying amount of a group of insurance and reinsurance contracts is, at each end-of-financial year date, the sum of the following amounts:

Component	Description	Measurement model
INSURANCE CONTRACT LIABILITY		
Liability for remaining coverage	Requirement to provide coverage after the reporting period for insured events that have not yet occurred.	Future services
Liability for incurred claims	Requirement to investigate and pay valid claims for insured events that have already occurred, including events that have occurred but for which claims have not been reported, and other incurred insurance expenses.	Past services
ASSET OF REINSURANCE CONTRACTS		
Asset for remaining coverage	Right to receive coverage from a reinsurer after the reporting period for reinsurance events that have not yet occurred.	Future services
Asset for incurred claims	Right to receive compensation for reinsurance events that have already occurred, including those that have not been reported.	Past services

ii) Level of aggregation of insurance and reinsurance contracts

The level of aggregation of insurance contracts is determined first by dividing the contracts into portfolios. Portfolios include groups of contracts with similar risks that are managed together. The portfolios are then divided into three categories based on the expected profitability at inception: onerous contracts, contracts with no significant risk of becoming onerous, and other contracts. To determine the level of aggregation, the FAMQ identifies a contract as the smallest "unit", the policy, which is the lowest common denominator including all available coverage. No group may contain contracts issued more than one year apart. Portfolios are divided by issue year and profitability for recognition and measurement purposes.

The profitability of contract groups is measured using actuarial valuation models. The FAMQ assumes that no portfolio contract is onerous on initial recognition unless facts and circumstances indicate otherwise. For non-onerous contracts, the FAMQ assesses, on initial recognition, that there is no significant possibility that they will subsequently become onerous by assessing the likelihood that relevant facts and circumstances will change.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

c) Insurance and reinsurance contracts (continued)

ii) Level of aggregation of insurance and reinsurance contracts (continued)

The FAMQ identifies portfolios of reinsurance contracts held using the same principles as above, except that references to onerous contracts refer to contracts for which there is a net gain on initial recognition.

The FAMQ has determined that it manages a single portfolio of insurance contracts and a single portfolio of reinsurance contracts, and has classified all its contracts as other contracts.

iii) Initial measurement of insurance contracts

All insurance contracts issued are initially measured using the premium allocation approach. Premiums are recognized in revenue on a pro rata basis over the life of the policies.

Cash flows from the acquisition of insurance contracts are deferred and amortized over the coverage period of the relevant group of contracts.

For a group of contracts that is not onerous at initial recognition, the FAMQ measures the liability for the remaining coverage as premiums received at initial recognition minus the acquisition cash flows.

The carrying amount of the liability for the remaining coverage is not adjusted to reflect the time value of money and the effect of financial risk.

When facts and circumstances indicate that contracts are onerous on initial recognition, further analysis is performed to determine whether a net disposal of funds is expected for those contracts. Such onerous contracts are grouped separately from other contracts and a loss equivalent to the net disposal of funds is recognized in net income.

iv) Subsequent measurement of insurance contracts

The carrying amount of the liability for the remaining coverage at the end of each reporting period represents:

- the liability for remaining coverage at beginning of period
- plus the premiums received in the period;
- Less acquisition cash flows
- Plus any amount relating to the amortization of insurance acquisition cash flows recognized as an expense in the reporting period
- Less the amount recognized as insurance revenue for services provided during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

c) Insurance and reinsurance contracts (continued)

iv) Subsequent measurement of insurance contracts (continued)

When, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, a loss equal to the net disposal of funds is recognized in net income, such that the carrying amount of the liability for the group is equal to the fulfilment cash flows.

The liability for incurred claims equals the cash flows from those claims. Fulfilment cash flows incorporate all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of such future cash flows, reflect current estimates from the FAMQ's perspective, and include an explicit adjustment for non-financial risk. Future cash flows are adjusted to reflect the time value of money and the effect of financial risk in measuring the liability for incurred claims.

v) Initial measurement of reinsurance contracts

Reinsurance assets for a group of reinsurance contracts held are initially measured on the same basis as insurance contracts issued, i.e. using the premium allocation approach, while taking into account the characteristics of reinsurance contracts held that differ from insurance contracts issued. These include a provision for non-performance risk on the part of the reinsurer that is presented in net expenses for reinsurance contracts.

When determining onerous contracts, the loss-recovery component is calculated by multiplying the initial recognized loss for the underlying insurance contracts and the percentage of claims for the underlying insurance contracts that the FAMQ expects to recover from the pool of existing reinsurance contracts. The loss-recovery component is included in the asset for the remaining coverage and the recovery is immediately recognized in net income in the recoveries from reinsurers.

vi) Subsequent measurement of reinsurance contracts

The subsequent measurement of reinsurance contracts held follows the same principles as those of insurance contracts issued and has been adapted to reflect the specific characteristics of reinsurance held.

vii) Discount rate

The liability and asset for incurred claims are discounted. Estimates of future cash flows are discounted to reflect the time value of money and financial risks that reflect the characteristics of the liabilities and the duration of each portfolio. The FAMQ established discount rate curves using risk-free rates adjusted for the appropriate illiquidity characteristics of the applicable insurance or reinsurance contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

c) Insurance and reinsurance contracts (continued)

viii) Risk adjustment for non-financial risk

The measurement of insurance and reinsurance contracts includes an adjustment for non-financial risk, which reflects the allowance required to address the uncertainty surrounding the amount and timing of cash flows from groups of insurance or reinsurance contracts. The risk adjustment includes the benefits of diversification and excludes the impact of financial risks.

The change in the adjustment for non-financial risk is presented in the insurance service results.

ix) Insurance service expenses

Insurance service expenses comprise fulfillment cash flows and acquisition cash flows, i.e., costs directly attributable to insurance contracts, including:

- incurred claims expense and other insurance service expenses, which are fulfillment cash flows and include direct costs for incurred claims and costs directly related to the performance of insurance contracts;
- amortization of acquisition cash flows;
- losses and reversal of losses on onerous contracts, if any.

x) Net income or expense from reinsurance contracts held

Recoveries from reinsurers and reinsurance premiums paid to reinsurers are presented separately in the statement of income. Reinsurance cash flows that are contingent on the occurrence of claims covered by the underlying contracts are treated as recoveries from reinsurers, and commissions ceded that are not contingent on the occurrence of claims are accounted for as a reduction of reinsurance premiums.

xi) Insurance finance income or expenses

Insurance finance income and finance expenses include the change in the carrying value of the group of contracts resulting from the effect of the time value of money and its changes.

The full impact of changes in market interest rates on the value of insurance assets and liabilities is presented in insurance finance income and finance expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets

On initial recognition, all assets and liabilities, including derivative financial instruments, are measured at fair value plus directly attributable transaction costs, except for at fair value through profit or loss financial instruments, for which transaction costs are recognized as revenue or expenses when incurred.

Classification and measurement of financial assets effective January 1, 2023 (IFRS 9)

Classification of financial assets

On initial recognition, all financial assets are classified based on the business model for managing financial assets and the financial assets' contractual cash flow characteristics. These factors determine whether financial assets are measured at amortized cost, fair value through other comprehensive income or at fair value through profit or loss.

Financial assets are measured at the amortized cost if both of the following conditions are met and the asset is not designated at fair value through profit or loss:

- The asset is held within a business model of assets held for the purpose of collecting contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met and the asset is not designated at fair value through profit or loss:

- The asset is held within a business model of assets held for the purpose of collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured at fair value through profit or loss.

As at January 1, 2023, the FAMQ reclassified its financial assets, which had been previously assessed at amortized cost to be measured at fair value. Any income or loss on reclassification equal to the difference between fair value and amortized cost has been recognized in profit or loss or OCI based on the classification of assets.

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Classification and measurement of financial assets effective January 1, 2023 (IFRS 9) (continued)

Business model

The FAMQ's primary business model is defined as "holding for the purpose of collecting and selling" because investments are held to collect contractual cash flows and sold as necessary to fund insurance contract liabilities.

Cash and receivables are managed using the "- held to collect cash flows" business model, whose objective is to hold financial assets in order to collect contractual cash flows for the term to maturity.

Contractual cash flow characteristics

In order to meet the cash flow characteristics test for the classification of a financial asset, the cash flows associated with that asset must be solely payments of principal and interest on the principal amount outstanding. Principal is generally equal to the fair value of the financial asset at initial recognition. The interest consists primarily of a consideration for the time value of money and the credit risk associated with the principal outstanding over a given period, but may also include a consideration for other risks and costs associated with a basic loan agreement, such as liquidity risk or administration fees, as well as some margin.

The classification of the FAMQ's financial instruments under IFRS 9 is summarized as follows:

	Matched investments	Unmatched investments	Other
Cash			Amortized cost
Investments - Term deposits	FVTPL	FVOCI	
Investments - High-interest account	FVTPL	FVOCI	
Investments - Capital shares	FVTPL	FVOCI	
Investments - Bonds	FVTPL	FVOCI	
Accounts receivable			Amortized cost
Interest payable to policyholders			Amortized cost

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Classification and measurement of financial assets effective January 1, 2023 (IFRS 9) (continued)

Financial assets measured at amortized cost

Financial assets in this category are recognized initially at fair value. The contractual terms of these instruments give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding and are consistent with a business model of assets held for the purpose of collecting contractual cash flows.

Subsequent to initial recognition, financial assets in this category are measured at amortized cost using the effective interest method. Interest income is recognized in the statement of income.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets that are part of a business model of assets held to collect cash flows and the sale of assets and whose contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value through other comprehensive income.

Subsequent to initial recognition, financial assets in this category are measured at fair value and changes therein, except for changes in the allowance for expected credit losses and foreign exchange gains and losses on financial assets classified at fair value through other comprehensive income, are recognized in other comprehensive income as net unrealized gains or losses. Gains and losses are reclassified to the statement of income when the asset is derecognized.

The depreciation of premiums and discount rates, calculated using the effective interest method, and interest income are recognized in the statement of income.

On initial recognition, an equity instrument that is not held-for-trading can be irrevocably designated as measured at fair value through other comprehensive income. For financial assets designated at fair value through other comprehensive income, gains and losses are never subsequently reclassified to the statement of income. The FAMQ did not make this election.

Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets are classified as at fair value through profit or loss if they are within a business model at fair value as they were acquired or incurred primarily with the objective of being sold in the near future, managed in a portfolio on a fair value basis or if cash flows from the assets are not payments that are solely payments of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Classification and measurement of financial assets effective January 1, 2023 (IFRS 9) (continued)

Financial assets measured at fair value through profit or loss (FVTPL) (continued)

Financial assets that are part of the business models of assets held for cash collection and sale of assets may also be designated, upon initial recognition, as measured at fair values through profit or loss to the extent that such designation significantly eliminates or reduces an accounting mismatch that would otherwise arise from the measurement of those financial assets on a different basis. The designation at fair value through profit or loss is only available for financial instruments with a reliable fair value. Once the financial assets have been designated at fair value through profit or loss, this designation cannot be revoked. The FAMQ used this election for investments matched to the insurance liability.

Subsequent to initial recognition, financial assets in this category are measured at fair value and changes therein are recognized under change in fair value in net income, if any.

The depreciation of premiums and discount rates, calculated using the effective interest method and interest income, are recognized in the statement of income.

Financial assets are not reclassified subsequent to their initial recognition, except where the business model under which they are held changes.

Classification and measurement of financial liabilities as of January 1, 2023 (IFRS 9)

On initial recognition, all financial liabilities are classified as measured at amortized cost. The FAMQ may also designate liabilities, as permitted by the standard, as measured at fair value through profit or loss, but has not elected this option.

Financial liabilities measured at amortized cost

Financial liabilities in this category are initially measured at fair value and are subsequently measured at amortized cost. Interest expense on these financial liabilities is recognized in profit or loss, if any.

Classification and measurement of financial instruments before January 1, 2023 (IAS 39)

Financial assets and liabilities are recognized when the FAMQ becomes a party to the contractual provisions of the financial instruments. They are initially recognized at fair value and their subsequent measurement depends on their classification, as described below. Their classification depends on the nature and purpose of the financial instruments acquired or issued, their characteristics, and their designation by the FAMQ.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Classification and measurement of financial instruments before January 1, 2023 (IAS 39) (continued)

Cash	Loans and receivables
Investments - Term deposits	Loans and receivables
Investments - High-interest account	Loans and receivables
Investments - Capital shares	Loans and receivables
Investments - Bonds	Held-to-maturity
Accounts receivable	Loans and receivables
Interest payable to policyholders	Other liabilities

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or designated in another category and are measured at amortized cost using the effective interest method, less any impairment.

Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity, other than loans and receivables, that the FAMQ has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method, less any impairment.

Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

Impairment of financial assets since January 1, 2023 (IFRS 9)

The impairment model used by the FAMQ applies to financial assets measured at amortized cost and to financial assets measured at fair value through other comprehensive income.

The FAMQ assesses, prospectively, the expected credit losses associated with these assets. The method of impairment used depends on whether a significant increase in the credit risk or a known failure occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Impairment of financial assets since January 1, 2023 (IFRS 9) (continued)

If the credit risk has increased significantly since initial recognition, then the impairment will be equivalent to lifetime expected credit losses, otherwise it will be twelve-month expected credit losses, being the portion of lifetime expected credit losses expected to be incurred based on possible defaults within twelve months of the reporting date. If credit quality improves in a subsequent period to the point where the credit risk increases since initial recognition is no longer considered significant, the loss provision is remeasured based on expected credit losses for the next twelve months. The amount of the allowance for credit loss thus reflects changes in the credit risk since the initial recognition of the financial asset.

The expected credit loss measurement model is forward-looking. Expected credit losses are measured at each reporting date.

For accounts receivable, the FAMQ uses the simplified approach to calculate expected loss. Under this approach, management always measures the loss allowance at the amount of lifetime expected credit losses. These financial assets are reported in the statement of financial position, net of any corresponding allowance for credit loss.

Expected credit losses for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets that remain at fair value in the statement of financial position. An amount equal to the provision that would be obtained if the financial assets were measured at the amortized cost is recognized in other comprehensive income and a corresponding expense is recognized in profit or loss. Accumulated gain or loss in other comprehensive income is reclassified to profit or loss on derecognition of financial assets. The FAMQ derecognized a financial asset transferring a loss of $51,566 to profit or loss (2022 - no derecognition).

Financial assets are written off, in part or in full, only when the FAMQ has stopped seeking to recover them. Any subsequent recovery is credited to expenses relating to credit losses.

Impairment of financial assets before January 1, 2023 (IAS 39)

Financial assets that are measured at amortized cost are tested for impairment at the end of each financial reporting period. Financial assets are impaired if there is objective evidence that one or more events occurring after the initial recognition of the financial assets have adversely affected the estimated future cash flows of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Impairment of financial assets before January 1, 2023 (IAS 39) (continued)

Objective evidence of impairment includes the following situations:

- Significant financial difficulties of the issuer or counterparty.
- A breach of contract, such as a default in payment of interest or principal.
- The increasing probability of bankruptcy or other financial restructuring of the borrower.
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, assets that are assessed not to be impaired individually are collectively assessed for impairment. Objective evidence of impairment for a portfolio could include the FAMQ's past experience of collecting payments, an increase in the number of delayed payments in the portfolio beyond the average credit period as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the carrying amount of the asset and the present value of estimated future cash flows that take into account guarantees and collateral, discounted at the original effective interest rate of the financial asset. The carrying amount of the financial asset is reduced directly by the amount of the impairment loss for all financial assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income to the extent that the carrying amount of the investment at the date of reversal of the impairment does not exceed the amortized cost that would have been obtained had the impairment not been recognized.

Effective interest method

The effective interest method is a method of calculating the amortized cost of an instrument and allocating interest income during the period concerned. The effective interest rate is the rate that exactly discounts future cash receipts (including transaction costs, premiums, and discounts earned or incurred) over the expected life of the instrument to the net carrying value at initial recognition.

Derecognition of financial assets

The FAMQ derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or if it transfers the financial asset and substantially all the risks and rewards of ownership to another party. If the FAMQ does not transfer or retain substantially all the risks and rewards of ownership and continues to control the asset transferred, the FAMQ recognizes its retained interest in the asset and a related liability for the amounts it is required to pay.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

d) Classification and measurement of financial assets (continued)

Derecognition of financial liabilities

The FAMQ derecognizes financial liabilities when, and only when, the FAMQ's obligations are discharged, cancelled or if they expire. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in net income.

Purchases or sales of financial assets with a standard delivery time

Standard-time purchases and sales of held-to-maturity financial assets are recorded on the trade date, which is the date the FAMQ commits to purchase or sell the asset.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when they are subject to a legally enforceable right to offset the amounts recognized and the FAMQ intends to settle on a net basis or realize the asset and settle the liability simultaneously. No offsets were made in 2023 (2022 - nil).

Fair value

The fair values of cash, receivables and interest payable to policyholders approximate their carrying values due to their short-term maturity.

e) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash and term deposits with a maturity of three months or less from the date of acquisition. As at December 31, 2023 and 2022, cash and cash equivalents consisted solely of cash.

f) Leases

At commencement date, the FAMQ assesses whether a contract is a lease and, if so, whether it conveys the right to control the use of an identified asset for a specific period of time in exchange for consideration.

The FAMQ recognizes a right-of-use asset and a lease liability at the commencement date of the lease, which is the date the underlying asset is available for use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

f) Leases (continued)

Right-of-use assets

Right-of-use assets are measured at cost less any accumulated amortization and impairment losses and are adjusted for any revaluation of the lease liabilities. The cost of right-of-use assets consists of:

- the initial measurement amount of the lease liabilities recognized;
- any lease payments made at or before the commencement date, less any lease incentives received, and any initial direct costs.

Right-of-use assets are amortized on a straight-line basis over the lesser of: (i) the estimated useful life of the underlying asset; or (ii) the term of the lease. The useful life of the underlying asset is determined on the same basis as for fixed assets. Right-of-use assets are tested for impairment whenever there is an indication that the right-of-use assets may be impaired.

Lease liabilities

Lease liabilities are initially measured at the present value of the unpaid lease payments at the commencement date. The present value of lease payments is determined using the lessee's incremental borrowing rate at the commencement date if the interest rate implicit in the lease is not readily determinable.

The incremental borrowing rate is a function of the lessee's credit risk, the nature of the underlying asset, and the length of the lease. At the commencement date, lease payments generally consist of fixed payments less lease incentives receivable.

After the commencement date, the lease liability is measured at amortized cost using the effective interest rate method. In addition, the carrying amount of the lease liability is reassessed when there is a change in future lease payments arising from a modification in the lease terms and conditions. The remeasurement amount of the lease liabilities is recognized as an adjustment to the right-of-use asset, or in net income when the carrying amount of the right-of-use asset is reduced to zero.

Short-term and low-value leases

The FAMQ has elected not to recognize right-of-use assets and lease liabilities for short-term and low value leases. The FAMQ recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

g) Investment income

Interest on a financial asset is recognized when it is probable that the economic benefits will flow to the FAMQ and the amount of income can be reliably measured.

Interest is accrued over time based on the amount of principal outstanding and the applicable effective interest rate.

Experience refunds declared by a financial institution and calculated on interest received are recognized when the right to receive such income has been established.

h) Interest to policyholders

The interest is presented in the statement of income at the date of declaration by FQMA. At that time, the interest is reported as interest payable to policyholders on the statement of financial position. Declared interest to policyholders who withdraw before the end of the qualifying period is reduced from the current year's expense.

i) Use of critical estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from management's best estimates. The most significant estimates and critical judgments are as follows:

Insurance contract liability

All insurance contracts issued are measured using the premium allocation approach as the coverage period for each of the contracts in the group does not exceed one year.

All reinsurance contracts held are measured using the premium allocation approach as the FAMQ reasonably expects that the asset's measurement of remaining coverage for reinsurance contracts with a term of more than one year, using this approach, would not differ materially from the measurement that would be made using the general measurement model.

The liability for incurred claims is the estimate of the total cost to be incurred in settling all claims incurred before the financial statements are closed, regardless of whether they have been reported to the FAMQ. Since this provision is necessarily based on estimates, the final value may differ from the estimates. A provision for claims and settlement costs is included for incurred but unreported claims based on past experience, the risk profile of claims and expected future costs. The established methods for making these estimates are periodically revised and updated, and all adjustments are reflected in the year's statement of income. These adjustments are attributable to events related to the final settlement of claims, but which have not yet occurred and which perhaps may not occur for some time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

i) Use of critical estimates and judgments (continued)

Insurance contract liability (continued)

These adjustments may also be caused by additional information concerning claims, changes in the interpretation of contracts by the courts or major variances in relation to historical trends in terms of the seriousness or frequency of claims. Consequently, claims and settlement expenses are recognized when incurred. A provision is determined for external and internal settlement expenses.

Estimates of the liability for incurred claims are based on generally accepted actuarial methods. The estimation process determines the ultimate values of the insurance liability obligations by claim year and business line. From these ultimate values, claims paid at the measurement date are deducted to arrive at the value of the liability. The ultimate value of claims is estimated by dividing the estimated development by the categorization of each claim by business line and year of claims. The present values of incurred claims liabilities, gross and net of reinsurance, are determined by applying discount rate curves to estimates of future cash flows, an adjustment for non-financial risk, and a provision for for reinsurance non-performance. The reinsurance recoveries are calculated by subtracting the net claims liabilities to the gross claim liabilities.

Asset of reinsurance contracts

Reinsurance amounts expected to be recovered for claims and settlement costs are recognized as an asset item in accordance with reinsurance agreements and in accordance with principles consistent with the recognition of the liability for incurred claims.

Discount rates

The liability and asset of insurance contracts are calculated by discounting the expected future cash flows at a risk-free rate plus a illiquidity premium. The rate is determined using a market-observable risk-free yield curve for Canada treasury bills. The illiquidity premium is estimated by comparing the risk-free yield curve to a yield curve for company bonds. The spread between risk-free returns and company bond yields is used to estimate the illiquidity premium.

2. Material accounting policies (continued)

i) Use of critical estimates and judgments (continued)

Discount rates (continued)

The discount rates applied for discounting future cash flows are listed below:

Discount rate curve as at December 31, 2023		Discount rate curve as at December 31, 2022	
Year	Illiquid discount rate curve (%)	Year	Illiquid discount rate curve (%)
1	4.89	1	5.11
2	4.56	2	4.92
3	4.36	3	4.78
4	4.28	4	4.70
5	4.25	5	4.65
10	4.29	10	4.70
15	4.38	15	4.88
20	4.41	20	4.95

Risk adjustment for non-financial risk

The adjustment for non-financial risk is the compensation that the FAMQ requires to cover the uncertainty of the amount and timing of cash flows that arises from non-financial risk when performing insurance contracts.

The FAMQ has selected a non-financial risk adjustment based on a margin of 11% applied to discounted unpaid claims, which is an estimated level of confidence between 70% and 75%.

Derivative financial instruments are measured at fair value

The fair value of a financial instrument is generally equal to the counterparty for which the instrument would be exchanged in an arm's length transaction between competent parties acting freely on an arm's length basis.

Quotations in an active market are the best evidence of fair value. If the market for a security is not active, fair value is determined by a valuation technique that uses market data as much as possible.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

2. Material accounting policies (continued)

i) Use of critical estimates and judgments (continued)

Determining the business model

The FAMQ's business model is determined in a manner that reflects how groups of financial assets are managed to achieve a given economic objective, including generating cash flows. That is, the entity's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The determination of the business model requires judgment and is based on all relevant evidence available to the FAMQ at the date of the assessment.

Impairment of financial assets

The assessment of impairment losses for all relevant financial assets requires judgment, in particular, in estimating the amount and timing of future cash flows when determining impairment losses and in assessing a significant increase in credit risk.

3. Changes in Accounting Policies

a) New accounting standards and interpretations not yet adopted

None

b) New accounting standards and interpretations adopted

The FAMQ enacted the recommendations in IFRS 17, *Insurance Contracts*, and IFRS 9, *Financial Instruments* of the *CPA Canada Handbook - Accounting* for the first time, effective January 1, 2023.

These standards have introduced changes for the accounting of insurance contracts, reinsurance contracts and financial instruments. As a result, the FAMQ adjusted certain comparative amounts and presented a third statement of financial position as at January 1, 2022. The nature and effects of the significant changes in the FAMQ's accounting policies resulting from the adoption of IFRS 17 and IFRS 9 are summarized below.

IFRS 17, Insurance Contracts

IFRS 17, *Insurance Contracts*, replaces IFRS 4, Insurance Contracts, effective January 1, 2023. The adoption of IFRS 17 did not change the classification of the FAMQ's insurance contracts.

The standard establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held. Under IFRS 17, all insurance contracts issued and reinsurance contracts held by the FAMQ can be measured using the premium allocation approach. This approach simplifies the measurement of insurance contracts from the general model of the standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. Changes in Accounting Policies (continued)

b) New accounting standards and interpretations adopted (continued)

The accounting for insurance contracts using the premium allocation approach is similar to the IFRS 4 approach, but differs primarily in the following areas:

i) Deferral of acquisition costs

Under IFRS 17, insurance acquisition cash flows are expenses that are directly attributable to the purchase of a portfolio of insurance contracts. An entity may choose to capitalize and amortize these costs over the coverage period based on the expected timing of insurance service expenses in the related group. They are similar to deferred acquisition costs under IFRS 4, except that they also include a portion of indirect costs charged, such that the FAMQ has capitalized additional costs under IFRS 17. The impact on the FAMQ's equity on transition is in part due to the deferral of additional charged indirect costs.

ii) Onerous contracts

A loss component of onerous contracts determined based on estimated fulfilment cash flows is included in the liability for remaining coverage at the time of issuance of insurance contracts, and a loss is recognized immediately in profit or loss, resulting in early recognition in comparison with IFRS 4. The FAMQ did not issue onerous contracts for the periods presented.

iii) Discount rate

Under IFRS 17, estimates of future cash flows must be discounted to reflect the time value of money and the financial risks that reflect the characteristics of the liabilities and the duration of the portfolio. The FAMQ has established discount rate curves using risk-free rates adjusted to add an illiquidity premium. The liability for incurred claims is discounted using this method. Under IFRS 4, the liability for claims was discounted at a rate that reflected the estimated market rate of return on the underlying assets to which the liability was linked.

iv) Risk adjustment for non-financial risk

The measurement of insurance contract liabilities includes a risk adjustment that replaces the risk margin under IFRS 4. The risk margin under IFRS 4 reflected the uncertainty inherent in the estimates of the discounted net claims liability, while the risk adjustment under IFRS 17 offsets the uncertainty that arises from non-financial risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. Changes in Accounting Policies (continued)

b) New accounting standards and interpretations adopted (continued)

v) Presentation

IFRS 17 makes significant changes to the disclosures and presentation of insurance contract items in the financial statements, including:

- Changes to the presentation in the statement of financial position where accounts receivable and payable under insurance contracts, unearned premiums, deferred acquisition costs and provision for claims and unpaid settlement fees are presented together under a line item entitled Insurance contract liabilities. Receivables and operating liabilities for reinsurance contracts, prepaid premiums to reinsurers, unearned reinsurance commissions, reinsurers' share of claims and settlement costs paid and reinsurers' share of unpaid claims and settlement provisions are presented together in the Reinsurance contract assets line item;
- Changes to the presentation in the statement of income where the result related to insurance contracts is presented separately from the result of reinsurance contracts;

  Insurance service results comprise the following:

  - Insurance revenue that includes revenues related to insurance contracts;
  - Insurance service expenses, that include expenses related to insurance contracts;
  - Expenses related to reinsurance contracts held that include reinsurance premiums;
  - Revenues related to reinsurance contracts held that includes recoveries from reinsurers
- The insurance service results are presented separately from insurance finance income or insurance finance expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. Changes in Accounting Policies (continued)

b) New accounting standards and interpretations adopted (continued)

v) Presentation (continued)

IFRS 17 has been applied using the full retrospective approach in accordance with the transitional provisions of this standard, and the financial statements presented for previous fiscal years have been restated. Specifically, the FAMQ has:

- Defined, recognized and measured each group of insurance contracts as if it had always applied IFRS 17;
- Determined, recognized and measured the asset for acquisition cash flows as if it had always applied IFRS 17, which resulted in the inclusion of underwriting costs as part of the acquisition cash flows;
- Derecognized any balance that would not exist had it always applied IFRS 17;
- Recognized any net difference in the FAMQ's equity.

The transition to IFRS 17 on January 1, 2022 increased the FAMQ's equity by $374,532.

The following tables summarize the statement of financial position impact of the transition to IFRS 17 as at January 1, 2022:

	IFRS 4	Impact of IFRS 17	IFRS 17
Total assets	127,592,095	(21,215,132)	106,376,963
Total liabilities	84,948,719	(21,589,664)	63,359,055
Total FAMQ Equity	**42,643,376**	**374,532**	**43,017,908**
Capitalization of acquisition costs		481,130	481,130
Change in discount rate and risk adjustment methodology		(106,598)	(106,598)

IFRS 9, Financial Instruments

The FAMQ applied IFRS 9, *Financial Instruments*, for its fiscal year beginning on January 1, 2023, the date of initial application. IFRS 9 replaces the guidance in IAS 39, *Financial Instruments: Recognition and measurement*. The adoption of IFRS 9 resulted in accounting policy changes in two main areas: classification and measurement and impairment.

The requirements of IFRS 9 were applied through adjustments to the statement of financial position amounts at the date of initial application, i.e. January 1, 2023, without restatement of comparative period figures, as permitted by the standard. The effects of adopting IFRS 9 were recorded with adjustments to profit or loss and accumulated other comprehensive income on January 1, 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. Changes in Accounting Policies (continued)

b) New accounting standards and interpretations adopted (continued)

v) Presentation (continued)

IFRS 9, Financial Instruments (continued)

As a result of IFRS 9, amendments have been made to IFRS 7, Financial Instruments: Disclosures, that establish extensive quantitative and qualitative disclosures under IFRS 9 that were also enacted by the FAMQ for the fiscal year beginning on or after January 1, 2023.

The following table presents the measurement categories and carrying amounts of investments previously determined in accordance with IAS 39 as at December 31, 2022, as well as the new measurement categories and carrying amounts determined in accordance with IFRS 9 as at January 1, 2023:

As at January 1, 2023, en $	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount	Impact of IFRS 9	IFRS 9 carrying amount
Term deposits	Loans and receivables	FVOCI	49,277,578	(47,396,487)	1,881,091
		FVTPL[1]	–	46,741,571	46,741,571
High-interest account	Loans and receivables	FVOCI	13,245,051	(13,245,051)	–
		FVTPL[1]	–	13,245,051	13,245,051
Capital shares	Loans and receivables	FVOCI	2,000,000	–	2,000,000
		FVTPL[1]	–	–	–
Bonds	Held to maturity	FVOCI	12,991,697	(9,354,504)	3,637,193
		FVTPL[1]	–	8,961,617	8,961,617

[1] On transition to IFRS 9, the FAMQ made the irrevocable decision to designate these investments at FVTPL.

IAS 1 Presentation of Financial Statements, and IFRS Practice Statement 2 - Making Materiality Judgments: Disclosures about Accounting Policies

The proposed amendments change the requirements in IAS 1 for disclosures about accounting policies. The amendments replace all occurrences of “significant accounting policies” with “material accounting policies”. Disclosure of accounting policies is material if, taken together with other information included in an entity’s financial statements, it can reasonably be expected to influence the decisions of the primary users of the general purpose financial statements taken on the basis of those financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

3. Changes in Accounting Policies (continued)

b) New accounting standards and interpretations adopted (continued)

v) Presentation (continued)

IAS 1 Presentation of Financial Statements, and IFRS Practice Statement 2 - Making Materiality Judgments: Disclosures about Accounting Policies (continued)

The paragraphs in support of IAS1 are also amended to clarify that information about accounting policies related to transactions, other events or immaterial conditions is immaterial and not required to be disclosed. Accounting policy information may nevertheless be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all disclosures about accounting policies related to transactions, other events or material terms are significant themselves.

The International Accounting Standards Board has also provided guidance and examples to explain and illustrate the application of the four-step materiality process described in IFRS Practice Statement 2.

4. Investments

As at December 31, 2023, in $	Classified as FVOCI	Designated at FVTPL	Total carrying amount
Municipal and provincial bonds, stipulated interest rates from 0.00% to 6.15%, effective interest rates from 2.336% to 5.329% and maturing from March 2024 to October 2028	19,955,325	7,965,689	27,921,014
Capital shares bearing interest at a variable rate of 0.00% to 6.00% or more, with no fixed maturity	3,500,000	–	3,500,000
Term deposits, including an annually redeemable balance bearing interest at rates varying from 3.07% to 5.90% and maturing from February 2024 to April 2027	23,617,062	43,477,581	67,094,643
	47,072,387	**51,443,270**	**98,515,657**

The FAMQ has negotiated conditions allowing it to obtain on its cash accounts a minimum interest rate corresponding to the prime rate less 2.50% (2.95% as at December 31, 2022).

4. Investments (continued)

As at December 31, 2022, in $ (adjusted)	Held-to-maturity	Loans and receivables	Total carrying amount
Municipal and provincial bonds, stipulated interest rates from 2.25% to 8.00%, effective interest rates from 0.54% to 3.55% and maturing from March 2023 to October 2028	12,991,697	–	12,991,697
High-interest account at variable rate currently bearing interest at 4.00% with no fixed maturity	–	13,245,051	13,245,051
Capital shares bearing interest at a variable rate of 0.00% to 4.25% or more, with no fixed maturity	–	2,000,000	2,000,000
Term deposits, including an annually redeemable balance, bearing interest at rates ranging from 0.64% to 5.38% and maturing between January 2023 and December 2024	–	49,277,578	49,277,578
	12,991,697	**64,522,629**	**77,514,326**

As at January 1, 2022, in $ (adjusted)	Held-to-maturity	Loans and receivables	Total carrying amount
Municipal and provincial bonds and Treasury Bills, stipulated interest rates from 0.76 to 6.15%, effective interest rates from 0.54% to 3.55% and maturing from January 2022 to October 2028	17,926,047	–	17,926,047
High-interest account at variable rate currently bearing interest at 0.50% with no fixed maturity	–	11,040,166	11,040,166
Capital shares bearing interest at a variable rate of 0.00% to 4.25% or more, with no fixed maturity	–	2,000,000	2,000,000
Term deposits, including an annually redeemable balance bearing interest at rates varying from 0.54% to 2.70% and maturing from February 2022 to October 2023	–	42,691,410	42,691,410
	17,926,047	**55,731,576**	**73,657,623**

4. Investments (continued)

Hierarchy of recurring fair value measurements

Disclosures regarding financial instruments must be presented according to a hierarchy that reflects the significance of the inputs used in making the measurements of the fair values of financial assets and liabilities. The hierarchy is established to give higher priority to unadjusted quoted prices in active markets for identical assets or liabilities and lower priority to unobservable market parameters. The three levels of the valuation hierarchy are described as follows:

- Level 1: Fair value measurement based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value measurement based on inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Fair value measurement based on valuation techniques that use largely unobservable market inputs and incorporate management's best estimates.

The fair value of term deposits is measured based on interest rates available for term deposits with similar terms since the application of IFRS 9 as at January 1, 2023 (cost amortized in 2022). Term deposits are classified as Level 2.

The fair value of municipal, provincial and bank bonds, whose market is not active, is determined by independent valuation services that take into account the performance or market price of financial instruments with comparable conditions, such as quality, maturity and type of investment. Municipal, provincial and bank bonds are classified at Level 2.

The fair value of high-interest accounts approximates their carrying amount, as the interest rates adjust to changes in market interest rates.

The fair value of capital shares cannot be based on prices observed in active markets for identical assets, either directly or indirectly. It is primarily based on unobservable market parameters and management's best estimates. The capital units are classified at Level 3.

5. Accounts receivable

	December 31, 2023 $	December 31, 2022 $	January 1, 2022 $
Financial assets - Interests receivable	2,000,570	852,239	455,878
Other receivables	1,433	19,909	39,725
	2,002,003	**872,148**	**495,603**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

6. Reinsurance contract asset

Changes in the reinsurance contract asset for the fiscal year are as follows:

		Asset for incurred claims		
	Asset for remaining coverage	Estimates of the present value of future cash flows	Risk adjustment	Total
	$	$	$	$
Balance at January 1, 2023	**3,373,769**	**20,552,936**	**2,107,293**	**26,033,998**
Reinsurance premiums	(10,435,098)	–	–	(10,435,098)
Amount to be recovered from reinsurers				
Recoverable amount for claims incurred during the fiscal year	–	4,383,597	482,826	4,866,423
Adjustment to amounts to be recovered from reinsurers for past fiscal year claims	–	(2,158,130)	(271,141)	(2,429,271)
Adjustment for the non-performance risks of reinsurers	–	(19,495)	–	(19,495)
Net expense on reinsurance contracts	**(10,435,098)**	**2,205,972**	**211,685**	**(8,017,441)**
Reinsurance finance income (finance expenses)	–	926,521	–	926,521
Change in net income	**(10,435,098)**	**3,132,493**	**211,685**	**(7,090,920)**
Cash flows				
Premiums paid	10,355,558	–	–	10,355,558
Amounts received	(583,324)	(1,227,083)	–	(1,810,407)
Total cash flows	9,772,234	(1,227,083)	–	8,545,151
Balance as at December 31, 2023	**2,710,905**	**22,458,346**	**2,318,978**	**27,488,229**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

6. Reinsurance contract asset (continued)

	Asset for remaining coverage	Asset for incurred claims		Total
		Estimates of the present value of future cash flows	Risk adjustment	
	$	$	$	$
Balance, January 1, 2022 (adjusted)	**3,010,005**	**20,283,959**	**2,146,444**	**25,440,408**
Reinsurance premiums	(9,703,935)	–	–	(9,703,935)
Amount to be recovered from reinsurers				
Recoverable amount for claims incurred during the fiscal year	–	4,130,035	443,563	4,573,598
Adjustment to amounts to be recovered from reinsurers for past fiscal year claims	–	(1,596,731)	(482,714)	(2,079,445)
Adjustment for the non-performance risk of reinsurers	–	(10,660)	–	(10,660)
Net expense on reinsurance contracts	**(9,703,935)**	**2,522,644**	**(39,151)**	**(7,220,442)**
Reinsurance finance income (finance costs)	–	(634,222)	–	(634,222)
Change in net income	**(9,703,935)**	**1,888,422**	**(39,151)**	**(7,854,664)**
Cash flows				
Premiums paid	10,067,699	–	–	10,067,699
Amounts received	–	(1,619,445)	–	(1,619,445)
Total cash flows	10,067,699	(1,619,445)	–	8,448,254
Balance as at December 31, 2022 (adjusted)	**3,373,769**	**20,552,936**	**2,107,293**	**26,033,998**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. Insurance contract liability

Changes in the insurance contract liability for the fiscal year are as follows:

	Liability for remaining coverage	Liability for incurred claims		Total
		Estimates of the present value of future cash flows	Risk adjustment	
	$	$	$	$
Liabilities as at January 1, 2023	**5,346,325**	**59,538,223**	**6,331,287**	**71,215,835**
Insurance revenue	(62,033,530)	–	–	(62,033,530)
<u>Insurance service expenses</u>				
Incurred claims during the fiscal year and other insurance-related expenses	–	42,571,977	2,453,197	45,025,174
Adjustment to liability for past fiscal year claims	–	(3,120,241)	(1,501,550)	(4,621,791)
Amortization of acquisition costs	10,239,849	–	–	10,239,849
Net income from insurance activities related to insurance contracts	**(51,793,681)**	**39,451,736**	**951,647**	**(11,390,298)**
Insurance finance expenses (income)	–	2,875,697	–	2,875,697
Change in net income	**(51,793,681)**	**42,327,433**	**951,647**	**(8,514,601)**
<u>Cash flows</u>				
Premiums received	63,427,096	–	–	63,427,096
Claims and other expenses paid in connection with insurance activities	–	(34,100,465)	–	(34,100,465)
Paid acquisition costs	(10,746,440)	–	–	(10,746,440)
Total cash flows	52,680,656	(34,100,465)	–	18,580,191
Liabilities as at December 31, 2023	**6,233,300**	**67,765,191**	**7,282,934**	**81,281,425**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. Insurance contract liability (continued)

	Liability for remaining coverage	Liability for incurred claims		
		Estimates of the present value of future cash flows	Risk adjustment	Total
	$	$	$	$
Liabilities as at January 1, 2022 (adjusted)	**4,933,623**	**51,658,725**	**5,569,555**	**62,161,903**
Insurance revenue	(55,535,734)	–	–	(55,535,734)
Insurance service expenses				
Incurred claims during the fiscal year and other insurance-related expenses	–	40,023,323	2,414,702	42,438,025
Adjustment to liability for past fiscal year claims	–	(1,033,382)	(1,652,970)	(2,686,352)
Amortization of acquisition costs	9,311,466	–	–	9,311,466
Net income from insurance activities related to insurance contracts	**(46,224,268)**	**38,989,941**	**761,732**	**(6,472,595)**
Insurance finance expenses (income)	–	(1,451,174)	–	(1,451,174)
Change in net income	**(46,224,268)**	**37,538,767**	**761,732**	**(7,923,769)**
Cash flows				
Premiums received	56,454,265	–	–	56,454,265
Claims and other expenses paid in connection with insurance activities	–	(29,659,269)	–	(29,659,269)
Paid acquisition costs	(9,817,295)	–	–	(9,817,295)
Total cash flows	46,636,970	(29,659,269)	–	16,977,701
Liabilities as at December 31, 2022 (adjusted)	**5,346,325**	**59,538,223**	**6,331,287**	**71,215,835**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. Insurance contract liability (continued)

Acquisition costs are amortized on a straight-line basis over the coverage period of the contracts, which have a one-year life. The analysis below discusses the possible changes in certain key assumptions when all other assumptions remain constant to show the impact on net income and equity of the FAMQ.

As at December 31, 2023, in $	Changes to assumptions	Impact on net income and equity of the FAMQ before reinsurance	Impact on net income and equity of the FAMQ reinsurance
Expected loss ratio	+ 5%	(740,155)	(585,213)
Discount curve	+ 1%	1,251,804	764,403
Expected loss ratio	- 5%	740,155	585,214
Discount curve	- 1%	(1,308,404)	(795,978)

As at December 31, 2022, in $	Changes to assumptions	Impact on net income and equity of the FAMQ before reinsurance	Impact on net income and equity of the FAMQ reinsurance
Expected loss ratio	+ 5%	(637,859)	(480,040)
Discount curve	+ 1%	1,078,087	636,446
Expected loss ratio	- 5%	637,859	480,040
Discount curve	- 1%	(1,127,358)	(662,685)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. Insurance contract liability (continued)

Estimate of ultimate claims
(thousands of dollars)

Reinsurance gross	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
	$	$	$	$	$	$	$	$	$	$	$
At the end of the year of occurrence					25,772	39,096	18,296	26,173	30,885	32,016	172,238
One year later				17,585	25,676	44,798	17,998	24,097	31,461		161,615
Two years later			19,078	17,472	24,846	44,269	20,420	22,584			148,669
Three years later		14,914	18,703	18,616	24,705	45,389	19,749				142,076
Four years later	14,314	13,887	18,123	17,621	24,244	45,645					133,834
Five years later	14,570	13,808	16,885	17,245	24,166						86,674
Six years later	14,292	14,589	16,565	18,236							63,682
Seven years later	14,340	14,478	16,505								45,323
Eight years later	14,031	14,313									28,344
Nine years later	13,825										13,825
Current estimate of cumulative claims	13,825	14,313	16,505	18,236	24,166	45,645	19,749	22,584	31,461	32,016	238,500
Cumulative payments	13,774	14,198	16,210	16,446	22,692	31,659	14,687	16,541	15,711	9,141	171,059
Provision for unpaid claims and settlement expenses	51	115	295	1,790	1,474	13,986	5,062	6,043	15,750	22,875	67,441
Years prior to 2014											1,007
Provision for F.I.R											3,413
Effect of discount											(5,653)
Risk adjustment for non-financial risk											7,283
Accounts payable and accrued expenses											1,557
Insurance contract liability for incurred claims in the statement of financial position											**75,048**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

7. Insurance contract liability (continued)

Estimate of ultimate claims
(thousands of dollars)

Reinsurance net	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**Total**
	$	$	$	$	$	$	$	$	$	$	**$**
At the end of the year of occurrence					20,664	24,331	16,472	21,891	26,285	27,128	136,771
One year later				16,262	19,871	25,685	16,982	21,066	26,903		126,769
Two years later			13,846	15,636	18,945	24,982	19,257	20,130			112,796
Three years later		13,460	14,385	16,637	18,857	25,214	18,677				107,230
Four years later	12,875	12,807	13,870	15,917	18,579	25,696					99,744
Five years later	13,063	12,620	13,660	15,718	18,516						73,577
Six years later	12,685	12,771	13,543	16,404							55,404
Seven years later	12,673	12,837	13,467								38,977
Eight years later	12,619	12,744									25,363
Nine years later	12,471										12,471
Current estimate of cumulative claims	12,471	12,744	13,467	16,404	18,516	25,696	18,677	20,130	26,903	27,128	192,137
Cumulative payments	12,459	12,714	13,361	15,232	17,432	21,410	14,555	15,444	15,457	9,109	147,173
Provision for unpaid claims and settlement expenses	12	30	106	1,172	1,084	4,286	4,122	4,686	11,446	18,019	44,963
Years prior to 2014											191
Provision for F.I.R											3,413
Effect of discount											(3,440)
Risk adjustment for non-financial risk											4,964
Accounts payable and accrued liabilities											180
Insurance contract liability for incurred claims in the statement of financial position											**50,271**
Asset of reinsurance contracts for incurred claims in the statement of financial position											**24,777**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

8. Fixed assets

	Leasehold improvements $	Furniture $	Computer equipment $	Intangible assets $	Total $
COST					
Balance as at December 31, 2021	452,320	210,446	405,449	1,827,291	2,895,506
Disposals	–	–	–	–	–
Acquisitions	–	–	17,835	–	17,835
Balance as at December 31, 2022	**452,320**	**210,446**	**423,284**	**1,827,291**	**2,913,341**
Disposals	–	–	–	–	–
Acquisitions	–	3,603	–	–	3,603
Balance as at December 31, 2023	**452,320**	**214,049**	**423,284**	**1,827,291**	**2,916,944**
ACCUMULATED AMORTIZATION					
Balance as at December 31, 2021	277,909	124,363	347,719	1,823,630	2,573,621
Disposals	–	–	–	–	–
Amortization expense	69,996	15,039	37,718	3,639	126,392
Balance as at December 31, 2022	**347,905**	**139,402**	**385,437**	**1,827,269**	**2,700,013**
Disposals	–	–	–	–	–
Amortization expense	70,034	16,639	22,573	22	109,268
Balance as at December 31, 2023	**417,939**	**156,041**	**408,010**	**1,827,291**	**2,809,281**
NET CARRYING AMOUNT					
As at January 1, 2022	174,411	86,083	57,730	3,661	321,885
As at December 31, 2022	104,415	71,044	37,847	22	213,328
As at December 31, 2023	34,381	58,008	15,274	–	107,663

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

9. Right-of-use assets

	Total $
COST	
Balance as at December 31, 2021	393,354
Disposals	(124,612)
Acquisitions	–
Balance as at December 31, 2022	**268,742**
Disposals	–
Acquisitions	–
Balance as at December 31, 2023	**268,742**
ACCUMULATED AMORTIZATION	
Balance as at December 31, 2021	265,195
Disposals	(124,612)
Amortization expense	54,873
Balance as at December 31, 2022	**195,456**
Disposals	–
Amortization expense	48,864
Balance as at December 31, 2023	**244,320**
NET CARRYING AMOUNT	
As at January 1, 2022	128,159
As at December 31, 2022	73,286
As at December 31, 2023	24,422

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

10. Lease liabilities

Lease payments required in the coming years are as follows:

	2023	2022
	$	$
Within one year	46,604	93,208
More than one year and less than five years	–	46,594
	46,604	**139,802**
Discounting impact	(674)	(5,376)
Present value of lease payments	**45,930**	**134,426**

Lease liabilities are included in the statement of financial position as follows:

	2023	2022
	$	$
Current portion	45,930	88,503
Non-current portion	–	45,923
	45,930	**134,426**

11. Staff-related expenses

Personnel costs are included in insurance service expenses and consist of:

	2023	2022 (adjusted)
	$	$
Salaries and severances	6,177,063	4,935,436
Fringe benefits	1,032,071	914,100
	7,209,134	**5,849,536**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

12. Investment income and insurance finance results

The following table presents an analysis of total investment income and insurance finance results:

	December 31, 2023 $	December 31, 2022 $
Investment income		
LOANS AND RECEIVABLES		
Interest	–	1,523,531
HELD-TO-MATURITY		
Interest	–	376,178
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		
Interest	1,351,955	–
DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Change in fair value	88,479	–
Interest	3,113,754	–
Total investment income	**4,554,188**	**1,899,709**
Insurance finance income (finance expenses) recognized in profit or loss	(2,875,697)	1,451,174
Reinsurance finance income (finance expenses) recognized in profit or loss	926,521	(634,222)
Total investment income and insurance and reinsurance finance income (finance expenses)	**2,605,012**	**2,716,661**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

13. Interest to policyholders

Before the *Federation Act* came into force on January 1, 2022, the MMQ paid dividends to its mutual members. From now on, in accordance with the Federation Act, FAMQ may pay interest to its policyholders.

The issue of interest must be determined by the Board of Directors of FQMA, for and on behalf of the FQM. In accordance with FAMQ's policy on the payment of interest to policyholders, the amount of interest is based on the FAMQ's historical results and the results of the current and forthcoming financial condition examination report prepared annually by the appointed actuary. This report assesses, among other things, whether FAMQ has the financial capacity to withstand adverse events while remaining financially viable.

The current context marked by extreme weather events affecting the entire insurance market calls for caution. Similarly, the significant increase in reinsurance premiums seen in recent years is driving the FAMQ to increase its capitalization. Accordingly, the FQMA Board of Directors decided not to pay interest for the year ended December 31, 2023 (nil for the year ended December 31, 2022).

Where interest is paid, the holder must, in order to be eligible:

- Have held an eligible contract of FAMQ for four years on or before January 1 of the third year preceding the year in which the interest is declared.
- Maintain its insurance policy between the closing date of the financial statement and December 30 of the following year.

The method used for calculating each eligible policyholder's share is a two-step process:

- The first portion is distributed on a pro-rata basis according to the total premiums written by eligible policyholders for a specified period.
- The second installment is based on the eligible holder's contribution to the profitability of the FAMQ. This installment is based on the eligible policyholder's contribution to the profitability of FAMQ, established based on the insurance risk quality file as assessed by the loss ratio for the corresponding period, which must be below a maximum threshold.

The portion of interest attributable to eligible policyholders who have withdrawn before the end of the eligibility period is presented separately in the statement of income.

14. Policyholders' rights

To be insured by the FAMQ, a municipality, a regional county municipality, or an intermunicipal board must meet certain underwriting criteria and adopt a resolution in which it undertakes to comply with the regulation establishing the FAMQ and the *Federation Act*.

This regulation provides, among other things, that each insured municipality has the right to attend the FAMQ's policyholders annual meeting to review the financial statements and, from time to time, to elect two directors to represent policyholders on the Board of the FQM.

It also provides that an insured municipality or organization shall pay the annual premium (regular annual contribution) and any special contribution within sixty (60) days of receipt of notice thereof. Such contribution shall be apportioned among the insured municipalities and insured organizations in proportion to the premium purchased by each organization.

The FAMQ may refuse to renew or terminate an insurance contract in accordance with the *Insurers Act*.

14. Policyholders' rights (continued)

In accordance with the *Federation Act*, an insured municipality or organization may not terminate its insurance contract until five years have elapsed from the date of its first contract. In addition, the FAMQ's regulation provides that an insured municipality or organization may not cease to be insured by the FAMQ without giving twelve months' prior notice to executive management.

Finally, following the adoption of the *Federation Act*, the rights as policyholders are retained but the rights of members of the MMQ are terminated.

As a result, each mutual member's share ($114,200) has been recorded as investment income under Interest section as of December 31, 2022.

15. Additional cash flow information

Changes in non-cash working capital items:

	December 31, 2023	December 31, 2022 (adjusted)
	$	$
Accounts receivable	18,576	19,714
Prepaid expenses	149,300	(1,412,413)
Interest payable to policyholders	–	(976,173)
	167,876	**(2,368,872)**

16. Commitments

The FAMQ has committed $4,219,500 (2022 - $139,812) under contracts maturing no later than 2030 for leasing office space and subscribing to an IT insurance system. The following payments are expected to be made in the coming fiscal years:

	Total
	$
Within one year	767,000
Between one and five years	2,522,500
More than five years	930,000
Total	**4,219,500**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

17. Contingencies

In the normal course of business, the FAMQ is subject to various claims. These claims often involve numerous uncertainties and unpredictable outcomes. According to management, adequate provision has been made for these claims and their settlement should not have a significant adverse impact on the FAMQ's future operating results or financial position.

18. Capital management

FAMQ manages its capital so as to comply with the capital adequacy requirements as stipulated in the *Insurers Act* and its financial commitments to stakeholders in the settlement of claims. Regulatory capital differs from the FAMQ's equity presented in the statement of financial position by being risk-weighted based on financial position and insurance activities.

Under the *Insurers Act*, the FAMQ must maintain sufficient capital to ensure sound and prudent management practices. The Autorité des marchés financiers has issued a guideline that limits the minimum capital funds standard according to the minimum capital test (MCT), represented by the ratio of available capital over the minimum required capital (the solvency ratio).

The available capital is the equity of the FAMQ. The minimum required capital comes from the assessment of the financial assets and liabilities risk related to policies by the application of various weighting factors. The Autorité des marchés financiers sets the minimum target for the MCT measure at 100%. In addition, the target level of the MCT for monitoring purposes is set at 150% for Canadian property and casualty insurance companies. In order to ensure that the FAMQ meets its objective, it has established a minimum internal threshold of 200% (200% as at December 31, 2022).

IFRS 17 has not changed the overall capital framework or the way the FAMQ manages its capital. The calculation of the MCT for fiscal 2022 was based on financial data prepared in accordance with pre-IFRS 17 practices.

As at December 31, 2023 and 2022, the MCT measure is detailed as follows:

	2023	2022 (unadjusted)
(thousands of dollars)	**$**	$
Total available capital	52,667	42,591
Total required capital	13,918	12,721
Excess capital	**38,749**	**29,870**
MCT	**378%**	**335%**

19. Financial instrument and insurance risk management

Risk management policies and objectives

In its normal course of business, the FAMQ is exposed to a variety of financial risks, including credit risk, liquidity risk, market risk, interest rate risk, insurance risk and reinsurance risk.

The FQMA Board of Directors is responsible for understanding and approving financial risk management strategies, and management is in charge of implementing these strategies. The FAMQ's financial risk management objective is to optimize the risk-return ratio of its overall operations within defined limits. Risk control is exercised through the application of sound, prudent, and integrated management and control policies, strategies, and procedures across all functions of FAMQ.

The FQM has put in place a structure to ensure that its property and casualty insurance business is administered through exemplary governance and able to identify, understand, communicate and manage the risks to which the FAMQ is exposed: delegation of the management of the FAMQ's operations to the FQMA Board of Directors; establishment of a property and casualty insurance decision-making committee; a statutory ethics, governance, and human resources committee; a statutory audit and integrated risk management committee; insurance and policyholder loss prevention advisory committees; and a technology committee.

The FAMQ is governed by an integrated risk management policy. This policy structures and integrates the actions that must be taken upstream for all types of risks that the FAMQ may face, including financial risks. The risk profile was reviewed in 2020 by the then Board of Directors. The FAMQ and its investments are governed by an investment policy whose objectives are, in order, to safeguard capital against the risk of loss; to safeguard capital against the risk of mismatching its liquidity needs; and to optimize returns within the limits permitted by the various types of eligible investments.

Risks have not changed significantly in the last fiscal year.

Financial risks

a) Credit risk

Credit risk refers to the risk of loss resulting from the failure of a borrower or counterparty to fulfill their contractual obligations when they become due.

A counterparty is represented by any person or entity from whom cash or other forms of value are considered forthcoming in order to settle a liability or obligation to the FAMQ. Credit risk includes concentration risk. Concentration risk arises when investments are made in multiple entities with similar characteristics or when a significant investment is made in a single entity. Based on the FAMQ's assessment, cash, investments, accounts receivable and reinsurance contract assets are the main credit risk items.

<u>Cash</u>

All cash is held at a financial institution with an excellent credit rating. The FAMQ considers the credit risk associated with this financial institution to be low. The FAMQ does not actively manage concentration risk with respect to cash.

19. Financial instrument and insurance risk management (continued)

Financial risks (continued)

a) Credit risk (continued)

Investments

All term deposits and high-interest accounts are held in financial institutions with a credit rating of A- or better. The FAMQ considers the credit risk associated with these financial institutions to be low.

To meet its investment policy objectives and comply with applicable rules, the FAMQ favours investments in securities with low credit risk. The investment policy allows, among other things, for the acquisition of bonds issued or guaranteed by the federal, provincial, or municipal governments, with a preference for Québec municipal bonds. Issuers of municipal bonds generally do not have a market credit rating. It is therefore impossible to measure the credit risk of most of these issuers. This policy also allows for the purchase of term deposits, mutual or exchange-traded funds, deposit notes, and capital shares. As at December 31, 2023, the bond portfolio is comprised of bonds from Quebec municipalities, provincial bonds and banking institutions. As at December 31, 2023, five issuers represent 69% of the bond portfolio (2022 - five issuers accounted for 56%).

Accounts receivable

Accounts receivable consist primarily of interest receivable. The credit risk associated with these receivables is the same as that of term deposits, high-interest accounts, municipal, provincial and bank bonds, and capital shares.

Reinsurance contract assets

Reinsurance contract assets consist of the reinsurers' interest in incurred claims and the remaining coverage on the contracts in effect. The FAMQ deals with several reinsurers, reducing concentration risk. In addition, all reinsurers it does business with are almost all licensed reinsurers and have a credit rating of A- or better, which reduces the credit risk.

Maximum credit risk

The maximum credit risk exposure associated with financial instruments is the carrying amount of financial assets presented in the statement of financial position.

b) Liquidity risk

Liquidity risk refers to the risk that the FAMQ may not be able to raise the funds necessary to meet its financial obligations at the appropriate time and under reasonable conditions. The investment policy uses the expected timing of claims payments to determine acceptable investment maturities.

The liquidity risk on current financial items is low. Cash, accounts receivable, and reinsurers' share of claims and settlement expenses paid are sufficient to meet the FAMQ's financial obligations for settlement of accounts payable and accrued expenses and interest to eligible policyholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

19. Financial instrument and insurance risk management (continued)

Financial risks (continued)

b) Liquidity risk (continued)

Liquidity risk is primarily at the insurance contract liability level, net of the reinsurance contract asset. The following tables provide an estimate of expected amounts by settlement period, excluding the discount and risk adjustment but including the non-performance provision related to reinsurance, and compares them with the maturity of the investments: Investments with no fixed maturity are shown under the "Less than 12 months" column.

As at December 31, 2023 (thousands of dollars)	**Year 1** $	**Year 2** $	**Year 3** $	**Year 4** $	**Year 5** $	**Year 6 and beyond** $	**Total** $
INSURANCE CONTRACTS – LIABILITY FOR INCURRED CLAIMS							
Expected future payments for incurred claims	32,322	13,611	9,082	6,503	4,365	5,979	71,862
Other amounts payable, net of amounts receivable	1,557	–	–	–	–	–	1,557
Total	**33,879**	**13,611**	**9,082**	**6,503**	**4,365**	**5,979**	**73,419**
REINSURANCE CONTRACTS – ASSETS FOR INCURRED CLAIMS							
Expected future recoveries from reinsurers for incurred claims	8,734	3,998	3,172	2,374	1,715	3,302	23,295
Other amounts receivable, net of amounts payable	1,377	–	–	–	–	–	1,377
Total	**10,111**	**3,998**	**3,172**	**2,374**	**1,715**	**3,302**	**24,672**
INVESTMENTS							
Bonds	13,897	2,274	4,365	4,026	3,359	–	27,921
Capital shares	3,500	–	–	–	–	–	3,500
Term deposits	43,036	19,013	2,520	2,526	–	–	67,095
Total	**60,433**	**21,287**	**6,885**	**6,552**	**3,359**	**–**	**98,516**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

19. Financial instrument and insurance risk management (continued)

Financial risks (continued)

b) Liquidity risk (continued)

As at December 31, 2022 (thousands of dollars)	**Year 1** **$**	**Year 2** **$**	**Year 3** **$**	**Year 4** **$**	**Year 5** **$**	**Year 6 and beyond** **$**	**Total** **$**
INSURANCE CONTRACTS – LIABILITY FOR INCURRED CLAIMS							
Expected future payments for incurred claims	27,983	13,167	7,449	5,270	3,113	5,905	62,887
Other amounts payable, net of amounts receivable	1,557	–	–	–	–	–	1,981
Total	**29,964**	**13,167**	**7,449**	**5,270**	**3,113**	**5,905**	**64,868**
REINSURANCE CONTRACTS – ASSETS FOR INCURRED CLAIMS							
Expected future recoveries from reinsurers for incurred claims	7,629	4,549	2,495	2,287	1,114	3,291	21,365
Other amounts receivable, net of amounts payable	1,396	–	–	–	–	–	1,396
Total	**9,025**	**4,549**	**2,495**	**2,287**	**1,114**	**3,291**	**22,761**
INVESTMENTS							
Bonds	6,710	3,107	933	1,611	–	631	12,992
High-interest accounts	13,245	–	–	–	–	–	13,245
Capital shares	2,000	–	–	–	–	–	2,000
Term deposits	37,277	12,000	–	–	–	–	49,277
Total	**59,232**	**15,107**	**933**	**1,611**	**–**	**631**	**77,514**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

19. Financial instrument and insurance risk management (continued)

Financial risks (continued)

c) Market risk

Market risk refers to the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the investment or its issuer, or by factors affecting all instruments traded in the market. The FAMQ minimizes this risk by investing in securities with low market risk.

d) Interest rate risk

Interest rate risk refers to the risk that a fluctuation in interest rates will negatively affect the FAMQ's financial position, which arises when interest rates rise in the marketplace.

Information on the maturity of interest-bearing investments is presented in the Liquidity Risk section of this note.

e) Sensitivity to interest rates

The FAMQ is exposed to interest rate risk through its interest-bearing investments. Management estimates that an immediate hypothetical 1% increase or decrease in interest rates would result in a decrease or increase in the fair value of investments of approximately $1,145,000 at December 31, 2023, of which $762,000 would be through comprehensive income and $383,000 would be through net income (December 31, 2022 - $577,000 in full through net income).

Since the value of money over time is taken into account in establishing the insurance contract liability and the reinsurance contract asset, an increase or decrease in the discount rate would result in a decrease or increase in the insurance finance expense, respectively. The impact of a change in the discount rate is disclosed in note 7.

Insurance risk

The FAMQ was established to provide property and casualty insurance and risk management services to municipal organizations in Québec.

The risk in any insurance contract is the possibility that the insured event will occur and the uncertainty of the value of the resulting claim. By the very nature of the insurance contract, this risk is random and therefore unpredictable. However, as a whole, these risks follow probability patterns that allow for insurance risk management.

In the normal course of business, insurance risk is divided into three components: insurance product design and pricing risk, underwriting risk, and claims settlement risk.

19. Financial instrument and insurance risk management (continued)

Insurance risk (continued)

Insurance product design and pricing risk

Insurance product design and pricing risk is the risk of financial loss associated with insurance operations, namely when liabilities exceed those anticipated or when they exceed the expected price of the product. The FAMQ is a niche insurer specializing in the municipal sector. By benefiting from the full experience of a team familiar with municipal risks, it has acquired expertise in property and casualty insurance both in the nature of the product and in its application.

The Board of Directors of the FQMA is tasked with studying and submitting to the Board of Directors of the FQM any changes to the underwriting parameters or rate schedule, as well as any additions, expansions, or deletions of coverage, thereby ensuring that profitability is properly monitored.

The FAMQ's exposure to insurance risk concentration is mitigated by its portfolio diversification across the province of Québec and various lines of business. The FAMQ is exposed to losses of a catastrophic nature and has protected itself from such losses by entering into reinsurance treaties that limit the losses arising from each event.

Underwriting risk

Underwriting risk is the risk arising from the selection and acceptance of risks to be insured.

Under the legislative provisions authorizing its creation, the FAMQ's sole objective is to insure municipal risks in Québec. On the one hand, this specialization provides greater stability and predictability, thereby reducing the risk of adverse selection. On the other hand, to minimize risk, insurance policies are underwritten in accordance with the FAMQ's management practices, which enacted rules that take into account its risk tolerance and underwriting standards.

The FAMQ's insurance products are available to local municipalities, regional county municipalities, intermunicipal boards, and other municipal organizations that qualify under the Act.

Products offered by the FAMQ include property insurance, loss of income insurance, liability insurance, umbrella liability insurance, errors and omissions insurance, automobile insurance, crime insurance, machinery insurance, cyber insurance, and drones for professional use (UAV-Drones).

The insurance portfolio has been stable with a retention rate of over 99% since the FAMQ's predecessor, the Mutuelle des municipalités du Québec, was established in 2003. Although a first-time insurer must remain insured for an initial period of five years, the FAMQ issues twelve-month insurance contracts that are reviewed annually at renewal.

In addition, after the initial five-year period, twelve months' notice of withdrawal must be given to the FAMQ by an organization that no longer wishes to be insured. These rules allow the FAMQ to invest significant amounts in risk management and acquire in-depth knowledge of each insured organization. Due to its very high market penetration, the FAMQ underwrites a limited number of new business annually based on current underwriting standards and pricing.

In addition, FAMQ has established two committees to oversee underwriting activities.

The Underwriting Technical Committee reviews the most complex applications. This committee is composed of members of the management team, including the General Manager. The committee reaches a decision regarding applications following their analysis.

19. Financial instrument and insurance risk management (continued)

Insurance risk (continued)

Underwriting risk (continued)

At another level, the Board of Directors of FQMA, composed of elected municipal officials, persons with relevant expertise, and members who are independent in that they are not elected officials or municipal employees, accompanied by members of management, proposes, among other things, changes to the underwriting guide and insurance coverage to the Board of Directors.

As mentioned earlier, underwriting risk is also mitigated by an extensive risk management program. All insured municipal organizations are subject to periodic inspection visits, and new risks are inspected upon request to enable underwriters to make informed decisions.

Claims settlement risk

Claims settlement risk is influenced by the frequency and severity of claims, as well as the uncertainty in estimating future claim payments.

Property insurance: Property insurance: In general, the most important property insurance claims involve fire, water damage, and natural hazards such as storms, floods, and earthquakes.

Since most fires in municipal buildings are the result of electrical problems, the FAMQ has established a thermographic inspection program for electrical panels and a building inspection program. In addition, employees of insured municipal organizations receive fire and premises safety training.

Loss of income: Given the nature of the policyholders' activities, loss of income is not a major concern for the FAMQ.

Civil liability and umbrella (Follow-form) liability: Civil liability claims often involve a bodily injury occurring on municipal property, such as falls on sidewalks or accidents during events or recreational activities. Fire-fighting activities are also an important source of claim. With the onset of climate change, environmental hazards such as sewer backups or waterway overflows are expected to become more important.

General civil liability risks are mitigated through the loss prevention program. The FAMQ provides risk management advisors to municipal organization staff to conduct site assessments, communicate relevant standards and best practices, and offer training on high risk or specific topics. For the firefighting component, municipalities with a Fire Safety Cover Plan, whose implementation plan has been completed on schedule, are granted immunity under the *Fire Safety Act*. An advisor dedicated to the prevention of recreational and sports accidents is available to policyholders for the planning of activities or the purchase of specialized equipment as well as for the implementation of risk mitigation measures. In addition, the FAMQ supports insured organizations in learning and applying best practices in risk management. The FAMQ and FQM also offer a partially free legal assistance service to policyholders' employees. The purpose of this service is to reduce claims by providing legal advice and guidance in certain targeted areas of law.

19. Financial instrument and insurance risk management (continued)

Insurance risk (continued)

Claims settlement risk (continued)

Errors and omissions: Most claims relating to errors and omissions result from alleged errors relating to the issuance of permits or the awarding of a contract being contested by certain bidders. The FAMQ mitigates these risks through its legal assistance service and a variety of training courses provided either by its specialized staff or in collaboration with municipal associations.

Automotive: The risk is reduced because, in Québec, the automobile risk is limited to property damage, with bodily injuries being covered by government insurance.

Crime: Given the nature of its policyholders' activities, theft is not a major concern for the FAMQ.

Machinery breakdowns: Generally, the frequency of machinery breakdown claims is low. In addition, the risk is mitigated by the periodic inspection program performed on the insured assets.

Cyber risk: This optional coverage pays for the cost of responding to an incident and for losses incurred by policyholders, including digital asset costs, business interruption loss, and cyber extortion costs. It also covers network security and the protection of personal information and Internet media liability, in addition to costs associated with regulatory proceedings.

UAV-Drones: This optional coverage provides property and liability insurance for drones used for professional purposes.

The FAMQ produces many loss prevention publications. These are sent to employees of insured organizations by email, posted on the FAMQ's website, and included in specialized magazines for the municipal sector. In addition, the FAMQ's training courses are given online in order to reach as many policyholders as possible, and sometimes in person.

Sources of uncertainty in estimating future claims payments

In addition to managing the underwriting risk arising from the selection and acceptance of risks to be insured, the reserve valuation risk is specifically monitored.

To this end, a Major Loss Review Committee has been established, tasked with reviewing reserve changes in large files and analyzing files with potential for major loss. This also allows to determine what additional preventive measures can be put in place.

Provisions for claims payable must be established immediately upon reporting. The FAMQ has a guide for establishing reserves to which claims adjusters refer daily. These reserves are evaluated individually and, in addition to regular monitoring, each file is reviewed once a year with the department manager and, for the most important files, by the Chief of Insurance Operations.

Surpluses or shortfalls in provisions may occur from time to time, despite all the control measures put in place to limit the frequency of these phenomena. In addition, insurers are never immune to changes in judicial decisions, which sometimes makes it difficult to anticipate the settlement of disputes. Additional reserves for claims incurred but not yet reported, and provisions for claims that have arisen and been reported but for which inadequate provisions exist are also recognized.

19. Financial instrument and insurance risk management (continued)

Reinsurance

The severity of claims is limited by reinsurance contracts which ensure that the FAMQ assumes, on a net basis, up to $1,862,500 of claims per event ($835,000 as at December 31, 2022). In addition, the FAMQ optimizes its reinsurance strategies to limit certain exposures.

In addition to this retention, a series of excess of loss, catastrophe, facultative, and quota share treaties provide the reinsurance capacity required for the FAMQ's operations. Reinsurance transactions do not relieve the FAMQ of its obligations to policyholders.

The FAMQ holds multi-line policy contracts that provide for a $15 million limit beyond its retention. It also holds property and automobile catastrophe policy contracts with limits of up to $40 million in excess of $15 million ($40 million in excess of $15 million at December 31, 2022).

To select its reinsurers, the FAMQ uses certain criteria that are determined by its reinsurance risk management policy. This policy sets out the criteria for the selection of both reinsurance participants and reinsurers.

In addition, the FAMQ does not use non-traditional ceded reinsurance arrangements such as catastrophe bonds.

20. Compensation of key management personnel

The remuneration allocated to key management personnel, i.e. the directors and management committee members, is detailed in the table below:

	2023	2022
	$	$
SHORT-TERM EMPLOYEE BENEFITS		
Management committee	**1,805,645**	1,195,195
Directors	**72,932**	93,623

21. Related party transactions

The FAMQ and the FQM share a number of employees who perform management functions common to both insurance and municipal operations: general management, human resources, information technology, and communications. Expenditures associated with these same services are also shared.

The FAMQ is also linked to the FQM by an agreement to promote and fully include the FAMQ in all of the FQM's activities in order to secure its policyholder base and its development. For the year 2023, an agreement also existed regarding the Legal Assistance Service.

Finally, the FAMQ occasionally uses special services that the FQM offers to Québec municipalities, and that are not common to both entities. For example, the FAMQ's employees may consult with the engineering department or use the training department management to provide training to municipal employees. These services are paid for at the rate applicable to the FQM's member municipalities or, in the case of training, at the cost usually charged to partner municipal organizations.

These agreements and services total $2,093,392 for the year ended December 31, 2023 ($1,738,730 for the year ended December 31, 2022).

In addition, the FQM holds the exclusive distribution rights for the FAMQ's insurance products for the entire territory of Québec. Premiums are recovered by the FAMQ within 45 days following the end of the month in which the transaction is recorded.

Commissions on insurance revenue recognized as insurance expenses are as follows:

	2023	2022
	$	$
Insurance Revenue Commissions	**9,212,130**	8,279,977

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

22. Additional information on the statement of income

Insurance service expenses include expenses for insured services and operations, as detailed below.

Services to policyholders	**2023**	2022
	$	$
Salaries and fringe benefits	1,260,321	672,445
Risk Management Events	124,527	84,598
Professional fees - Legal assistance to policyholders	–	511,250
Professional fees - Inspection	90,280	140,322
Professional fees - Other	18,000	9,298
Travel expenses	218,678	159,819
Relations with policyholders	28,512	60,482
Amortization of right-of-use assets (Note 9)	–	874
	1,740,318	**1,639,088**

Operating expenses	**2023**	2022 (adjusted)
	$	$
Salaries and fringe benefits	3,678,136	3,276,242
Rent and administrative expenses	405,198	323,058
IT service expenses	2,496,243	1,654,532
Communications and public relations	123,577	366,902
Professional fees	684,277	463,478
Business partnerships	708,904	371,380
Attendance fees – Directors	72,932	86,823
Travel expenses	100,351	90,567
Membership and subscriptions	36,688	43,105
Depreciation of fixed assets (Note 8)	109,268	126,392
Amortization of right-of-use assets (Note 9)	36,648	36,648
Interest - Lease liabilities	3,534	6,764
	8,455,756	**6,845,891**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2023

23. Capital contributions

The FQM Board may establish different categories of capital contributions for insured municipalities and the FQM. Contributions from the FQM are made from the division of its assets dedicated to its municipal operations.

During fiscal 2023, the FQM made a $1,000,000 Class A capital contribution (2022 - $0). The main features of this contribution are:

- Non-refundable at the option of the FQM and not redeemable by the FAMQ;
- The FQM Board or the FAMQ's operations manager determine annually whether interest is payable. Interest may not be payable for a year. Failure to determine or pay interest on the capital contribution cannot be a default of the FAMQ at any time;
- The rate of interest that may be paid is the rate of return of the FAMQ on its investments, without exceeding the rate of interest determined annually by the Fédération des caisses Desjardins on its capital shares, minus 0.25%.

24. Comparative information

As a result of the adoption of IFRS 17 and the reinsurance premium adjustments prior to January 1, 2023 and January 1, 2022, the comparative information presented has been restated to reflect the new accounting policies described in note 3 and reinsurance premium adjustments prior to January 1, 2023 and 2022.

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