MMQ La Mutuelle des municipalités du Québec

ANNUAL REPORT 2019

THE ONLY INSURANCE MUTUAL IN QUEBEC OWNED BY MUNICIPALITIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2019

Saint-Elzéar, Chaudière-Appalaches | Photographer : Loup-William Théberge

PORTRAIT OF MMQ

OUR PROFILE

La *Mutuelle des municipalités du Québec* (MMQ) was created in 2003 under the *Municipal Code of Québec* and the *Cities and Towns Act* to meet the specific property and casualty insurance needs of municipalities. The MMQ is wholly-owned by the municipalities, Regional County Municipalities (RCMs) and intermunicipal boards that constitute its Mutual Members.

The MMQ was born out of the Québec municipal sector's desire to be self-endowed with comprehensive and diversified long-term insurance. The MMQ distinguishes itself by its exclusive risk management program that results in fewer claims and more stable premiums.

OUR MISSION

Enable Québec municipalities, RCMs and intermunicipal boards to take advantage of the mutual principle and coach them in the search and implementation of risk management measures so that, by reducing the risks associated with their activities, they can benefit from privileged access to insurance products adapted to their needs and under advantageous conditions.

OUR BROKER NETWORK

La Mutuelle des municipalités du Québec works in close collaboration with *Groupe Ultima* network of member insurance brokers, who have more than 30 years of experience and expertise in the municipal insurance field. Thanks to the presence of these firms across Québec, all Mutual Members can enjoy the benefit of coverage that is fully adapted to their needs, while having privileged access to the best possible guidance and advice in effective risk management.

OUR VALUES

The MMQ's decisions and actions are guided by the following six values: transparency, respect, dynamism, equity, excellence and openness.

OUR GOVERNANCE PHILOSOPHY

The Mutual Members' Fundamental Authority

The philosophy underlying governance at MMQ rests upon the fundamental authority of its Mutual Members. The Mutual Members grant to the MMQ its legitimacy and its authority for which the Board of Directors must render an account of results.

Principles

In keeping with the mutualist culture, the philosophy of governance at MMQ is founded upon compliance with legislative requirements, regulations and standards, while drawing its strength from models of democracy, transparency, efficiency and vigilance.

Integrity

MMQ demands of its directors, management team and employees unwavering commitment to honesty, integrity and fairness when they promote its services and conduct its overall business.

Sound Financial Management

To ensure its institutional dynamics and development, MMQ takes great care in looking after its decision-making procedures based upon sound financial management.

Risk Management

Risk is evolutionary and is a factor of development. It is the mission of the Board of Directors to understand and approve strategies related to risk management, and it is up to the management to develop a dynamic and evolving environment, as well as appropriate policies and procedures.

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THE ONLY INSURANCE MUTUAL IN QUEBEC OWNED BY MUNICIPALITIES

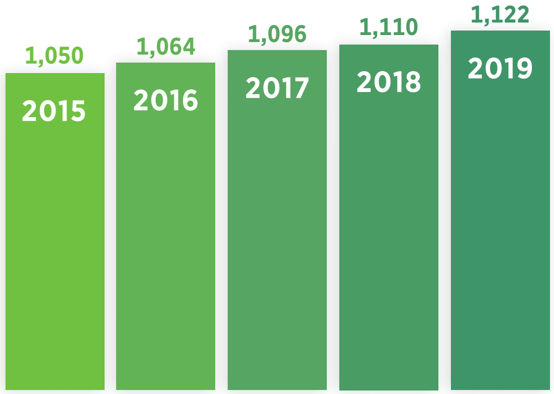
La Mutuelle des municipalités du Québec (MMQ) has unequalled expertise in municipal property and casualty insurance, claim settlement and risk management.

Playing a dual role of both insurer and municipality, the MMQ allows its Mutual Members to enjoy numerous benefits that only it is in a position to offer. With its knowledge of changing insurance market conditions, municipal issues and emerging risks, the MMQ is in an excellent position to help the municipal sector face current issues and protect itself against new risks.

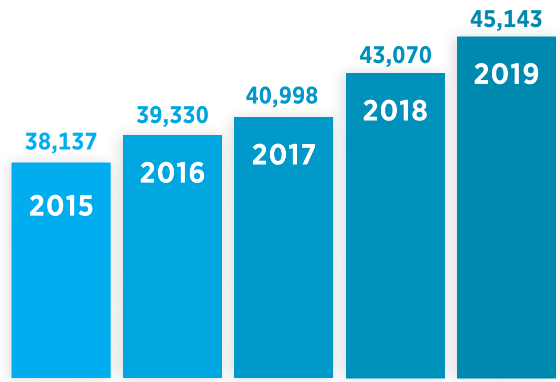
HIGHLIGHTS

FINANCIAL DATA

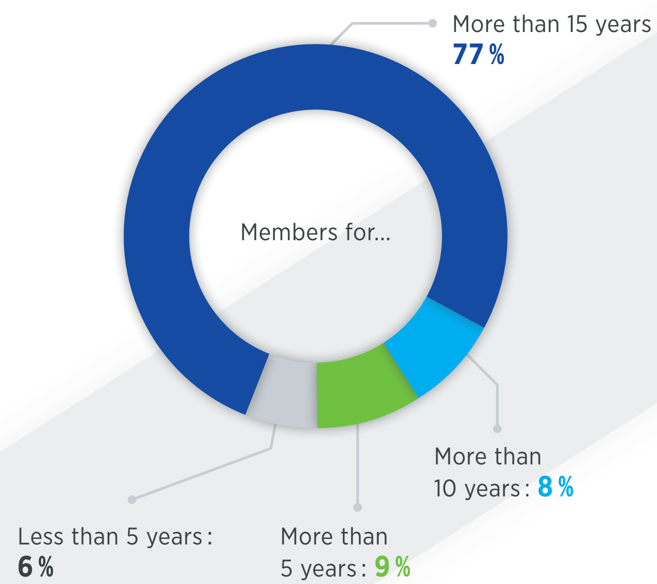
NUMBER OF MUTUAL MEMBERS



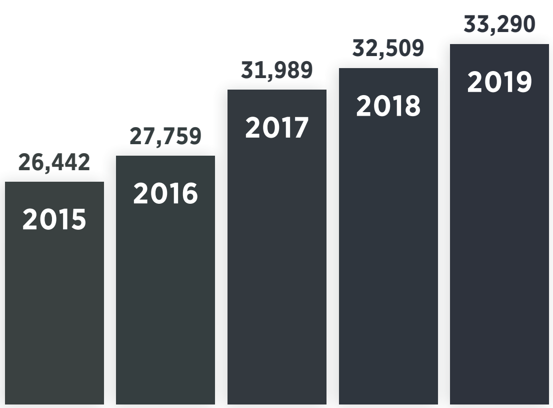
WRITTEN PREMIUMS (IN THOUSANDS OF DOLLARS)



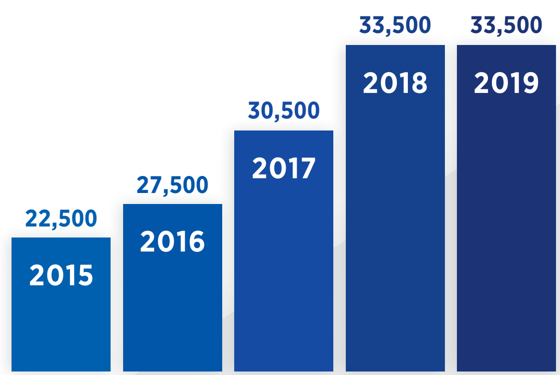
SUSTAINABILITY OF MUTUAL MEMBERS



MUTUAL MEMBERS' EQUITY (IN THOUSANDS OF DOLLARS)



EXPERIENCE REFUND PAID (IN THOUSANDS OF DOLLARS)



HIGHLIGHTS

MUTUAL MEMBERS' SERVICES

	2019	2018
INSPECTIONS		
Fire and Premises Safety		
Number of Fire Safety and Site Inspections	216	193
Number of Building Inspections – Fire and Premises Safety	2,471	2,479
Electrical Safety		
Number of Electrical Safety Inspections (high power)	149	119
Number of Electrical Safety Inspections (low power)	160	N/A
Total Number of Building Inspections - Electrical Safety	2,464	1,236
Public Works		
Number of Members Visited	32	N/A
TRAINING		
MMQ Training		
Number of Training Sessions	11	24
Number of Participants	348	981
Training in Partnership with Municipal Associations		
Number of Training Sessions	16	38
Number of Subsidized Participants	230	500
Conferences and Workshops		
Number of Events	10	N/A
Number of Participants	621	N/A
TOTAL		
Number of Training Sessions, Conferences and Workshops	37	62
Number of Participants	1,199	1,481
REMOTE SUPPORT		
Number of Requests for Support	1,105	1,333
Number of Analyses for the Underwriting Service	54	N/A
Number of Requests for Cybersecurity Support	21	N/A
LEGAL ASSISTANCE SERVICE		
Number of Cases Processed	512	546

MESSAGE

FROM THE CHAIRMAN OF THE BOARD

Mr. Jacques Demers

MMQ, OWNED BY THE MUNICIPAL SECTOR

What we will remember about 2019 is that it was marked by major events that affected the municipal world, its citizens and the insurance market. Once again, traditional insurers reacted to large claims by increasing premiums and, in some cases, even refusing to continue to insure certain businesses. In North America, minimum increases of 10-20% are currently being imposed in the commercial insurance market.

Thus, without the MMQ, Québec municipalities would once again be in a precarious situation in terms of access to property and casualty insurance, and they would be subject to major premium increases and a tightening of their insurance conditions. Considering that municipal budgets are not very flexible, such increases would translate into higher municipal taxes or a reduction in services offered to citizens.

UNIQUE ADVANTAGES THAT ONLY THE MMQ CAN OFFER THE MUNICIPAL SECTOR

Within today's context of climate change, the MMQ and its members were unfortunately unable to escape the increase in claims. More specifically, the MMQ's results were particularly affected by such factors as flooding, heavy snowfalls and numerous major fires.

As such, the MMQ's experience over the past two years, combined with its solid knowledge of the insurance market and the fact that extreme meteoroligical phenomenas are generally unpredictable, have prompted its directors to exercise caution.

In that regard, the MMQ's Board of Directors decided at the end of the 2019 fiscal year, not to pay out any experience refund to its members. This decision was motivated by a commitment to maintain MMQ's financial strenght.

That being said, and notwithstanding the fact that claims were up in both number and severity in 2019, the work of the MMQ's team served to considerably attenuate the effect of these unfavourable conditions for Québec municipalities, since premium rates remained stable for a fifteenth consecutive year.

AN ENHANCED AND MORE ADVANTAGEOUS STRUCTURE FOR MEMBERS

At the beginning of the year, the entry into office of Mr. Sylvain Lepage, General Manager of the *Fédération québécoise des municipalités* (FQM), at the position of General Manager for the MMQ, has further strengthened the ties that unite both organizations and fostered improved synergy for the benefit of Québec municipalities.

Furthermore, the Board of Directors, which met a total of nine times during the year, adopted a new by-law on contractual management, in order to improve its content and standardize the way of doing things.

Moreover, the Board adopted a new Governance Program that clarifies its roles and responsibilities, as well as those of the MMQ's committees and officers. A new Code of Ethics applicable to directors and committee members was also adopted in order to clarify the rules governing probity and competencies.

Also, the Board of Directors reviewed the Outsourcing Risk Policy to better manage the contribution of suppliers who provide essential services to the MMQ in order to enable it to conduct its principal activities.

MESSAGE

FROM THE CHAIRMAN OF THE BOARD

“ Because it belongs to its members, *La Mutuelle des municipalités du Québec* (MMQ) is able to assist them in managing their municipal risks and offer Québec municipal organizations long-term access to property and casualty insurance while protecting them from significant rate fluctuations that occur cyclically in the insurance market. ”

Finally, as announced at the end of last year, one of the MMQ’s major projects for 2019 was the modernization of its computer infrastructures. The work, which is to be pursued in 2020, began with the the recommendation of the Technologies Committee and approval of the Board of Directors of the Call for Tenders document required for the selection of a supplier to execute this major and crucial project that will significantly mobilize the MMQ team in the coming years.

SINCERE THANKS TO A DEDICATED TEAM

In conclusion, I would like to express my appreciation to all the members of the Board of Directors for their exceptional contribution to MMQ’s development. It is thanks to their combined knowledge of the municipal sector, their expertise in the insurance field, and to their extensive experience as municipal representatives and professionals that they have so judiciously been able to direct the MMQ’s activities.

I would also like to take this opportunity to highlight the significant support of our statutory and advisory committee members, whose collaboration skillfully supports the Board of Directors and management.

Last, but certainly not least, I would like to thank the members of management and each and every employee for their unwavering commitment to the municipalities of Québec, and particularly, to their citizens who are the focus of all of our efforts.

Jacques Demers

Jacques Demers
Mayor of Sainte-Catherine-de-Hatley
Reeve of Memphrémagog

MESSAGE

MESSAGE FROM THE GENERAL MANAGER

Mr. Sylvain Lepage

AN ORGANIZATION DRIVEN BY AND FOR ITS MEMBERS

It is with great pride that I have served as General Manager of the MMQ for more than a year now.

My introduction to the organization's insurance operations began with a review of the events that led to its foundation in 2003. Within a context of a crisis that saw municipalities being subjected to insurance premium increases of 100 to 300%, the MMQ was created by a group of elected officials who mobilized with the support of the *Fédération québécoise des municipalités* (FQM) and *Groupe Ultima* to serve as a solution provider working on behalf of and belonging entirely to the municipal sector.

More than 15 years after these events, the situation is repeating itself as traditional insurers are once again imposing significant premium increases, motivated by an increase in the severity and frequency of disasters both in Canada and worldwide.

Of course, the MMQ is not immune to these events. Indeed, the year 2019 was marked by severe flooding, the collapse of the roofs of many buildings due to the buildup of snow, and by several serious fires.

It is within this challenging context that we've begun to implement additional measures to reduce claims and maintain competitive pricing.

For example, all our fire safety advisors have been equipped with new thermographic cameras in 2019 and trained to detect thermal anomalies in low-voltage electrical equipment. In parallel, the work of our electricity and systems specialist has been focused on thermographic inspections of members with at least one building valued in excess of $750,000. This strategy is aimed at shortening the inspection cycle and at concentrating inspections on high-value insurables and high-power electrical equipment.

Moreover, a public works advisor position was created to support members in the reduction of serious risks, particularly those caused by water. We also developed expertise in cybersecurity so as to offer first-line support to members and reduce this growing risk.

Finally, our risk management team devoted major efforts to analyzing and understanding the origin of the main types of claims in order to be able to develop adapted intervention strategies.

To be implemented over the coming years, these active intervention measures will require the dedicated participation and strong support of elected officials and General Managers of municipal organizations. Ultimately, these actions will allow us to reduce the MMQ's claims ratio and thus, to limit premium increases.

ENVIABLE FINANCIAL RESULTS

Despite the difficult context described above, the MMQ's results remain enviable. Indeed, gross written premiums totalled $45.1 million as at December 31, 2019, representing an increase of 4.8% as compared to 2018. This growth is attributable to the loyalty of existing MMQ members — whose exceptional retention rate is 99.7 % — as well as to the addition of 15 new members in 2019.

Furthermore, in spite of the major claims recorded during the past fiscal year, net income and comprehensive income attributable to Mutual Members amounted to $804,366 as at December 31, 2019. This amount is added to Mutual Members' equity, which equalled $33.3 million at the end of fiscal 2019.

MESSAGE

MESSAGE FROM THE GENERAL MANAGER

"*La Mutuelle des municipalités du Québec* (MMQ) offers Québec municipal organizations a unique set of benefits. In providing them with vital support with the everyday management of the risks confronting them, the MMQ is committed to control their cost of claim, while continuing to offer the most competitively priced insurance products."

AN ENHANCED STRUCTURE TO BETTER SUPPORT MEMBERS

We continued our efforts to solidify the MMQ's structure in 2019 so as to effectively support all of its members. As part of that effort, in February 2019, the management team welcomed Ms. Elizabeth Diotte as Chief of Insurance Operations. With her extensive experience in insurance and operations management, Ms. Diotte is responsible for planning, organization, management and control of the MMQ's various insurance activities. In her new role, she works in close collaboration with Mr. François Dufault, Chief Financial Officer.

In addition, the management team welcomed a new Underwriting Department Manager, whose role is to oversee all underwriting activities. Finally, a new Director of Technologies has been hired to facilitate the management of the MMQ's digital transformation activities.

A REVAMPED LOOK FOR LA MUNICIPALE™

In the wake of updating the MMQ's look on the occasion of its 15th anniversary, the decision was made to revisit the logo of the organization's exclusive insurance policy — La Municipale™. With its band encircling the letters MU used to represent the municipal sector, this new logo serves to effectively highlight the fact that La Municipale™ is an insurance coverage entirely dedicated to and designed for municipalities.

HIGHLY COMMITTED AND MOTIVATED PERSONNEL

In closing this brief overview of 2019 activities, I can only emphasize the commitment and excellence of the individuals working in the various departments of the MMQ.

The remarkable results of the MMQ for more than fifteen years are essentially the product of the constant effort and commitment of each and every one of our employees. Our Mutual Members benefit from the know-how of a motivated team that truly seeks to protect the interests of Québec municipal organizations.

Sylvain Lepage

GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors is responsible for the MMQ's governance. It directs and oversees the organization's activities so as to ensure that they constantly serve the best interests of Mutual Members. The Board also works to assure the financial health, sound governance and long-term development of the MMQ.

JACQUES DEMERS

Chairman
Mayor of Sainte-Catherine-de-Hatley
and Reeve of Memphrémagog

LOUIS-GEORGES SIMARD

Vice-Chairman
Mayor of Rivière-Ouelle

JACLIN BÉGIN

Director
Mayor of Sainte-Germaine-Boulé
and Reeve of Abitibi-Ouest

JOCELYN COUTURE

Director
President and Chief Executive Officer of Tink

MARTIN DULAC

Director
Mayor of McMasterville

JONATHAN LAPIERRE

Director
Mayor of Îles-de-la-Madeleine

JACQUES LEFEBVRE

Director
Certified Administrator of Companies,
teacher at Collège des Administrateurs de Sociétés
and Companion of the Ordre des comptables
professionnels agréés du Québec

ANDRÉ NORMANDIN

Director
Actuary and Founding Chairman of
Normandin Actuaires

ROBERT SAUVÉ

Director
Retired Manager of the *Société du Plan Nord*
and the Public Sector

NON-ELECTED OFFICERS

SYLVAIN LEPAGE

General Manager of *La Mutuelle des municipalités du Québec*

FRANÇOISE MERCURE

Board Secretary

GOVERNANCE

STATUTORY COMMITTEES

ETHICS AND GOVERNANCE

The mandate of the Ethics and Corporate Governance Committee is to ensure that the MMQ rigorously complies with the rules of ethics, professional conduct and conflict of interest that it has set for itself with respect to the highest standards in this area.

In addition, the Committee develops and implements a governance program aimed at fostering a culture of democratic, effective and ethical governance based on the MMQ's mission and values. The Committee also closely monitors compensation programs, working conditions, strategy, policies and programs related to human resources management.

Members: Jacques Lefebvre (Chairman), Jocelyn Couture and Martin Dulac

AUDIT

The Audit Committee is responsible for reviewing the MMQ's financial statements and other financial information. It is also mandated to assure that proper accounting and actuarial practices are respected and to monitor external audit activities. In addition, the Committee analyzes financial risk control and management mechanisms, and it ensures the effectiveness and respect of operational control measures. Finally, the Board has charged this Committee to oversee the MMQ's investment practices.

Members: André Normandin (Chairman), Arthur Gobeil and Louis-Georges Simard

ADVISORY COMMITTEES

INSURANCE

The Insurance Committee advises management and the Board on orientations to be adopted with respect to underwriting. In that regard, all modifications to underwriting practices and filed rates are submitted to the Committee, and it is informed of any addition to or cancellation of coverage by the MMQ. Moreover, the Committee ensures that underwriting files are managed in compliance with the MMQ's values. In the event of a suspension of benefits or cancellation of coverage, the Committee analyzes the files and assures the fairness of all decisions rendered.

Members: Martin Dulac (Chairman), Guy-Lin Beaudoin, Yves Corriveau, Serge Dufresne, Clément Filion and Raymond Noel

MUTUAL MEMBERS' RISK MANAGEMENT

The mandate of the Mutual Members' Risk Management Committee consists of assisting senior management with the presentation of risk management orientations to the Board of Directors. To that end, the Committee determines the subjects to be prioritized with respect to risk management, approves the training programs to be presented to the Board, and it proposes appropriate risk management tools. The Committee also recommends the MMQ's level of intervention in legislative, regulatory, legal or other matters.

Members: Jaclin Bégin (Chairman), Jean-François Downing, Jean-Claude Dumas, Amélie Genois, Louise Labonté and Guillaume Lamoureux

COMPENSATION

The Compensation Committee advises management and the Board on orientations to be adopted in the area of compensation. In that regard, the Committee examines all changes affecting the Compensation Department's policies and directives. It also assures that claims are managed in accordance with the MMQ's values. In the event of a dispute related to the settlement of a claim or a denial of coverage, the Committee thoroughly reviews the file in question and assures the fairness of decisions rendered.

Members: Jonathan Lapierre (Chairman), Patrick Bousez, Michel Giroux, Louise Leclerc, Martin Rondeau and Francis St-Pierre

TECHNOLOGIES

The mandate of the Technologies Committee is to provide management and the Board of Directors with recommendations regarding the MMQ's technological infrastructures in terms of investment, profitability, efficiency, security and quality. More specifically, the Committee proposes strategic orientations related to technologies to be implemented, evaluates available technological options, and it validates and approves the information technologies master plan. The Committee's primary objective is to support the MMQ in its technological transformation initiative, while assuring the sustainability of its computer infrastructures.

Members: Jocelyn Couture (Chairman), Mario Alain and Dominique Chartier

MANAGEMENT'S RESPONSIBILITY

WITH RESPECT TO THE PRESENTATION OF FINANCIAL INFORMATION

The management of *La Mutuelle des municipalités du Québec* (MMQ) is responsible for the preparation and accurate presentation of its financial statements in accordance with International Financial Reporting Standards (IFRS).

In order to provide the most reliable and pertinent financial information, the MMQ maintains rigorous internal accounting and administrative control systems.

For its part, the Audit Committee examines the MMQ's financial statements before they are presented to the Board of Directors. The Committee also reviews the control and financial risk management mechanisms, and it ensures the effectiveness and respect of operational control measures. In addition, the Committee oversees MMQ's investment strategies and ensures that proper accounting and actuarial practices are adhered to in prudent fashion.

The MMQ's financial statements have been audited on behalf of Mutual Members by the external audit firm KPMG LLP in accordance with Canadian generally accepted auditing standards. Subsequent to a call for tenders, this firm was recommended by the Board of Directors and selected for the fiscal periods from 2019 to 2023 inclusively during the Annual General Meeting of Mutual Members held in May 2019.

Policy and claims liabilities were certified by the appointed actuary, Ms. Julie-Linda Laforce of the firm Axxima, in accordance with Canadian accepted actuarial practices. Ms. Laforce was designated by the MMQ's Board of Directors at their meeting in December 2019.

The external auditors and appointed actuary had free access to the Audit Committee. Upon completion of their audit, they presented the conclusions of their analysis to members of the Committee.

After examination of the auditors' report, the Audit Committee recommended approval of the financial statements by the Board of Directors, which approved them at their meeting held on February 21, 2020.

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

Sylvain Lepage
General Manager

François Dufault, CPA, CA
Chief financial officer

INDEPENDENT AUDITOR'S REPORT

TO THE MUTUAL MEMBERS OF *LA MUTUELLE DES MUNICIPALITÉS DU QUÉBEC*

OPINION

We have audited the financial statements of *La Mutuelle des municipalités du Québec* (the Entity), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income for the year then ended
- the statement of surplus and of Mutual Members' shares 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 significant accounting policies

(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, 2019, and financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' 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.

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 (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITORS' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT

TO THE MUTUAL MEMBERS OF *LA MUTUELLE DES MUNICIPALITÉS DU QUÉBEC*

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 auditors' 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

KPMG LLP* (signed)

February 21, 2020
Montréal, Canada

*FCPA auditor, FCA Public accountancy permit No. A110618

ACTUARY'S CERTIFICATE

I have valued the policy liabilities and reinsurance recoverable of *La Mutuelle des municipalités du Québec* for its statement of financial position as at December 31, 2019 and their change in the statement of income for the year then ended in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

I am satisfied that the data utilized for the valuation of these liabilities are reliable and sufficient. I verified the consistency of the valuation data with the insurer's financial records.

In my opinion, the amount of policy liabilities net of reinsurance recoverable makes appropriate provision for all policy obligations and the financial statement fairly presents the result of the valuation.

Julie-Linda Laforce
Fellow, Canadian Institute of Actuaries

February 21, 2020
Saint-Bruno-de-Montarville, Canada

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
	$	$
REVENUES		
Written premiums		
Gross premiums	45,143,458	43,069,541
Ceded premiums	(6,449,087)	(6,069,972)
Net premiums (Note 12)	38,694,371	36,999,569
Net change in unearned premiums (Note 12)	(792,412)	(1,084,357)
Net earned premiums (Note 12)	37,901,959	35,915,212
Ceding commissions (Note 13)	43,003	13,971
Total revenues	**37,944,962**	35,929,183
POLICY BENEFITS AND EXPENSES		
Policyholders benefits and claims expenses (Note 7)	38,597,949	24,683,729
Ceded benefits and claims expenses (Note 7)	(14,275,214)	(3,815,567)
Policyholders benefits and claims expenses – net	24,322,735	20,868,162
Commissions (Note 8)	6,652,642	6,297,768
Mutual Members services (Notes 15 & 26)	1,873,182	1,691,473
Operating expenses (Notes 15 & 26)	5,895,286	4,875,469
Total policy benefits and expenses	**38,743,845**	33,732,872
Technical (deficit) surplus	(798,883)	2,196,311
Investment income (Note 16)	1,602,528	1,305,554
Income for the year before experience refund to Mutual Members	**803,645**	3,501,865
Experience refund to Mutual Members (Note 17)	–	3,000,000
Experience refund to withdrawn Mutual Members (Note 17)	(721)	(16,703)
	(721)	2,983,297
Net income and comprehensive income attributable to Mutual Members	**804,366**	518,568

The accompanying notes are an integral part of these financial statements.

STATEMENT OF SURPLUS AND OF MUTUAL MEMBERS' SHARES

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
	$	$
Surplus at beginning	32,398,111	31,879,143
Impact of adoption of IFRS 16 (Note 3)	(24,844)	–
Withdrawals of Mutual Members during the year (Note 18)	300	400
Net income and comprehensive income	804,366	518,568
Surplus at end	**33,177,933**	32,398,111
Mutual Members' shares at beginning	111,000	109,600
Contributions from Mutual Members during the year (Note 18)	1,500	1,800
Withdrawals of Mutual Members during the year (Note 18)	(300)	(400)
Mutual Members' shares at end	**112,200**	111,000
Total Mutual Members' equity	**33,290,133**	32,509,111

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
	$	$
ASSETS		
Cash (Note 4)	14,679,449	4,743,042
Investments (Note 4)	47,375,236	61,553,406
Premiums receivable (Note 5)	14,266,841	13,736,672
Accounts receivable (Note 6)	662,306	352,159
Prepaid reinsurance premiums	1,689,316	1,395,791
Reinsurers' share in claims and settlement expenses paid	5,344,270	569,806
Reinsurers' share in the provision for unpaid claims and settlement expenses (Note 7)	18,154,109	10,519,826
Prepaid expenses	127,655	181,095
Deferred commissions costs (Note 8)	3,379,987	3,261,110
Fixed assets (Note 9)	216,866	253,295
Intangible assets (Note 10)	80,786	353,625
Right-of-use assets (Note 11)	303,872	–
	106,280,693	96,919,827
LIABILITIES		
Provision for unpaid claims and settlement expenses (Note 7)	48,829,844	38,361,950
Unearned premiums (Note 12)	22,533,018	21,740,606
Unearned ceding commissions (Note 13)	30,013	12,387
Accounts payable and accrued expenses	1,139,098	1,144,964
Experience refund payable to Mutual Members (Note 17)	–	3,000,000
Deferred lease obligation and lease inducement	–	150,809
Lease liabilities (Note 14)	458,587	–
	72,990,560	64,410,716
MUTUAL MEMBERS' EQUITY		
Surplus	33,177,933	32,398,111
Mutual Members' shares (Note 18)	112,200	111,000
	33,290,133	32,509,111
	106,280,693	96,919,827

Commitments (Note 20)

Contingencies (Note 21)

On behalf of the Board,

Jacques Demers

Jacques Demers, Chairman of the Board

Martin Dulac

Martin Dulac, Director

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019, WITH COMPARATIVE INFORMATION FOR 2018

	2019	2018
	$	$
CASH PROVIDED BY (USED IN)		
OPERATING		
Net income	804,366	518,568
Items not affecting cash:		
Depreciation of fixed assets	77,858	83,831
Amortization of intangible assets	285,204	417,596
Depreciation of right-of-use assets	89,482	–
Deferred lease obligation and lease inducement	–	(18,501)
Finance costs	21,397	–
	1,278,307	1,001,494
Reinsurers' share in the provision for unpaid claims and settlement expenses	(7,634,284)	(1,058,405)
Deferred commissions costs	(118,877)	(162,663)
Unearned premiums	792,412	1,084,357
Unearned ceding commissions	17,626	8,484
Provision for unpaid claims and settlement expenses	10,467,894	3,923,304
Interest earned	(1,602,528)	(1,305,554)
Finance costs paid	(21,397)	–
Change in non-cash operating working capital items (Note 19)	(8,714,891)	(169,146)
	(5,535,738)	3,321,871
INVESTING		
Acquisition of investments	(24,795,219)	(30,115,777)
Proceeds from the sale of investments	38,793,624	27,293,069
Interest received	1,636,453	1,408,599
Acquisition of fixed assets	(41,429)	(31,592)
Acquisition of intangible assets	(12,365)	(82,868)
	15,581,064	(1,528,569)
FINANCING		
Contributions from Mutual Members	1,500	1,800
Repayment of lease liabilities	(110,419)	–
	(108,919)	1,800
Net increase in cash and cash equivalents	9,936,407	1,795,102
Cash and cash equivalents at beginning	4,743,042	2,947,940
Cash and cash equivalents at end	**14,679,449**	4,743,042

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

La Mutuelle des municipalités du Québec (hereafter referred to as « MMQ ») was incorporated on November 17, 2003 under the *Cities and Towns Act* and the *Municipal Code of Québec*. In the normal course of its business, the core activities of MMQ consists in underwriting property and casualty insurance products (P&C) as well as assisting its Mutual Members in their own risk management. These Mutual Members are comprised of local and regional county municipalities and intermunicipal boards within the meaning of articles 465.1 of the *Cities and Towns Act* and 711.2 of the *Municipal Code of Québec*. The head office of MMQ is located at 7100 Jean-Talon Street East, Suite 805, Montréal, Québec, H1M 3S3, Canada.

Under the *Income Tax Act* (Canada) and the *Taxation Act* (Québec), MMQ is exempt from federal and provincial income tax as well as from the compensation tax for financial institutions. Expenses include goods and services tax and Québec sales tax where applicable. MMQ is not entitled to any input tax credits or input tax refunds.

The publication of these financial statements was authorized by the Board of Directors of MMQ on February 21, 2020.

1. ROLE OF THE APPOINTED ACTUARY AND THE INDEPENDENT AUDITOR

The appointed actuary is designated by the Board of Directors of MMQ. The appointed actuary is responsible for making sure that the assumptions and methods used for purposes of valuating policy liabilities comply with the recognized actuarial practices, the legislation in force, and any regulations or guidelines in this field. The appointed actuary must also express an opinion regarding the appropriateness of the policy liabilities as at the statement of financial position date with respect to the totality of obligations toward policyholders. This review, which seeks to verify the accuracy and completeness of the valuation data as well as the analysis of the assets, are important elements to be considered when establishing his opinion.

Policy liabilities are made up of two components: the claims liability and the premium liability. The claims liability includes provisions for indemnifications, provisions for external and internal adjustment expenses, provisions for claims incurred but not declared as well as reinsurers' share in such settlements. The premium liability represents the costs that will have to be incurred to acquire the premiums.

Following a call for tenders, the services of the independent auditor were retained by the Mutual Members at the time of the annual general meeting. The engagement of the independent auditor consists in conducting an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. Within the context of this audit engagement, the independent auditor considers the work of the appointed actuary and his report on the policy liabilities of MMQ. The independent auditor's report indicates management's responsibility for the financial statements, the auditor's responsibility as well as his opinion on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect the following significant accounting policies:

a) Basis of preparation

The financial statements, reported in Canadian dollars, have been prepared on a historical cost basis, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

b) Current and non-current classification

Assets expected to be realized and liabilities expected to be settled within MMQ's normal operating cycle of one year are typically considered as current. All other assets and liabilities are classified as non-current. The statement of financial position does not make a distinction as to the current or non-current nature of assets and liabilities. However, the following items are typically considered as current: cash, premiums receivable, accounts receivable, prepaid reinsurance premiums, reinsurers' share in claims and settlement expenses paid, prepaid expenses, deferred commissions costs, unearned premiums, unearned ceding commissions, accounts payable and accrued expenses and experience refund payable to Mutual Members. The following items are typically considered as non-current: fixed assets and intangible assets. The remaining items are comprised of both current and non-current amounts. The current and non-current portions of such balances are disclosed, where applicable, throughout the notes to the financial statements or within the risk management section.

c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and term deposits with maturities of three months or less from the acquisition date. As at December 31, 2019 and December 31, 2018, cash and cash equivalents consisted solely of cash.

d) Financial instruments

Financial assets and liabilities are recognized when MMQ 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 for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments by MMQ.

Cash	Loans and receivables
Investments – Term deposits	Loans and receivables
Investments – High-interest accounts	Loans and receivables
Investments – Capital shares	Loans and receivables
Investments – Bonds	Held-to-maturity
Premiums receivable	Loans and receivables
Accounts receivable	Loans and receivables
Reinsurers' share in claims and settlement expenses paid	Loans and receivables
Accounts payable and accrued expenses	Other liabilities
Experience refund payable to Mutual Members	Other liabilities

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Financial instruments (cont'd)

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 into another category and that are recognized at amortized cost using the effective interest method, less any impairment.

Held-to-maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables, that MMQ has the positive intent and ability to hold until 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.

Transaction costs

Transaction costs related to financial assets held to maturity, other liabilities, and loans and receivables are added to the carrying amount of the asset or deducted from the carrying amount of the liability and are then recorded in net income over the expected life of the instrument using the effective interest method.

Effective interest method

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

Impairment of financial assets

Financial assets measured at amortized cost are tested for impairment at the end of each financial reporting period. The financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been adversely affected.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Financial instruments (cont'd)

Impairment of financial assets (cont'd)

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 interest or principal payments;
- The increasing probability that the borrower will enter bankruptcy or any other financial reorganization;
- 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 MMQ's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows taking into account guarantees and sureties, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is directly reduced by 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 the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

MMQ derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all risks and rewards of ownership of the financial asset are transferred to another party. If MMQ neither transfers nor retains substantially all risks and rewards of ownership and continues to control the transferred asset, it recognizes its retained interest in the asset and an associated liability for amounts it must pay.

Derecognition of financial liabilities

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

Regular-way purchases or sales of financial assets

Regular-way purchases and sales of held to maturity financial assets are recorded on the trade date, which is the date on which MMQ commits to buy or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Financial instruments (cont'd)

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when there is a legally enforceable right to set off the recognized amount and MMQ intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fair value

The fair values of cash, premiums receivable, accounts receivable, the reinsurers' share in claims and settlement expenses paid, accounts payable and accrued expenses, and experience refund payable to Mutual Members approximate their carrying amounts due to their short-term maturities.

e) Fixed assets

Fixed assets are held for administrative purposes. They are recognized at cost less accumulated depreciation and impairment losses. Depreciation is calculated based on their estimated useful lives using the straight-line method over the following terms:

Asset	Period
Leasehold improvements	Term of the lease
Furniture	10 years
Computer equipment	3 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. The impact of any change in estimates is accounted for on a prospective basis.

Derecognition of fixed assets

A fixed asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of a fixed asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in net income.

f) Intangible assets

Intangible assets with finite useful lives, which consist of software, and acquired separately are recognized at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which is a planned duration between three to seven years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets begin to be amortized as soon as they are ready for use.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

f) Intangible assets (cont'd)

Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset (measured as the difference between the net disposal proceeds and the carrying amount of the asset) are recognized in net income when the asset is derecognized.

g) Impairment of fixed assets and intangible assets

At the end of each reporting period, MMQ reviews the carrying amounts of its fixed assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, MMQ estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in net income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in net income.

h) Balances related to premiums

i) Premiums and unearned premiums

Premiums are recorded when they are written and recognized on the statement of comprehensive income over the period covered by the insurance policy.

Unearned premiums represent the portion of written premiums related to the remaining coverage period up to fiscal year-end.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) Balances related to premiums (cont'd)

ii) Deferred commissions costs

Commissions associated with the earning of premiums are deferred and amortized over the duration of the related policies insofar as they are deemed recoverable, after having taken into account the claims and the related expenses as well as any expected investment income.

iii) Unearned ceding commissions

Unearned ceding commissions are recognized as a liability following consistent principles with the method used by MMQ to determine its unearned premiums.

i) Balances related to claims

i) Provision for unpaid claims and settlement expenses

The provision for unpaid claims and settlement expenses is the estimate of the total future cost to settle all claims occurring before the closing of the financial statements, regardless of whether or not they were reported to MMQ. The provision for unpaid claims and settlement expenses has been established in accordance with the generally accepted actuarial principles under the standards set by the Canadian Institute of Actuaries. Since this provision is necessarily based on estimates, the final value may differ from the estimates. A provision for claims and settlement expenses is included for claims incurred but not reported based on past experience. The established methods for making these estimates are periodically revised and updated, and all adjustments are reflected in the year's results. 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. 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.

The nominal values of the claims liabilities estimated on a gross and net basis of reinsurance are based on generally accepted actuarial methods. The estimation process first determines the ultimate value of the benefits payable by accident year and by lines of business. From those ultimate values, the cumulative value of paid losses reported at the valuation date are deducted to determine the nominal value of the claims liabilities estimated. The estimated ultimate nominal value is obtained by estimating the claim development for the applicable line of business and year of accident. The discounted values of the claims liabilities estimated on a gross and net basis are determined by applying a discount rate to the estimated benefits payable in future years and a margin for adverse deviation. The reinsurance recoveries are calculated by subtracting the net claims liabilities to the gross claim liabilities.

When the undiscounted claims liability is established, it is adjusted to present value. The claims liability is discounted using a rate based on the rate of return of investments held by MMQ, from which a 0.25% margin is deducted. This discount rate is 2.3% excluding the interest rate margin at December 31, 2019 (1.99% in 2018).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) Balances related to claim (cont'd)

i) Provision for unpaid claims and settlement expenses (cont'd)

Actuarial standards require that a margin for unfavourable variances be considered to take into consideration the uncertainty level of the assumptions used. The rates used to establish the margins for unfavourable variances as at December 31, 2019 vary from 5% (5% in 2018) for short-term risks, such as for property and automobiles, and 12.5% (12.5% in 2018) for long-term risks, such as civil liability, errors and omissions.

As mentioned previously, the method used to established the claims liability is based on a loss ratio on the earned premiums. As at December 31, 2019, this ratio varies from 20% to 80% (10% to 80% in 2018) on a net basis.

ii) Reinsurers' share in the provision for unpaid claims and settlement expenses

The reinsurance amounts that are expected to be collected in relation to claims and settlement expenses are recorded as assets in accordance with the reinsurance contracts and based on principles consistent with the recognition of the provision for unpaid claims and settlement expenses. The margin for unfavourable variances applied for reinsurance is 1% as at December 31, 2019 (1% in 2018).

j) Investment income

Interests earned on a financial asset are recognized when it is probable that the economic benefits will flow to MMQ and that the amount of revenues can be reliably measured.

Interests are recognized on a time basis, based on the amount of unpaid capital 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.

k) Experience refund to Mutual Members

Experience refund is presented in the statement of comprehensive income on the date that it is declared by the Board of Directors. At that time, experience refund is recorded as experience refund payable to Mutual Members on the statement of financial position. Experience refunds disbursed to Mutual Members that withdraw before the end of the eligibility period are deducted from the current period charge.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

l) Use of estimates

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 year. Actual results could differ from management's best estimates. The most significant estimates are related to the determination of:

- the provision for unpaid claims and settlement expenses as well as the reinsurers' share;
- the estimated useful lives of fixed assets and intangible assets.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

m) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that management has made in the process of applying the accounting policies of MMQ.

Impairment of financial assets

At the end of each reporting period, MMQ determines if there is objective evidence of the impact of one or more events that occurred after the initial recognition of the financial assets on the estimated future cash flows of the assets. During the year considered, management determined that no such objective evidence exists.

Held-to-maturity financial assets

Management has reviewed the financial assets held to maturity of MMQ based on its capital and liquidity requirements and has confirmed that MMQ has the positive intention and ability to hold these assets to maturity. The financial assets held to maturity are the municipal and provincial bonds presented in Note 4.

3. CHANGES IN ACCOUNTING POLICIES

a) Initial application of new or amended accounting standards

Applying IFRS 16 *Leases*

MMQ adopted IFRS 16, which replaces IAS 17, *Leases*, for its annual period beginning on January 1, 2019 using the modified retrospective approach whereby no restatement of comparative period is required. Under IAS 17, all leases were classified as operating leases.

IFRS 16 requires lessees to recognize right-of-use assets, representing its right to use the underlying asset, and lease liabilities, representing its obligation to make payments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

a) Initial application of new or amended accounting standards (cont'd)

Applying IFRS 16 *Leases* (cont'd)

Right-of-use assets are initially measured at cost, comprised of the initial measurement of the corresponding lease liabilities, lease payment made on or before the commencement date and any initial direct costs incurred, less any lease incentives received. They are subsequently depreciated on a straight-line basis and reduced by impairment losses, if any. Right-of-use assets may also be adjusted to reflect the re-measurement of related lease liabilities.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The lease payments include fixed payments. Subsequently, the lease liability is measured at amortized cost using the effective interest method and adjusted for interest and lease payments.

Impact of the adoption of IFRS 16 Leases

The adoption of IFRS 16 resulted in recognition of operating leases consisting of a real estate lease and car rental agreements in MMQ's statement of financial position.

At the transition date, right-of-use assets were measured on a lease-by-lease and MMQ had the choice to measure them at:

- their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using MMQ's incremental borrowing rate as at January 1, 2019;
- an amount equal to the lease liability.

On the transition date, MMQ elected to gauge the right-of-use asset at an amount equal to the lease liability (subject to certain adjustments) for leases classified as operating leases under IAS 17. Consequently, as at January 1, 2019, MMQ recorded right-of-use assets of $332,100 and lease liabilities of $507,753, and it derecognized liabilities of $150,809 previously recognized under IAS 17, which resulted in a surplus reduction of $24,844.

As permitted by IFRS 16, MMQ elected not to recognize lease liabilities and right-of-use assets for short-term leases (lease term of 12 months or less) and leases of low-value assets.

Key sources of estimation uncertainty

In determining the carrying amount of right-of-use assets and lease liabilities, MMQ is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determined. MMQ used its incremental borrowing rate as January 1, 2019 to measure its lease liabilities, which consists of a real estate lease and car rental agreements all previously classified as operating leases. The incremental borrowing rate for the real estate lease was 5% at date of adoption.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

a) Initial application of new or amended accounting standards (cont'd)

Applying IFRS 16 *Leases* (cont'd)

Reconciliation of operating lease commitments and lease liabilities

Operating lease commitments as at December 31, 2018	1,236,293
Operational costs (additional rent)	662,099
Additional lease liabilities before discounting as at January 1, 2019	574,194
Discounting	(66,441)
Total lease liabilities as at January 1, 2019	507,753

Prior to the adoption of IFRS 16, expenses for lease contracts were included in rent and administrative expenses and within policyholders benefits and claim expenses in MMQ's statement of comprehensive income. Additional rent is still included in rent and administrative expenses and in the policyholders benefits and claim expenses within the statement of comprehensive income.

b) New accounting standards and interpretations not yet applied

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)

On July 24, 2014 the IASB issued the complete IFRS 9 standard.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

The standard introduces additional changes relating to financial liabilities.

It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment.

On September 12, 2016, the IASB issued amendments to IFRS 4, *Insurance Contracts* to address accounting mismatches and volatility that may arise in profit or loss in the period between the effective date of IFRS 9 and the new insurance contracts standard, IFRS 17 *Insurance Contracts*, issued in May 2017.

The amendments apply in the same period in which a Company adopts IFRS 9 *Financial Instruments*.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

b) New accounting standards and interpretations not yet applied (cont'd)

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4) (cont'd)

The amendments introduce two approaches that may be adopted by insurers in the period between the effective date of IFRS 9, January 1, 2018, and IFRS 17, effective January 1, 2022:

- overlay approach – an option for all issuers of insurance contracts to reclassify amounts between profit or loss and other comprehensive income for eligible financial assets by removing any additional accounting volatility that may arise from applying IFRS 9; and
- temporary exemption – an optional temporary exemption from IFRS 9 for companies whose activities are predominately connected with insurance. This exemption allows an entity to continue to apply existing financial instrument requirements in IAS 39 to all financial assets until the earlier of the application of IFRS 17 or January 1, 2022.

MMQ intends to exercise the permitted temporary exemption and to continue to apply the existing requirements of IAS 39 to all financial instruments until the expected effective date of IFRS 17, which is January 1, 2022. The extent of the impact of adoption of the standard has not yet been determined.

Amendments to References to the *Conceptual Framework* in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its *Conceptual Framework for Financial Reporting* (the Framework), that underpins IFRS Standards. The IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards* (the Amendments) to update reference in IFRS Standards to previous versions of the Conceptual Framework.

Both documents are effective from January 1, 2020 with early application permitted. The extent of the impact of adoption of these two documents has not yet been determined.

Definition of "Material" (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB refined its definition of "material" and removed the definition of material omissions or misstatements from IAS 8.

The amendments are effective for annual periods beginning on or after January 1, 2020. Their early adoption is permitted. The extent of the impact of adoption of these amendments has not yet been determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

b) New accounting standards and interpretations not yet applied (cont'd)

IFRS 17 *Insurance Contracts*

On May 18, 2017 the IASB issued IFRS 17 *Insurance Contracts*.

The new standard is effective for annual periods beginning on or after January 1, 2021. However, the IASB has tentatively decided to propose deferring the effective date to January 1, 2022. IFRS 17 will replace IFRS 4 *Insurance Contracts*.

This standard introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires a company to recognize profits as it delivers insurance services, rather than when it receives premiums.

MMQ intends to adopt IFRS 17 in its financial statements for the annual period beginning on January 1, 2022 and is currently evaluating the impact of this new standard on its financial statements.

4. INVESTMENTS

MMQ has negotiated conditions allowing it to obtain on its cash accounts a minimum interest rate corresponding to the prime rate minus 2.15%. As a result, the amounts in the high-interest accounts in 2018 were mainly transferred to cash on hand or term deposits.

			2019
	Nominal value **$**	**Fair value** **$**	**Carrying amount** **$**
HELD-TO-MATURITY			
Municipal and Provincial bonds, stipulated interest rates from 1.35% to 6.15%, effective interest rates from 1.54% to 4.10% and maturing from May 2020 to October 2028	21,273,653	21,404,393	21,339,872
LOANS AND RECEIVABLES			
High-interest account at variable rate currently bearing interest at 1.91% with no fixed maturity	72,864	72,864	72,864
Capital shares bearing interest at variable rates from 0% to 4.25% with no fixed maturity	2,000,000	2,000,000	2,000,000
Term deposits, including $3,054,000 redeemable annually, bearing interest from 1.6% to 2.6%, maturing from February 2020 to January 2023	23,962,500	23,962,500	23,962,500
	47,309,017	**47,439,757**	**47,375,236**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

4. INVESTMENTS (CONT'D)

			2018
	Nominal value $	Fair value $	Carrying amount $
HELD-TO-MATURITY			
Municipal and Provincial bonds, stipulated interest rates from 1.35% to 6.15%, effective interest rates from 1.27% to 4.90% and maturing from March 2019 to April 2028	27,885,359	28,008,761	28,103,284
LOANS AND RECEIVABLES			
High-interest accounts at variable rates currently bearing interest from 1.35% to 1.89% with no fixed maturity	26,122,122	26,122,122	26,122,122
Capital shares bearing interest at variable rates from 0% to 4.25% with no fixed maturity	2,000,000	2,000,000	2,000,000
Term deposits, including $3,000,000 redeemable annually, bearing interest from 1.6% to 2.1%, maturing from April 2019 to January 2023	5,328,000	5,328,000	5,328,000
	61,335,481	61,458,883	61,553,406

Hierarchy of recurring fair value measurements

Disclosures regarding financial instruments must be presented as a hierarchy that categorizes the inputs to valuation models used to value financial assets and liabilities. The hierarchy gives the highest priority to readily available unadjusted quoted prices in active markets for identical assets or liabilities and lowest priority to unobserved inputs. The three levels of the measurement hierarchy are described below:

Level 1 - Fair value measurement based on unadjusted quoted prices in active market for identical assets or liabilities.

Level 2 – Fair value measurement based on inputs other than quoted prices included in Level 1 that are observable in the market for the asset or liability, either directly or indirectly.

Level 3 – Fair value measurement based on significant unobservable inputs that are supported by no market activity and incorporate management's best estimates.

The fair value of municipal and provincial bonds for which the market is not active is determined by independent valuation services that take into consideration the return or quoted price of financial instruments that have comparable conditions, such as quality, maturity and type of investment. Municipal and provincial bonds are classified at Level 2.

The fair value of high-interest cash accounts approximates the carrying amount since interest rates adjust depending on the market's interest rates variances.

The fair value of capital shares cannot be determined by using quoted prices from active markets for similar assets, either directly or indirectly. It is based mostly on non-observable market input and management's best estimates. Capital shares are classified at Level 3.

The fair value of term deposits approximates their carrying amount due to the weak interest rate fluctuations and their relatively short maturity.

There were no transfers between levels in 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

5. PREMIUMS RECEIVABLE

In accordance with the provisions of an enforceable netting agreement, MMQ recognizes premiums receivable and commissions payable on a net basis. The gross amounts are as follows:

	2019	2018
	$	$
GROSS FINANCIAL ASSETS		
Premiums receivable	16,784,519	16,160,791
OFFSET FINANCIAL LIABILITIES		
Commissions payable	(2,517,678)	(2,424,119)
Net balance presented in the statement of financial position	**14,266,841**	13,736,672

6. ACCOUNTS RECEIVABLE

	2019	2018
	$	$
Financial assets on a gross basis	467,631	321,792
Experience refunds receivable	175,560	–
Other receivables	19,115	30,367
	662,306	352,159

Experience refunds receivable correspond to experience refunds overpaid to certain MMQ Mutual Members. These amounts will be recovered upon payment of future experience refunds.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

7. CLAIMS AND SETTLEMENT EXPENSES

The change in the provision for claims and settlement expenses as well as the reinsurers' share in the claims and settlement expenses included in the statement of financial position, together with its impact on the claims and settlement expenses shown in the statement of comprehensive income for the year are as follows:

			2019
	Gross **$**	**Ceded** **$**	**Net** **$**
Provision for unpaid claims and settlement expenses at beginning	38,361,950	10,519,826	27,842,124
Increase in estimated losses and expenses			
During the current year	41,095,338	15,153,928	25,941,410
During previous years	(543,239)	1,075,434	(1,618,673)
	40,552,099	16,229,362	24,322,737
Amounts paid for claims incurred			
During the current year	15,028,147	4,086,669	10,941,478
During previous years	15,056,058	4,508,410	10,547,648
	30,084,205	8,595,079	21,489,126
Provision for unpaid claims and settlement expenses at end	**48,829,844**	**18,154,109**	**30,675,735**

			2018
	Gross $	Ceded $	Net $
Provision for unpaid claims and settlement expenses at beginning	34,438,646	9,461,421	24,977,225
Increase in estimated losses and expenses			
During the current year	27,348,001	5,233,023	22,114,978
During previous years	(4,570,874)	(3,324,058)	(1,246,816)
	22,777,127	1,908,965	20,868,162
Amounts paid for claims incurred			
During the current year	8,265,365	223,373	8,041,992
During previous years	10,588,458	627,187	9,961,271
	18,853,823	850,560	18,003,263
Provision for unpaid claims and settlement expenses at end	38,361,950	10,519,826	27,842,124

Loss ratio sensitivity analysis

Given that a loss ratio is used to establish the provision for unpaid claims and settlement expenses, as mentioned in second paragraph of Note 2 i), a 5% increase or decrease in the loss ratio would result in an increase or decrease in the net provision of reinsurers' share for unpaid claims and settlement expenses, of approximately $480,000 as at December 31, 2019 ($600,000 as at December 31, 2018).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

7. CLAIMS AND SETTLEMENT EXPENSES (CONT'D)

Estimated ultimate claims (in thousands of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**Total**
	$	$	$	$	$	$	$	$	$	$	$	**$**
At the end of year of occurrence	9,689	12,680	11,034	12,993	16,254	14,850	15,643	17,650	17,757	22,115	25,941	
One year later	11,920	11,998	10,656	11,131	15,596	14,807	14,868	16,482	16,850	20,648		
Two years later	11,624	11,855	10,128	11,149	16,010	14,827	15,067	14,275	16,057			
Three years later	11,590	11,644	10,245	10,892	15,046	14,076	13,801	14,640				
Four years later	11,560	11,685	10,493	10,920	14,710	13,062	12,988					
Five years later	11,652	11,640	10,432	10,977	13,355	13,265						
Six years later	11,285	11,576	10,215	9,874	13,258							
Seven years later	11,341	11,835	9,474	9,720								
Eight years later	11,333	10,920	9,520									
Nine years later	10,513	10,588										
Ten years later	10,487											
Current estimate of cumulative claims	10,487	10,588	9,520	9,720	13,258	13,265	12,988	14,640	16,057	20,648	25,941	157,112
Less cumulative payments	(10,454)	(10,469)	(9,401)	(9,584)	(12,689)	(11,813)	(11,679)	(12,739)	(12,645)	(14,030)	(10,941)	(126,444)
Provision for unpaid claims and settlement expenses - net	33	119	119	136	569	1,452	1,309	1,901	3,412	6,618	15,000	30,668
Years prior to 2009												8
Reinsurers' share in the provision for unpaid claims and settlement expenses												18,154
Provision for unpaid claims and settlement expenses – gross												**48,830**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

8. DEFERRED COMMISSIONS COSTS

	2019	2018
	$	$
Balance at beginning	3,261,110	3,098,447
Deferred commissions costs during the year	6,771,519	6,460,431
Amortization of deferred commissions costs during the year	(6,652,642)	(6,297,768)
	118,877	162,663
Balance at end	**3,379,987**	3,261,110

9. FIXED ASSETS

	Leasehold improvements	**Furniture**	**Computer equipment**	**Total**
	$	**$**	**$**	**$**
COST				
Balance as at December 31, 2017	294,970	127,921	265,453	688,344
Disposals	–	–	(7,890)	(7,890)
Acquisitions	–	2,369	29,223	31,592
Balance as at December 31, 2018	294,970	130,290	286,786	712,046
Disposals	–	–	–	–
Acquisitions	–	–	41,429	41,429
Balance as at December 31, 2019	294,970	130,290	328,215	753,475
DEPRECIATION				
Balance as at December 31, 2017	106,071	66,133	210,606	382,810
Disposals	–	–	(7,890)	(7,890)
Depreciation expense	29,088	12,940	41,803	83,831
Balance as at December 31, 2018	135,159	79,073	244,519	458,751
Disposals	–	–	–	–
Depreciation expense	29,088	13,020	35,750	77,858
Balance as at December 31, 2019	164,247	92,093	280,269	536,609
CARRYING AMOUNT				
As at December 31, 2018	159,811	51,217	42,267	253,295
As at December 31, 2019	**130,723**	**38,197**	**47,946**	**216,866**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

10. INTANGIBLE ASSETS

	Software
	$
COST	
Balance as at December 31, 2017	1,717,251
Acquisitions	82,868
Balance as at December 31, 2018	1,800,119
Acquisitions	12,365
Balance as at December 31, 2019	1,812,484
AMORTIZATION	
Balance as at December 31, 2017	1,028,898
Amortization expense	417,596
Balance as at December 31, 2018	1,446,494
Amortization expense	285,204
Balance as at December 31, 2019	1,731,698
CARRYING AMOUNT	
As at December 31, 2018	353,625
As at December 31, 2019	**80,786**

11. RIGHT-OF-USE ASSETS

	$
COST	
Balance as at December 31, 2018	–
Impact of adoption of IFRS 16 (Note 3)	332,100
Acquisitions	61,254
Balance as at December 31, 2019	393,354
DEPRECIATION	
Balance as at December 31, 2018	–
Depreciation expense	89,482
Balance as at December 31, 2019	89,482
CARRYING AMOUNT	
As at December 31, 2019	**303,872**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

12. UNEARNED PREMIUMS

	2019	2018
	$	$
Balance at beginning	21,740,606	20,656,249
Net written premiums during the year	38,694,371	36,999,569
Net earned premiums during the year	(37,901,959)	(35,915,212)
	792,412	1,084,357
Balance at end	**22,533,018**	21,740,606

13. UNEARNED CEDING COMMISSIONS

	2019	2018
	$	$
Balance at beginning	12,387	3,903
Commissions on ceded premiums during the year	60,629	22,455
Net earned ceding commissions during the year	(43,003)	(13,971)
Balance at end	**30,013**	12,387

14. LEASE LIABILITIES

Lease payments required in the next years are as follows:

	$
Within one year	142,353
Later than one year no later than five years	362,575
	504,928
Discounting impact	(46,341)
Present value of lease payments as at December 31, 2019	**458,587**

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

Current portion	123,853
Non-current portion	334,734
	458,587

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

15. STAFF RELATED COSTS

	2019	2018
	$	$
Salaries	3,836,694	3,471,077
Severances	444,519	38,311
Fringe benefits	649,559	651,466
	4,930,772	4,160,854

16. INVESTMENT INCOME

	2019	2018
	$	$
LOANS AND RECEIVABLES		
Interests	973,399	712,292
Experience refunds on cashed interest	27,410	33,042
	1,000,809	745,334
HELD-TO-MATURITY		
Interests	601,719	560,220
	1,602,528	1,305,554

17. EXPERIENCE REFUND TO MUTUAL MEMBERS

The payment of experience refund must be approved by the Board of Directors. In accordance with the experience refund policy, the amount of the experience refund is based on the historic performance of MMQ and on the conclusions of the dynamic capital adequacy test prepared annually by the appointed actuary. This test permits MMQ to determine, most notably, whether it has the financial capacity to meet adverse situations while remaining financially viable.

MMQ is presently operating in an insurance market that has been affected by climate change. The state of the insurance industry, at this time, calls for prudence. Due to the present situation, in order to maintain the solid financial position of the company and to reduce the impact on the cost of insurance to its Mutual Members, the Board of Directors of MMQ has decided, at its December 9th, 2019 meeting, not to issue an experience refund for the year ending December 31, 2019. ($3,000,000 for the year ending December 31, 2018).

When an experience refund is paid, to be eligible, a Mutual Member must:

- Be a Mutual Member of MMQ since four years no later than January 1 of the third year preceding the year in which the rebate is declared; and
- Maintain its insurance policy in force between the current year ending of its financial statements and the 30th of December of the following year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

17. EXPERIENCE REFUND TO MUTUAL MEMBERS (CONT'D)

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

- The first portion is distributed pro-rata based on the total underwritten premiums, to the Mutual Members who are admissible during a defined period;
- The second portion is based on the Mutual Member's contribution to the profitability of MMQ. The latter is established according to the insurance risk quality and is based upon the loss experience of the corresponding period, which must be below a maximum threshold.

The portion of the Experience refund attributable to Mutual Members that withdraw before the end of the eligibility period would be presented separately in the statement of comprehensive income.

18. MUTUAL MEMBERS' SHARES

Membership, initial contribution and rights

To become a Mutual Member of MMQ, a local or regional county municipality or an intermunicipal board must adopt a resolution in which it adheres to the Agreement under section 465.1 and thereafter of the *Cities and Towns Act* and section 711.2 and thereafter of the *Municipal Code of Québec* signed on April 3, 2003, which is deemed to form an integral part of the said resolution, take out insurance with MMQ and pay an initial contribution of $100. The initial contribution is non-refundable.

Each Mutual Member has the right to be invited to any Mutual Members' general assembly of MMQ, to attend such meetings, and to cast a vote on the basis of one vote per Mutual Member. The head of a Mutual Member's Board may perform any duty within the Board of Directors of MMQ or one of its committees under the terms set out in By-law 1.1, subject to legislative provisions in force.

Annual contribution

The Board of Directors can set the amount of the annual contribution, as necessary. If no annual contribution is determined, the amount is considered to be zero.

Special contribution

The Board of Directors may order that a special contribution be paid, as necessary. This contribution is divided among the Mutual Members in proportion to the amount of the premium written by the Mutual Member and its agencies.

Suspension or expulsion

The Board of Directors may order the suspension or expulsion of a Mutual Member under the terms and conditions set out in By-law 1.1 of MMQ.

Withdrawal

According to the *Municipal Code of Québec* and the *Cities and Towns Act*, a Mutual Member may not withdraw from MMQ within five years of joining MMQ.

In addition, a Mutual Member may not withdraw from MMQ without providing twelve months' prior notice to top management.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

18. MUTUAL MEMBERS' SHARES (CONT'D)

Withdrawal (cont'd)

A Mutual Member who withdraws from MMQ remains subject to any special contribution as determined by the Board of Directors within a period of two years following its withdrawal. If applicable, the contribution is based on the premium paid by this Mutual Member and its agencies prior to the withdrawal.

In all cases, the withdrawal of a Mutual Member must be approved by the *Autorité des marchés financiers* in accordance with the *Municipal Code of Québec* and the *Cities and Towns Act*.

	2019	2018
Number of Mutual Members	**1,122**	1,110
Contributions from Mutual Members	**$112,200**	$111,000

During the year ended December 31, 2019, 15 Mutual Members (18 Mutual Members in 2018) joined MMQ and 3 Mutual Members withdrew (4 Mutual Member withdrew in 2018).

19. ADDITIONAL CASH FLOW INFORMATION

Changes in non-cash working capital items:

	2019	2018
	$	$
Premiums receivable	(530,169)	(710,955)
Accounts receivable	(164,308)	(24,299)
Prepaid reinsurance premiums	(293,525)	(8,603)
Reinsurers' share in claims and settlement expenses paid	(4,774,463)	472,543
Prepaid expenses	53,440	(102,352)
Accounts payable and accrued expenses	(5,866)	204,520
Experience refund payable to Mutual Members	(3,000,000)	–
	(8,714,891)	(169,146)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

20. COMMITMENTS

MMQ is committed under lease agreements expiring no later than June 2024, to pay an amount of $499,483 for the rental of premises and vehicles. The following payments are expected to be made in the coming fiscal years:

Year	$
2020	105,234
2021	108,392
2022	111,643
2023	114,993
2024	59,221

21. CONTINGENCIES

In the normal course of business, various claims are pending against MMQ. Such claims are often subject to much uncertainty and their outcome cannot be predicted. According to management, adequate provision has been made for these claims and their settlement should not have a significant adverse effect on MMQ's future operating results or financial position.

22. CAPITAL MANAGEMENT

MMQ manages its capital funds so as to comply with the capital adequacy requirements prescribed by *An Act respecting insurance* (R.S.Q. c. A-32) and its financial commitments to stakeholders in the settlement of claims. The regulatory capital differs from the Mutual Members' equity as stated in the statement of financial position owing to the fact that it is weighted according to the risk associated with the financial situation and insurance activities.

Under *An Act respecting insurance*, MMQ is required to maintain adequate capital funds 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 corresponds to the Mutual Members' equity. 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* has established the minimal MCT at 100%. Furthermore, the target MCT is set at 150% for Canadian property & casualty insurance companies. In order to reach its own objectives, MMQ has set its minimal target ratio at 200% (200% as at December 31, 2018).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

22. CAPITAL MANAGEMENT (CONT'D)

As at December 31, 2019 and 2018, the MCT is detailed as follows:

(in thousands of dollars)	**2019**	2018
	$	$
Total capital available	33,209	32,155
Total capital required	9,068	8,446
Excess capital	24,141	23,709
Result of MCT Measure	366 %	380 %

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK

Risk management policies and objectives

In its normal course of business, MMQ is exposed to a variety of financial risks, namely credit, liquidity, interest rate, market, insurance and reinsurance risks.

The Board of Directors is in charge of understanding and approving the financial risk management strategies, and management is in charge of implementing these strategies. MMQ's goal with regard to financial risks management is to optimize the risk-return ratio within defined limits throughout all its activities. Risk control is carried out through the application of policies, strategies as well as sound and cautious management procedures that are blended into all of MMQ's operations. The Board of Directors has created the following committees to identify, understand, communicate and manage MMQ's risk exposure: the statutory committee of ethics and governance and the statutory committee of audit, as well as the advisory committees of insurance, compensation, technologies and Mutual Members' risk management. MMQ adopted an integrated risk management policy so as to help in organizing and integrating upstream actions to be taken for all types of risk to which it is exposed, including financial risks. This policy has been updated in 2018.

MMQ has an investment policy whose objectives are prioritized as follows: safeguarding of capital from risks of losses, safeguarding of capital against poor matching of its cash requirements, and optimizing return on investment within the set investment boundaries for each eligible investments. The investment policy is revised annually and updated if required by changing circumstances.

The risk exposure, objectives, procedures and risk management processes have not changed significantly during the year.

Financial risks

a) Credit risk

Credit risk arises from potential losses involving a borrower's or a counterparty's failure to fulfill its contractual duties when outstanding. A counterparty can be any person or entity whose cash resources or other valuable considerations are considered forthcoming in order to extinguish a liability or obligation owed to MMQ.

The credit risk also includes the concentration risk. The concentration risk arises when investments are made in entities with similar characteristics, or when a substantial investment is made in a single entity.

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Financial risks (cont'd)

a) Credit risk (cont'd)

Based on the valuation performed by MMQ, cash, investments, accounts receivable, amounts receivable from reinsurers and premiums receivables are the main items that may represent a credit risk.

Cash

All cash is held in a financial institution with good standings in Québec and with an excellent credit rating. MMQ considers that the credit risk related to this financial institution is low. MMQ does not actively manage the concentration risk related to cash.

Investments

All term deposits, high-interest accounts and capital shares are held in financial institutions with a credit rating of A- or better. MMQ considers that the credit risk relating to these financial institutions is low.

To satisfy the objectives of its investment policy and comply with all applicable rules, MMQ favours investing in instruments whose credit risk rating is low. The investment policy makes it possible to acquire bonds issued or guaranteed by the federal, provincial or municipal government, with preference being given to Québec municipalities. In general, municipal and provincial bond issuers have no credit rating on the market, making it impossible to measure the credit risk of most issuers. The policy also allows for investment in term deposits, mutual or exchange-traded funds, deposit notes and capital shares.

As at December 31, 2019, the bond portfolio was composed of Québec municipal bonds and provincial bonds. As at December 31, 2019, six municipalities and provinces represented 52% of the portfolio (five municipalities and provinces represented 52% of the portfolio in 2018).

Accounts receivable

Accounts receivable are mainly comprised of interest receivable. The credit risk associated with interest receivable is the same as for term deposits, municipal and provincial bonds as well as capital shares.

Due from reinsurers

Failure on the part of reinsurers to fulfill their obligations could result in losses for MMQ. MMQ does business with more than one reinsurer, thereby reducing its concentration risk. In addition, all reinsurers with which it does business are certified with a credit rating of A- or better, which reduces the credit risk.

Premiums receivable

All premiums are receivable from the sole broker network mandated by MMQ. MMQ has no knowledge of information leading it to believe that this broker may be faced with insolvency problems. As at December 31, 2019 and 2018, no premiums receivable were outstanding

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Financial risks (cont'd)

a) Credit risk (cont'd)

Maximum credit risk

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

b) Liquidity risk

The liquidity risk represents the possibility that MMQ may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations. The investment policy uses the timeframe established to settle claims in the dynamic capital adequacy testing to establish acceptable investment terms.

The liquidity risk for current financial items is low. Cash, premiums receivable, accounts receivable and the reinsurers' share in claims and settlement expenses paid are sufficient to allow MMQ to meet its financial obligations to settle accounts payable and accrued expenses and experience refund payable to Mutual Members.

The liquidity risk mainly relates to the provision for unpaid claims and settlement expenses, net of the reinsurers' share. The following tables present an estimate of amounts established for each settlement period and the matching of investment maturities, at nominal value. Investments with no maturity are presented under the column "Less than 12 months."

(in thousands of dollars)				**2019**
	Less than 12 months **$**	**1 to 2 years** **$**	**2 to 4 years** **$**	**More than 4 years** **$**
Provision for unpaid claims and settlement expenses, net of the reinsurers' share (undiscounted amount)	**13,908**	**5,549**	**5,256**	**3,991**
Bonds	3,760	5,193	7,003	5,317
High-interest accounts	73	–	–	–
Capital shares	2,000	–	–	–
Term deposits	22,927	1,036	–	–
Total	**28,760**	**6,229**	**7,003**	**5,317**

In addition to investments, MMQ has a cash on hand balance that would enable it to pay the provision for unpaid claims and settlement expenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Financial risks (cont'd)

b) Liquidity risk (cont'd)

(in thousands of dollars)				2018
	Less than 12 months $	1 to 2 years $	2 to 4 years $	More than 4 years $
Provision for unpaid claims and settlement expenses, net of the reinsurers' share (undiscounted amount)	13,521	5,949	5,589	2,783
Bonds	12,301	2,176	7,371	6,037
High-interest accounts	26,122	–	–	–
Capital shares	2,000	–	–	–
Term deposits	328	5,000	–	–
Total	40,751	7,176	7,371	6,037

c) Market risk

Market risk occurs when the value of an investment fluctuates due to variances in market prices, whether those variances are caused by factors specific to the investment or its issuer, or by factors affecting all instruments traded in the market. MMQ seeks to minimize this risk by making investments whose market risks are low. The policy of MMQ is to hold on to its bond investments to maturity, thereby limiting market risk.

d) Interest rate risk

The interest rate risk occurs when interest rates fluctuate and negatively affect the financial position of MMQ, which occurs when market interest rates increase.

None of the investments made by MMQ are recognized at their fair value because all of the latter's investments are classified as loans and receivables or held-to-maturity investments. As a result, a positive or negative shifting of the rate curve would have no significant impact on the bottom line.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Financial risks (cont'd)

e) Interest rate sensitivity

When the time value of money is taken into consideration to establish provisions for unpaid claims and settlement expenses, an increase or decrease in the discount rate may result in a decrease or increase in the burden of losses and settlement expenses. Therefore, a 1% variance in the discount rate would have a $561,000 impact on the provision for unpaid claims and settlement expenses as at December 31, 2019 ($470,000 as at December 31, 2018).

Management estimates that an immediate hypothetical 1% parallel rise or decline in interest rates would respectively decrease or increase the fair value of bonds by approximately $591,000 as at December 31, 2019 ($622,000 as at December 31, 2018).

Insurance risk

MMQ was created to provide general insurance and manage risks for its Mutual Members as well as their agencies.

The risk in any insurance contract is the possibility that an insured event will occur, together with the uncertainty as to the value of the resulting claim. Due to the very nature of an insurance contract, this risk is random and therefore unpredictable. However, overall, these risks follow probability trends making it possible to manage insurance risks.

There are three possible types of insurance risks in the normal course of business: the product design and pricing risk, the underwriting risk and the claims settlement risk.

Product design and pricing risk

The product design and pricing risk is the financial risk of losses related to insurance operations, namely, when commitments exceed those that were anticipated or when such commitments exceed the price that was set for such products.

MMQ is a niche market insurer specializing in the municipal sector. It has acquired insurance expertise in this sector for both insurance products and their application. Since its creation, the insurance committee has validated changes to underwriting parameters or the pricing schedule and submitted them to the Board, as well as any additions, extensions or deletions of guarantees, therefore monitoring profitability.

MMQ's exposure to insurance risk concentration is mitigated by its portfolio diversification across the Québec province and various lines of business. MMQ has exposure to catastrophic losses and has sought protection by signing reinsurance treaties limiting the losses that could result from each event.

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Insurance risk (cont'd)

Underwriting risk

The underwriting risk is the risk resulting from the selection and acceptance of risks to be insured.

Under its statutes, MMQ's sole purpose is to insure municipal risks in Québec. This specialization provides greater stability and predictability, thereby reducing the anti-selection risk. Moreover, to minimize risks, insurance policies are underwritten in accordance with MMQ's management practices taking its risk tolerance and underwriting standards into account.

MMQ's products are available to local municipalities, regional county municipalities, inter-municipal boards and other municipal agencies allowed under its statutes.

MMQ offers property insurance, loss of income, civil liability insurance, umbrella (Follow-form) liability, errors and omissions, automobile, crime, boiler and machinery, cyber risk, as well as insurance of drones for professional use.

The insurance portfolio is stable, with a retention rate of more than 99% since its creation. Notwithstanding the fact that a Mutual Member becomes a member for an initial five-year period, MMQ issues twelve months insurance contracts that are reviewed annually upon their renewal.

Following the initial five-year period, if a Mutual Member wishes to withdraw, a twelve-month advance notice must be provided to MMQ. These rules allow MMQ to invest substantially in risk management while also enabling it to acquire in-depth knowledge of each municipality being insured. Given its very high market penetration rate, MMQ underwrites a limited number of new business annually in accordance with the standards of MMQ as well as prices in effect.

Moreover, MMQ has created two committees to oversee underwriting activities. The insurance technical committee reviews the more complex applications submitted by brokers representing Mutual Members. The general manager along with members of the management team are part of this committee. The committee reaches a decision regarding applications following their analysis. On another level, the Board of Directors' insurance committee, chaired by a Board member and composed of management team members as well as external members, makes proposals to the Board of Directors on such matters as changes to the underwriting guide.

As mentioned previously, the underwriting risk is also mitigated by a comprehensive risk management program. All Mutual Members undergo periodic inspections and new risks are inspected upon request to enable underwriters to make informed decisions.

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Insurance risk (cont'd)

Claims settlement risk

The claims settlement risk is influenced by the frequency and seriousness of claims as well as by the uncertainty in estimating future claims payments.

Property – In general, the most significant claims relating to property insurance involve fires, water damage and natural risks such as storms, floods and earthquakes.

As most fires in municipal buildings are electrical in origin, MMQ has implemented a thermographic analysis program for electrical panels as well as a building inspection program. Furthermore, Mutual Members benefit from training in fire and premises safety.

Loss of income – Given the nature of Mutual Members' activities, loss of income is not a major concern for MMQ.

Civil liability and umbrella (Follow-form) liability – Civil liability claims often involve a bodily injury suffered on city property, in particular after falling on a sidewalk or accidents taking place during events or recreational activities. Firefighting activities also result in a large number of claims. Due to climate change, environmental risks such as sewer backups and ditch overflows are likely to increase.

General civil liability-related risks are mitigated by the risk management program. MMQ offers its Mutual Members expert risk management advisors who go on-site to evaluate the premises, convey relevant standards and best practices, or to provide training on matters involving high or particular risks. Where firefighting activities are concerned, municipalities that have a fire safety cover plan, whose measures defined in their implementation plan were carried out according to the established schedule, are granted immunity under the Fire Safety Act. In addition, the MMQ travels around the province to support Mutual Members in implementing their cover plan. As well, it has established a program to inform Mutual Members with respect to the application of the many legislative parameters relating to environmental management. A prevention program for recreational and sports accidents is made available to help Mutual Members plan activities and acquire specialized equipment, as well as to implement risk mitigation measures. Furthermore, the MMQ offers its assistance for learning and applying best risk management practices in the area of public works so as to reduce claims related to the maintenance and repair of various municipal infrastructures, including roads, sewer networks, ditches, vehicle fleets and buildings. Finally, MMQ also offers its Mutual Members a free four-hour legal assistance service. The purpose of this service is to reduce claims by providing legal advice and support in certain targeted areas of law.

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. MMQ mitigates these risks through its legal assistance service and a range of training courses given either by its specialized staff or in collaboration with municipal associations.

Automobile – This risk is rather low since, in Québec, automobile risk is limited to property. Bodily injuries are covered by government insurance.

Crime – Given the nature of Mutual Members' activities, theft is not a major concern for MMQ.

Boiler and machinery – In general, the frequency of equipment breakdown claims is low. Furthermore, the risk is offset by the inspection program implemented in accordance with An Act respecting pressure vessels and by the regular inspections carried out on other insured property.

Cyber risk – This optional protection covers fees related to an incident and losses incurred by the Mutual Members related to digital assets, business interruption and cyber extortion. It also covers civil liability related to network security, personal information protection and those linked to the media on the Internet in addition to fees related to regulatory procedures.

Drones for professional use - This optional protection covers drones for professional use in property and civil liability insurance.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

23. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS AND INSURANCE RISK (CONT'D)

Insurance risk (cont'd)

Claims settlement risk (cont'd)

MMQ prepares many publications on risk management, which are emailed to Mutual Members, posted on its website, or included in specialized magazines dedicated to the municipal sector. Training sessions are given in person in most regions and online via web conference so as to reach as many Mutual Members as possible.

Causes of uncertainty in estimating future claims payments

In addition to managing the underwriting risk resulting from the selection and acceptance of risk to be insured, the reserve valuation risk is monitored specifically. The Technical Committee is responsible for reviewing reserve variations in large files. Provisions for claims payable must be established as soon as the claim is reported. MMQ has set guidelines for reserves to which analysts refer daily. These reserves are valued individually for each case by the indemnification department. In addition to a regular follow-up, each file is reviewed annually by the department manager.

Although the department analysts spare no effort in preparing reliable financial data, this is not an exact science and surpluses or deficiencies in provisions may occasionally occur in spite of the control methods put in place to limit them. Moreover, insurers will always have to face changes in legal decisions, which can sometimes complicate the settlement of disputes as might be expected. Any important loss is examined by the insurance technical committee.

Additional provisions for claims incurred but that have not yet been reported and provisions for claims that have arisen and been reported but for which inadequate provisions exist are also recognized.

Reinsurance

The severity of claims is limited by reinsurance treaties in which, as a result, MMQ will bear up to $835,000 ($835,000 in 2018) on a net basis per event. Moreover, MMQ optimizes its reinsurance strategies to limit certain exposure.

Beyond this retention, excess, catastrophic, facultative and quota share loss treaties bring together the reinsurance capacity required for the operations of MMQ.

Reinsurance operations do not relieve MMQ of its obligations toward policyholders.

MMQ has treaties in all lines of business, which, beyond its retention, provide a limit of $15 million. It also has a catastrophe treaty for property and automobile insurance with a limit of $50 million in excess of $15 million.

To select its reinsurers, MMQ applies certain criteria as defined by its risk management policy for reinsurance. This policy provides selection criteria for both the reinsurers and the reinsurance broker chosen to represent it.

Moreover, MMQ does not use non-traditional ceded reinsurance treaties such as obligations in the event of a disaster.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

24. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Compensation of key management personnel, i.e., the directors and executive committee members, are detailed in the table below:

	2019	2018
	$	$
SHORT-TERM BENEFITS		
Executive committee	**1,129,682**	1,062,763
Severances - Executive Committee	**444,519**	-
Directors	**87,124**	88,125

25. RELATED PARTY TRANSACTIONS

MMQ Mutual Members unanimously resolved to ratify by way of regulation that the Chairman of the *Fédération québécoise des municipalités* (FQM) ex officio serve as Chair of MMQ's Board of Directors. Furthermore, the members of the Board of Directors unanimously decided to name the General Manager of the FQM the General Manager of MMQ as well.

Furthermore, in the course of its activities, MMQ established a number of partnership agreements with the FQM related to legal assistance services, visibility, the inclusion of MMQ in all FQM activities, as well as the sharing of personnel.

These agreements amount to a cost of $1,204,565 for the year ended December 31, 2019 ($1,026,067 for the year ended December 31, 2018) and include the following:

	2019	2018
	$	$
Legal assistance services to Mutual Members	494,389	471,967
Partnership agreements, communications and public relations	499,369	482,895
Staff sharing	86,946	71,205
Consulting services	123,861	-
	1,204,565	1,026,067

26. ADDITIONAL INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

Mutual Members Services are comprised of the following:

	2019	2018
	$	$
Salaries and fringe benefits (Note 24)	838,055	745,013
Risk management events	76,047	110,237
Professional fees – legal assistance services to Mutual Members	494,389	471,967
Professional fees – inspection	160,375	93,720
Professional fees – others	40,007	52,820
Travel expenses	145,824	144,214
Relations with Mutual Members	85,558	73,502
Depreciation of right-of-use assets (Note 11)	30,842	-
Interest – Lease liabilities	2,085	-
	1,873,182	1,691,473

Operating expenses are comprised of the following:

	2019	2018
	$	$
Salaries and corporate fringe benefits (Note 24)	2,810,464	2,190,798
Rent and administrative expenses	243,757	282,470
IT service expenses	857,375	485,146
Communications & public relations	407,039	401,984
Professional fees	594,315	387,021
Business partnerships	331,545	313,143
Attendance fees – directors	87,124	88,125
Attendance fees – external members	11,651	22,425
Travel expenses	93,707	105,843
Dues and subscriptions	21,550	31,681
Representation expenses	22,943	65,406
Depreciation of fixed assets (Note 9)	77,858	83,831
Amortization of intangible assets (Note 10)	285,204	417,596
Depreciation of right-of-use assets (Note 11)	36,648	-
Interest – lease liabilities	14,106	-
	5,895,286	4,875,469

27. COMPARATIVE FIGURES

Certain comparative information has been reclassified to conform with current year's presentation.

MMQ

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