La Mutuelle des municipalités du Québec

ANNUAL REPORT

THE ONLY INSURANCE MUTUAL IN QUÉBEC OWNED BY MUNICIPALITIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2020

Saint-Camille, Estrie | Photographer: Sylvain Laroche

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. MMQ is wholly-owned by the municipalities, Regional County Municipalities (RCMs) and intermunicipal boards that constitute its Mutual Members.

MMQ was born out of Québec municipal sector's desire to guarantee itself comprehensive and diversified long-term insurance. 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 support them in researching and implementing 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 favorable conditions.

OUR BROKER NETWORK

MMQ has teamed up with a network of insurance brokerage firms with extensive expertise in municipal insurance. 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

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 management to develop a dynamic and evolving environment, as well as appropriate policies and procedures.

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THE ONLY INSURANCE MUTUAL IN QUÉBEC OWNED BY MUNICIPALITIES

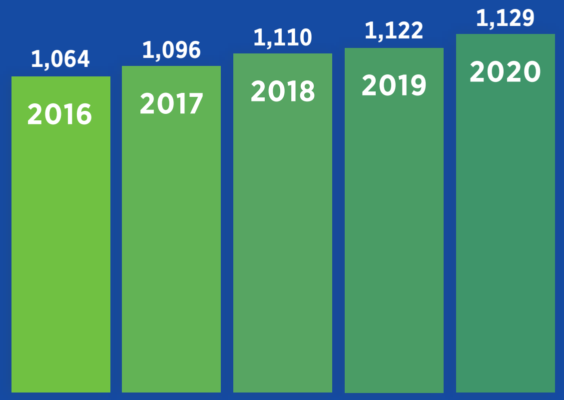
Created in 2003 to protect the municipal sphere from the major fluctuations in premiums imposed by traditional casualty insurance providers, ***La Mutuelle des municipalités du Québec*** (MMQ) remains the preferred partner for the protection of Québec municipalities, RCMs, and intermunicipal boards' activities.

MMQ has unparalleled municipal expertise in property and casualty insurance, risk management and claims settlement, which it puts to the service of its members on a daily basis.

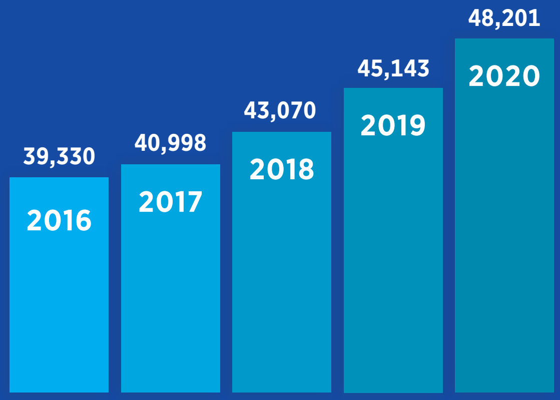
HIGHLIGHTS

MEMBERS SERVICES

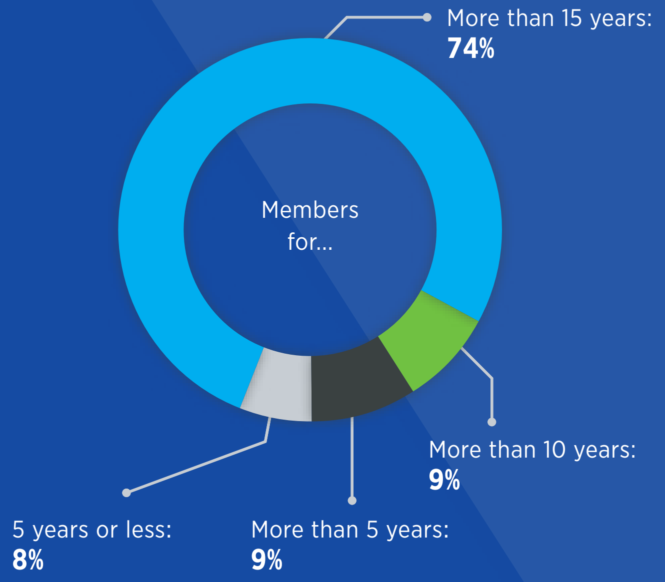
NUMBER OF MUTUAL MEMBERS



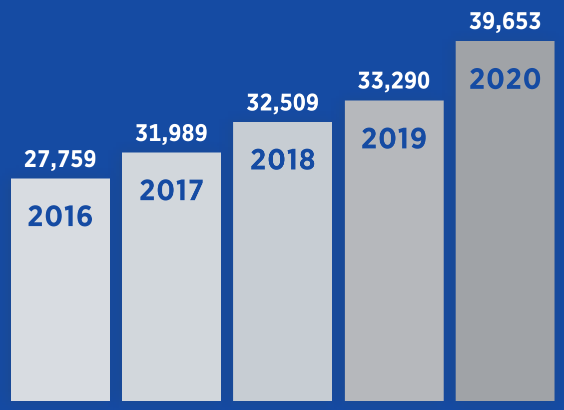
WRITTEN PREMIUMS (IN THOUSANDS OF DOLLARS)



SUSTAINABILITY OF MUTUAL MEMBERS



MUTUAL MEMBERS' EQUITY (IN THOUSANDS OF DOLLARS)



EXPERIENCE REFUND PAID (IN THOUSANDS OF DOLLARS)

HIGHLIGHTS

MUTUAL MEMBERS' SERVICES

	2020	2019	2018
INSPECTIONS			
Fire and Premises Safety			
Number of Members Inspected	130	216	196
Number of Building Inspected	1,078	2,471	2,526
Electrical and Systems Safety			
Number of Inspections (high power)	137	148	85
Number of Inspections (low power)	130	216	196
Total number of Building Inspected	1,549	3,030	3,444
Boiler Pressure Installations			
Number of Units Inspected	564	195	69
TRAINING			
MMQ Trainings and Conferences			
Number of Participants	953	364	872
Training in Partnership with Municipal Associations			
Number of Participants	167	190	632
TOTAL MMQ AND PARTNERSHIP			
Number of Participants	1,120	554	1,504
REMOTE SUPPORT			
Number of Members' Support Requests	893	1,057	1,178
Number of Analyses for the Underwriting Service	115	54	N/A
Number of Post-Claims Analyses	14	N/A	N/A
LEGAL ASSISTANCE SERVICE			
Number of cases processed	467	512	546

MESSAGE

FROM THE CHAIRMAN OF THE BOARD

Mr. Jacques Demers

AN UNUSUAL YEAR ON SEVERAL LEVELS

We cannot talk about the year 2020 without first addressing the global pandemic that has disrupted our daily lives, our ways of doing things, and our priorities. The pandemic has had various effects on the entire planet and in Québec, particularly on the activities of our municipalities. We all have had to innovate quickly and maintain services to citizens, while adapting our employees' work methods to the situation at hand.

This pandemic, combined with a difficult global situation for the property and casualty insurance industry lead to significant pressure on insurance and reinsurance premiums.

In a context that is pushing private insurers to double or even triple their premiums, the MMQ has once again demonstrated its relevance and the judicious choice made more than fifteen years ago to establish an insurance provider that belongs to us. This year, under very difficult circumstances, the MMQ has pursued its mission, avoiding disproportionate premium increases while ensuring that each municipality is able to be fully insured.

However, despite this situation of significant inflation in insurance premiums, the Board of Directors was able to approve the payment of a $2 million experience refund to eligible Mutual Members.

This experience refund, unprecedented in a context of widespread increases in insurance premiums, was made possible by prudent management and a net loss ratio of 47%, compared with 64% in 2019, a performance that enabled us to generate net earnings after experience refund of $6.4 million.

This surplus, despite the experience refund, will allow us to invest in the modernization of our technological infrastructure while helping to strengthen our financial soundness to be able to meet the challenges of tomorrow.

A BOARD OF DIRECTORS COMMITTED TO MMQ MEMBERS

I would like to highlight the ongoing commitment of the members of the Board of Directors towards the MMQ in a context where all aspects of our lives have been disrupted. In order to act in compliance with public health measures, all Board and committee meetings were held virtually from March onward. The same was true for the annual meeting of members, a first for the MMQ. To this end, the Board adopted amendments to the General By-law to authorize the holding of such meetings remotely, amendments that were then ratified by the annual meeting.

In addition, the Board of Directors has adopted a code of ethics applicable to employees in order to comply with the code applicable to directors and committee members.

Moreover, it has adopted delegation policies for the organization's various types of commitments for both its insurance and organizational operations. These new policies came into effect on January 1, 2021.

The Board of Directors has expanded the mandate of the Ethics and Governance Committee to include human resources issues. The Committee, now called the Ethics, Governance, and Human Resources Committee, invested with this new mandate, revised the MMQ's salary scales during the year and proceeded with the development of a new incentive compensation policy for the management team.

Finally, following a comparative analysis of the compensation conditions of members of the Board of Directors and statutory committees of organizations similar to the MMQ, the Board of Directors approved the Committee's recommendations regarding the adjustments to be made to the General By-law on this matter.

MESSAGE

FROM THE CHAIRMAN OF THE BOARD

“There is no doubt that it is in the best interest of Québec municipalities to become members of the only property and casualty insurance mutual which belongs to them. History has proven once again that the MMQ is essential in protecting municipal access to necessary insurance coverage at a reasonable cost.”

WARM THANKS TO THE ENTIRE MMQ TEAM

In conclusion, I want to thank all my colleagues, members of the Board of Directors, who actively participate in defining our orientations so that the MMQ continues to meet the current and future insurance needs of Québec municipalities.

I also wish to highlight the essential contribution of all the members of the MMQ’s statutory and advisory committees, who bring their expertise and experience to bear on the Board’s decisions.

I conclude by reminding you of the hard work of all members of the management team and each and every employee whose know-how enriches the service offered to MMQ member municipalities on a daily basis.

Jacques Demers

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

MESSAGE

FROM THE GENERAL MANAGER

Mr. Sylvain Lepage

THE MMQ, THE ONLY INSURANCE MUTUAL IN QUÉBEC OWNED BY MUNICIPALITIES

The unprecedented pandemic has necessitated a complete reorganization of work in your municipalities. As soon as the public health emergency was announced on March 13, the MMQ's Business Continuity Plan was activated, employees were directed to telework, and security protocols were put in place. This made it possible to maintain continuous service to members while preserving the health and safety of all.

As essential personnel, our claims adjusters have continued to actively support our members in the field and assist them in managing their claims with the same efficiency as always.

For its part, our risk management team had to adjust its methods by temporarily ceasing all field interventions and instead advising and supporting our members remotely. The team also conducted an analysis of municipal risks in a pandemic context to determine whether risks were being introduced or accentuated. This analysis led to awareness campaigns on the risks associated with buildings that had become temporarily vacant, cyberrisks, sewer back-ups increased by the additional use of disinfectant wipes, and leisure activities that experienced a surge in popularity.

During the year, the department also commissioned a new inspection software that includes a mobile inspection application to increase the efficiency of interventions and, as a result, quickly make up for the backlog accumulated by a temporary absence of field visits.

THE FQM/MMQ LEGAL ASSISTANCE SERVICE

The FQM/MMQ Legal Assistance Service plays an important role in reducing municipal risks in the areas of contractual relations, municipal regulations, regulatory enforcement, and access to information. In order to provide all the required supervision, the MMQ welcomed a new director who must dedicate herself fully to coaching service professionals and overseeing their projects. Moreover, in the context of the pandemic, the service has played a major role in supporting municipal organizations, particularly with respect to the interpretation of the new rules in effect.

ENVIABLE FINANCIAL RESULTS

The decrease in the frequency of claims at the beginning of the year and the milder spring had a positive effect on the MMQ's financial results. In this regard, as of December 31, 2020, gross written premiums stood at $48.2 million, an increase of 6.8% over 2019. This growth is due to the loyalty of our members, whose retention rate is over 99%, as well as the accession of eight new municipalities and municipal organizations in 2020.

Net income and comprehensive income attributable to Mutual Members amounted to $6.4 million as of December 31, 2020. This amount is added to the Mutual Members' equity, which stood at $39.7 million at year-end.

These results were achieved against the backdrop of a major hardening of the insurance market due in particular to climate disruption and the economic uncertainty caused by the pandemic.

The aforementioned upheavals demonstrate the importance of maintaining prudent management and to take action in order to anticipate such market trends. For these reasons, we are constantly reviewing our practices and procedures.

MESSAGE

FROM THE GENERAL MANAGER

"More than ever, the advantages of being able to count on a mutual insurance provider that belongs to you are clear and obvious. In short, because you wholly own the MMQ, we can take action in everyone's best interest to introduce products and services adapted to the reality of Québec municipalities, while providing insurance at a reasonable cost."

A MAJOR TECHNOLOGICAL TRANSFORMATION PROJECT

The pandemic struck while we were preparing to launch a major call for tenders in the area of technology. Despite difficulties caused by the slowdown in activities in Québec, we were able to award a contract for the acquisition and implementation of a new management system for our insurance operations. This major technological transformation project will not only require a considerable financial investment, but also significant efforts by all our teams over the next two years.

This implementation is also a first step in improving our productivity and the diversity of products that we will be able to offer to municipal organizations in Québec.

CYBERSECURITY ACTIONS

The past year has also seen a significant increase in cyber attacks on organizations of all kinds. This is a risk that is becoming more real than ever, and Québec municipalities will no doubt have to be better prepared to deal with it. Therefore, in addition to offering insurance coverage in this area, the MMQ has launched an awareness campaign among municipal employees to make them mindful of the seriousness of the problem and train them in ways to address it. As for the MMQ itself, we have implemented active measures to protect our own organization against this risk. Although this type of risk may seem abstract to each of us as individuals, it is undoubtedly one of the potentially difficult situations for which we need to be prepared.

A DEDICATED TEAM

The current situation has provided an unprecedented opportunity to verify the real capacity of our organizations to deal with adversity. In this regard, I can tell you that the MMQ team has passed this important test. For example, the team mobilized quickly to ensure that our activities continued without interruption and to help you confront the challenges that the situation presented. I would therefore like to sincerely thank each and every MMQ employee for their commitment and their ability to face this situation as a team. Thanks to their dedication, we were able to successfully meet the challenges that arose during this unusual year.

Sylvain Lepage

GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors is responsible for 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 from the senior public service of the government of Québec and strategic advisor to public organizations and academic institutions

NON-ELECTED OFFICERS

SYLVAIN LEPAGE

General Manager of *La Mutuelle des municipalités du Québec*

FRANÇOISE MERCURE

Board Secretary

GOVERNANCE

STATUTORY COMMITTEES

ETHICS, GOVERNANCE, AND HUMAN RESOURCES

The mandate of the Ethics, Governance, and Human Resources 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 based on the highest standards in this domain.

To this end, the Committee has developed and implemented a governance program aimed at fostering a culture of democratic, effective, and ethical governance based on the MMQ's mission and values. It oversees compensation programs, working conditions, strategy, policies, and programs governing human resources management.

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

AUDIT AND INTEGRATED RISK MANAGEMENT

The Audit and Integrated Risk Management Committee is responsible for reviewing the MMQ's financial statements and other financial information. It ensures compliance with accounting and actuarial practices and monitors the activities of both the external auditor and the appointed actuary. The Committee is also mandated to analyze risk control and management mechanisms, and to ensure the effectiveness and respect of control measures. In addition, the Board has charged the Committee to oversee the MMQ's investment practices.

Members: André Normandin (Chairman), Arthur Gobeil, Robert Sauvé 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 Fillion and Raymond Noël.

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, John Emory, Louise Labonté and Guillaume Lamoureux.

CLAIMS

The Claims Committee advises management and the Board on orientations to be adopted in the area of claims. In that regard, the Committee examines all changes affecting the Claims 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 the technologies strategic vision statement. The Committee's objective is to support the MMQ in its technological transformation initiative, while assuring the sustainability of its technological infrastructures.

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

MANAGEMENT'S RESPONSIBILITY

WITH RESPECT TO THE PRESENTATION OF FINANCIAL INFORMATION

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

The MMQ's financial statements have been audited on behalf of the 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 Meeting of Mutual Members held in May 2019.

Policy and claims liabilities were certified by the appointed actuary, Mrs. Julie-Linda Laforce of the firm Axxima, in accordance with Canadian accepted actuarial practices. Mrs. Laforce was designated by the MMQ's Board of Directors at their meeting in September 2020.

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

After examination of the auditors' report, the Audit and Integrated Risk Management Committee recommended approval of the financial statements by the Board of Directors, which approved them at their meeting held on February 25, 2021.

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, 2020;
- 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, 2020, 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 AUDITOR'S 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 25, 2021
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 at December 31, 2020 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 22, 2021
Saint-Bruno-de-Montarville, Canada

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020, WITH COMPARATIVE INFORMATION FOR 2019

	2020	2019
	$	$
REVENUES		
Written premiums		
Gross premiums	48,200,793	45,143,458
Ceded premiums	(7,449,646)	(6,449,087)
Net premiums (Note 12)	40,751,147	38,694,371
Net change in unearned premiums (Note 12)	(1,356,725)	(792,412)
Net earned premiums (Note 12)	39,394,422	37,901,959
Ceding commissions (Note 13)	69,062	43,003
Total Revenues	**39,463,484**	37,944,962
POLICY BENEFITS AND EXPENSES		
Policy Benefits		
Policyholders benefits and claims expenses (Note 7)	25,381,628	38,597,949
Ceded benefits and claims expenses (Note 7)	(6,984,391)	(14,275,214)
Policyholders benefits and claims expenses – net	18,397,237	24,322,735
Commissions (Note 8)	7,026,611	6,652,642
Mutual Members services (Notes 15 & 26)	1,832,419	1,873,182
Operating expenses (Notes 15 & 26)	5,219,727	5,895,286
	14,078,757	14,421,110
Total policy benefits and expenses	**32,475,994**	38,743,845
Technical (deficit) surplus	**6,987,490**	(798,883)
Investment income (Note 16)	1,374,444	1,602,528
Income for the year before experience refund to Mutual Members	**8,361,934**	803,645
Experience refund to Mutual Members (Note 17)	2,000,000	–
Experience refund to withdrawn Mutual Members (Note 17)	–	(721)
	2,000,000	(721)
Net income and comprehensive income attributable to Mutual Members	**6,361,934**	804,366

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, 2020, WITH COMPARATIVE INFORMATION FOR 2019

	2020	2019
	$	$
Surplus at beginning	33,177,933	32,398,111
Impact of adoption of IFRS 16 (Note 3)	–	(24,844)
Withdrawals of Mutual Members during the year (Note 18)	100	300
Net income and comprehensive income	6,361,934	804,366
Surplus at end	**39,539,967**	33,177,933
Mutual Members' shares at beginning	112,200	111,000
Contributions from Mutual Members during the year (Note 18)	800	1,500
Withdrawals of Mutual Members during the year (Note 18)	(100)	(300)
Mutual Members' shares at end	**112,900**	112,200
Total Mutual Members' equity	**39,652,867**	33,290,133

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2020, WITH COMPARATIVE INFORMATION FOR 2019

	2020	2019
	$	$
ASSETS		
Cash (Note 4)	18,711,479	14,679,449
Investments (Note 4)	56,571,525	47,375,236
Premiums receivable (Note 5)	15,196,590	14,266,841
Accounts receivable (Note 6)	622,014	662,306
Prepaid reinsurance premiums	2,025,951	1,689,316
Reinsurers' share in claims and settlement expenses paid	645,913	5,344,270
Reinsurers' share in the provision for unpaid claims and settlement expenses (Note 7)	21,924,125	18,154,109
Prepaid expenses	106,122	127,655
Deferred commissions costs (Note 8)	3,583,495	3,379,987
Fixed assets (Note 9)	410,626	216,866
Intangible assets (Note 10)	24,491	80,786
Right-of-use assets (Note 11)	208,400	303,872
	120,030,731	106,280,693
LIABILITIES		
Provision for unpaid claims and settlement expenses (Note 7)	53,342,512	48,829,844
Unearned premiums (Note 12)	23,889,743	22,533,018
Unearned ceding commissions (Note 13)	37,819	30,013
Accounts payable and accrued expenses	948,616	1,139,098
Experience refund payable to Mutual Members (Note 17)	1,824,440	–
Lease liabilities (Note 14)	334,734	458,587
	80,377,864	72,990,560
MUTUAL MEMBERS' EQUITY		
Surplus	39,539,967	33,177,933
Mutual Members' shares (Note 18)	112,900	112,200
	39,652,867	33,290,133
	120,030,731	106,280,693

Commitments (Note 20)

Contingencies (Note 21)

On behalf of the Board,

Jacques Lefebvre, Director

Robert Sauvé, Director

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020, WITH COMPARATIVE INFORMATION FOR 2019

	2020	2019
	$	$
CASH PROVIDED BY (USED IN)		
OPERATING		
Net income	6,361,934	804,366
Items not affecting cash:		
Depreciation of fixed assets	100,054	77,858
Amortization of intangible assets	70,714	285,204
Depreciation of right-of-use assets	95,472	89,482
Finance costs	18,500	21,397
	6,646,674	1,278,307
Reinsurers' share in the provision for unpaid claims and settlement expenses	(3,770,016)	(7,634,284)
Deferred commissions costs	(203,508)	(118,877)
Unearned premiums	1,356,725	792,412
Unearned ceding commissions	7,806	17,626
Provision for unpaid claims and settlement expenses	4,512,668	10,467,894
Interest earned	(1,374,444)	(1,602,528)
Finance costs paid	(18,500)	(21,397)
Change in non-cash operating working capital items (Note 19)	5,231,258	(8,714,891)
	12,388,663	(5,535,738)
INVESTING		
Acquisition of investments	(31,976,496)	(24,795,219)
Proceeds from the sale of investments	22,703,504	38,793,624
Interest received	1,347,645	1,636,453
Acquisition of fixed assets	(293,814)	(41,429)
Acquisition of intangible assets	(14,419)	(12,365)
	(8,233,580)	15,581,064
FINANCING		
Contributions from Mutual Members	800	1,500
Repayment of lease liabilities	(123,853)	(110,419)
	(123,053)	(108,919)
Net increase in cash and cash equivalents	4,032,030	9,936,407
Cash and cash equivalents at beginning	14,679,449	4,743,042
Cash and cash equivalents at end	**18,711,479**	14,679,449

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 activity 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 25, 2021.

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 liability is made up of two components: the claims liability and the premium liability. The claims liability includes provisions for indemnities, 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 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, 2020

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, 2020 and December 31, 2019, 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, 2020

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, 2020

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, 2020

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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) Leases

At inception, MMQ assesses if a contract is a lease based and, if so, whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MMQ recognizes a right-of-use asset and a lease liability at the commencement date of the lease, i.e. the date the underlying asset is available for use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) Leases (cont'd)

Right-of-Use Assets

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and are adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets are composed of:

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

Right-of-use assets are depreciated on a straight-line basis over the lesser of:

i) the estimated useful life of the underlying asset; or

ii) the duration of the lease.

The useful life of the underlying asset is determined on the same basis as that of fixed assets. They are assessed for impairment whenever there is an indication that the right-of-use assets may be impaired.

Lease Liabilities

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

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

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

Short-term leases and leases of low-value assets

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i) 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 relating to the period of coverage remaining at year-end.

ii) Deferred commission costs

Commissions associated with the acquisition of premiums are deferred and amortized over the term of the related policies to the extent that they are deemed recoverable, after taking into account related claims and costs as well as expected investment income.

iii) Unearned ceding commissions

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

j) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

j) Balances related to claims (cont'd)

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

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 1.90% excluding the interest rate margin at December 31, 2020 (2.30% in 2019).

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, 2020 vary from 5% (5% in 2019) for short-term risks, such as for property and automobiles, and 12.5% (12.5% in 2019) for long-term risks, such as general 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, 2020, this ratio varies from 20% to 80% (20% to 80% in 2019) 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, 2020 (1% in 2019).

k) 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.

l) 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, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

m) 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.

n) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. CHANGES IN ACCOUNTING POLICIES

a) Initial application of new or amended accounting standards for the financial reporting period

Applying IFRS 16 *Leases*

Effective January 1, 2019, MMQ adopted IFRS 16, which replaces IAS 17, *Leases*, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

a) Initial application of new or amended accounting standards for the financial reporting period (cont'd)

Applying IFRS 16 *Leases* (cont'd)

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.

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.

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)

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*.

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, 2023:

- 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, 2023.

MMQ chose 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, 2023. The extent of the impact of adoption of the standard has not yet been determined.

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, 2023. 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, 2023 and is currently evaluating the impact of this new standard on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

4. INVESTMENTS

MMQ has negotiated conditions allowing it to obtain on its cash accounts a minimum interest rate corresponding to the prime rate minus 1.8%.

			2020
	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 0.65% to 4.10% and maturing from January 2021 to October 2028	26,309,387	27,079,601	26,453,391
LOANS AND RECEIVABLES			
Capital shares bearing interest at variable rate from 0% to 4.25% with no fixed maturity	2,000,000	2,000,000	2,000,000
Term deposits, including an annually redeemable balance, bearing interest from 0.64% to 2.40%, maturing from February 2021 to January 2023	28,118,134	28,118,134	28,118,134
	56,427,521	**57,197,735**	**56,571,525**

			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 rate from 0% to 4.25% with no fixed maturity	2,000,000	2,000,000	2,000,000
Term deposits, including an annually redeemable balance, 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, 2020

4. INVESTMENTS (CONT'D)

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 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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:

	2020	2019
	$	$
GROSS FINANCIAL ASSETS		
Premiums receivable	17,878,341	16,784,519
OFFSET FINANCIAL LIABILITIES		
Commissions payable	(2,681,751)	(2,517,678)
Net balance presented in the statement of financial position	**15,196,590**	14,266,841

6. ACCOUNTS RECEIVABLE

	2020	2019
	$	$
Financial assets on a gross basis	571,133	467,631
Experience refunds receivable	–	175,560
Other receivables	50,881	19,115
	622,014	662,306

Experience refunds receivable correspond to experience refunds overpaid to certain MMQ Mutual Members. These amounts are offset by experience refund payable to Mutual Members' at December 31, 2020.

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:

			2020
	Gross	**Ceded**	**Net**
	$	**$**	**$**
Provision for unpaid claims and settlement expenses at beginning	48,829,844	18,154,109	30,675,735
Increase in estimated losses and expenses			
During the current year	19,814,609	1,883,349	17,931,260
During previous years	7,373,154	6,907,177	465,977
	27,187,763	8,790,526	18,397,237
Amounts paid for claims incurred			
During the current year	5,552,267	13,131	5,539,136
During previous years	17,122,828	5,007,379	12,115,449
	22,675,095	5,020,510	17,654,585
Provision for unpaid claims and settlement expenses at end	**53,342,512**	**21,924,125**	**31,418,387**

			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

Loss ratio sensitivity analysis

Given the use of a loss ratio in establishing the provision for unpaid claims and settlement expenses, as mentioned in the second paragraph of Note 2 j), a 5% increase or decrease in the expected loss ratio would result, respectively, in an increase or decrease in the net provision of reinsurers' share for unpaid claims and settlement expenses of approximately $509,000 as at December 31, 2020 ($480,000 as at December 31, 2019).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

7. CLAIMS AND SETTLEMENT EXPENSES (CONT'D)

Estimated ultimate claims (in thousands of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**Total**
	$	$	$	$	$	$	$	$	$	$	$	**$**
At the end of year of occurrence	12,680	11,034	12,993	16,254	14,850	15,643	17,650	17,757	22,115	25,941	17,931	
One year later	11,998	10,656	11,131	15,596	14,807	14,868	16,482	16,850	20,648	26,761		
Two years later	11,855	10,128	11,149	16,010	14,827	15,067	14,275	16,057	19,496			
Three years later	11,644	10,245	10,892	15,046	14,076	13,801	14,640	17,129				
Four years later	11,685	10,493	10,920	14,710	13,062	12,988	14,035					
Five years later	11,640	10,432	10,977	13,355	13,265	12,769						
Six years later	11,576	10,215	9,874	13,258	12,829							
Seven years later	11,835	9,474	9,720	13,080								
Eight years later	10,920	9,520	9,612									
Nine years later	10,588	9,454										
Ten years later	10,479											
Current estimate of cumulative claims	10,479	9,454	9,612	13,080	12,829	12,769	14,035	17,129	19,496	26,761	17,931	163,575
Less cumulative payments	(10,476)	(9,397)	(9,584)	(12,822)	(11,968)	(11,875)	(12,982)	(13,451)	(15,384)	(18,720)	(5,539)	(132,198)
Provision for unpaid claims and settlement expenses - net	3	57	28	258	861	894	1,053	3,678	4,112	8,041	12,392	31,377
Years prior to 2010												42
Reinsurers' share in the provision for unpaid claims and settlement expenses												21,924
Provision for unpaid claims and settlement expenses – gross												**53,343**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

8. DEFERRED COMMISSIONS COSTS

	2020	2019
	$	$
Balance at beginning	3,379,987	3,261,110
Deferred commissions costs during the year	7,230,119	6,771,519
Amortization of deferred commissions costs during the year	(7,026,611)	(6,652,642)
	203,508	118,877
Balance at end	**3,583,495**	3,379,987

9. FIXED ASSETS

	Leasehold improvements	**Furniture**	**Computer equipment**	**Total**
	$	**$**	**$**	**$**
COST				
Balance as at December 31, 2018	294,970	130,290	286,786	712,046
Acquisitions	–	–	41,429	41,429
Balance as at December 31, 2019	294,970	130,290	328,215	753,475
Acquisitions	157,350	80,156	56,308	293,814
Balance as at December 31, 2020	452,320	210,446	384,523	1,047,289
DEPRECIATION				
Balance as at December 31, 2018	135,159	79,073	244,519	458,751
Depreciation expense	29,088	13,020	35,750	77,858
Balance as at December 31, 2019	164,247	92,093	280,269	536,609
Depreciation expense	43,666	16,678	39,710	100,054
Balance as at December 31, 2020	207,913	108,771	319,979	636,663
CARRYING AMOUNT				
As at December 31, 2019	130,723	38,197	47,946	216,866
As at December 31, 2020	**244,407**	**101,675**	**64,544**	**410,626**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

10. INTANGIBLE ASSETS

	Software
	$
COST	
Balance as at December 31, 2018	1,800,119
Acquisitions	12,365
Balance as at December 31, 2019	1,812,484
Acquisitions	14,419
Balance as at December 31, 2020	1,826,903
DEPRECIATION	
Balance as at December 31, 2018	1,446,494
Depreciation expense	285,204
Balance as at December 31, 2019	1,731,698
Depreciation expense	70,714
Balance as at December 31, 2020	1,802,412
CARRYING AMOUNT	
As at December 31, 2019	80,786
As at December 31, 2020	**24,491**

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
Acquisitions	–
Balance as at December 31, 2020	393,354
DEPRECIATION	
Balance as at December 31, 2018	–
Depreciation expense	89,482
Balance as at December 31, 2019	89,482
Depreciation expense	95,472
Balance as at December 31, 2020	184,954
CARRYING AMOUNT	
As at December 31, 2019	303,872
As at December 31, 2020	**208,400**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

12. UNEARNED PREMIUMS

	2020	2019
	$	$
Balance at beginning	22,533,018	21,740,606
Net written premiums during the year	40,751,147	38,694,371
Net earned premiums during the year	(39,394,422)	(37,901,959)
	1,356,725	792,412
Balance at end	**23,889,743**	22,533,018

13. UNEARNED CEDING COMMISSIONS

	2020	2019
	$	$
Balance at beginning	30,013	12,387
Commissions on ceded premiums during the year	76,868	60,629
Net earned ceding commissions during the year	(69,062)	(43,003)
Balance at end	**37,819**	30,013

14. LEASE LIABILITIES

Lease payments required in the next years are as follows:

	2020	2019
	$	$
Within one year	123,926	142,353
Later than one year no later than five years	238,649	362,575
	362,575	504,928
Discounting impact	(27,841)	(46,341)
Present value of lease payments	**334,734**	458,587

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

	2020	2019
	$	$
Current portion	110,502	123,853
Non-current portion	224,232	334,734
	334,734	458,587

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

15. STAFF RELATED COSTS

	2020	2019
	$	$
Salaries and severances	4,128,951	4,281,213
Fringe benefits	677,590	649,559
	4,806,541	4,930,772

16. INVESTMENT INCOME

	2020	2019
	$	$
LOANS AND RECEIVABLES		
Interests	829,719	973,399
Experience refunds on cashed interest	26,853	27,410
	856,572	1,000,809
HELD-TO-MATURITY		
Interests	517,872	601,719
	1,374,444	1,602,528

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 MMQ's historic performance and on the conclusions of the financial condition testing report prepared annually by the appointed actuary. This test allows MMQ to determine, most notably, whether it has the financial capacity to meet adverse situations while remaining financially viable.

The current context marked by COVID-19 and the extreme weather events affecting the entire insurance industry calls for caution. In order to maintain the solid financial position of the company, MMQ's Board of Directors has decided, at its December 7, 2020 meeting, to issue an experience refund of $2,000,000 for the year ended December 31, 2020 (none for the year ended December 31, 2019).

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

- be a Mutual Member of MMQ for four years no later than January 1 of the third year preceding the year in which the rebate is declared;
- maintain its insurance policy in force between the closing date of the financial statements and December 30 of the following year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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 in proportion to the total underwritten premiums by eligible Mutual Members during a determined 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, which is evaluated upon the loss ratio for 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 is 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' annual 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 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, 2020

18. MUTUAL MEMBERS' SHARE (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*.

	2020	2019
Number of Mutual Members	**1,129**	1,122
Contributions from Mutual Members	**$112,900**	$112,200

During the year ended December 31, 2020, 8 Mutual Members (15 Mutual Members in 2019) joined MMQ and 1 Mutual Member withdrew (3 Mutual Member withdrew in 2019).

19. ADDITIONAL CASH FLOW INFORMATION

Changes in non-cash working capital items:

	2020	2019
	$	$
Premiums receivable	(929,749)	(530,169)
Accounts receivable	143,794	(164,308)
Prepaid reinsurance premiums	(336,635)	(293,525)
Reinsurers' share in claims and settlement expenses paid	4,698,357	(4,774,463)
Prepaid expenses	21,533	53,440
Accounts payable and accrued expenses	(190,482)	(5,866)
Experience refund payable to Mutual Members	1,824,440	(3,000,000)
	5,231,258	(8,714,891)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

20. COMMITMENTS

MMQ is committed under lease agreements expiring no later than June 2024, to pay an amount of $357,592 for the rental of premises and vehicles. The following payments are expected to be made in the coming fiscal years:

Year	$
2021	102,169
2022	102,169
2023	102,169
2024	51,085

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 so as to comply with the capital adequacy requirements as required by the *Loi sur les assureurs* (*Insurers Act*) 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.

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

The available capital 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, 2019).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

22. CAPITAL MANAGEMENT (CONT'D)

As at December 31, 2020 and 2019, the MCT is detailed as follows:

(in thousands of dollars)	**2020**	2019
	$	$
Total capital available	39,629	33,209
Total capital required	9,871	9,068
Excess capital	29,758	24,141
Result of MCT Measure	401%	366%

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, governance and human resources and the statutory committee of audit and integrated risk management, as well as the advisory committees of insurance, claims, 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 2020 by The Board of Directors.

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.

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

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.

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, 2020, the bond portfolio was composed of Québec municipal bonds and provincial bonds. As at December 31, 2020, seven municipalities represented 50% of the portfolio (six municipalities and provinces represented 52% of the portfolio in 2019).

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Financial risks (cont'd)

a) Risque de crédit (suite)

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 and have 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 network may be faced with insolvency problems. As at December 31, 2020 and 2019, no premiums receivable were outstanding.

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."

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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)				**2020**
	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)	**13,385**	**5,559**	**5,782**	**4,359**
Bonds	12,175	5,818	6,109	2,207
Capital shares	2,000	–	–	–
Term deposits	19,118	9,000	–	–
Total	**33,293**	**14,818**	**6,109**	**2,207**

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.

(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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Financial risks (cont'd)

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.

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 $610,000 impact on the provision for unpaid claims and settlement expenses as at December 31, 2020 ($561,000 as at December 31, 2019).

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 $512,000 as at December 31, 2020 ($591,000 as at December 31, 2019).

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.

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

Insurance risks (cont'd)

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 is exposed to losses of a catastrophic nature and has protected itself from them by signing reinsurance treaties limiting the losses that could result from each event.

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.

The insurance products offered by MMQ include property, loss of income, general liability and excess liability, errors and omissions, automobile, crime, boiler and machinery, cyberrisk as well as 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.

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

Insurance risks (cont'd)

Underwriting risk (cont'd)

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.

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.

General liability and excess liability - General 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 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, 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, 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 legal assistance service. The purpose of this service is to reduce claims by providing legal advice and support in certain targeted areas of law.

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

Insurance risks (cont'd)

Claims settlement risk (cont'd)

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 lowered 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.

Cyberrisks - 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 general 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 with property and general liability insurance.

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. In addition, the training sessions offered by MMQ are given by webinar in order to reach the greatest number of Mutual Members and in person in most regions when the situation allows it.

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 and, 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 significant 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

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 2019) 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 catastrophe treaties 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.

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:

	2020	2019
	$	$
SHORT-TERM BENEFITS		
Executive committee	**1,156,409**	1,129,682
Severances - Executive Committee	**–**	444,519
Directors	**62,035**	87,124

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

25. RELATED PARTY TRANSACTIONS

MMQ shares with the *Fédération québécoise des municipalités* (FQM) a number of employees who occupy management positions common to both organizations: general management, human resources and organizational performance, communication and legal affairs.

MMQ is also linked to FQM through various agreements regarding the legal assistance service, visibility and the full inclusion of MMQ in all FQM activities. Finally, MMQ sometimes uses services offered by FQM to Québec municipalities (e.g.: labor relations, lawyers, engineering). These services are paid accordingly to the rates applicable to municipalities which are FQM members.

These agreements amount to a cost of $1,490,552 for the year ended December 31, 2020 ($1,204,565 for the year ended December 31, 2019) and include the following:

	2020	2019
	$	$
Legal assistance services to Mutual Members	554,506	494,389
Partnership agreements, communications and public relations	554,603	499,369
Staff sharing	123,120	86,946
Consulting services	258,323	123,861
	1,490,552	1,204,565

In addition, on November 1, 2020, the FQM acquired the exclusive distribution rights for the MMQ's insurance products for the entire territory of Quebec, rights that had until then been owned by Groupe Ultima. This acquisition does not involve any additional cost for the MMQ, as the amounts in question were previously payable to Groupe Ultima, but they will increase the value of the transactions between the two related entities.

Commissions on written premiums totaled $2,681,970 for the year ended December 31, 2020 (none for the year ended December 31, 2019), while commissions on earned premiums included in earnings are as follows:

	2020	2019
	$	$
Commissions on earned premiums	**67,154**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

26. ADDITIONAL INFORMATION TO THE STATEMENT OF COMPREHENSIVE INCOME

Mutual Members services are comprised of the following:

	2020	2019
	$	$
Salaries and fringe benefits (Note 24)	881,001	838,055
Risk management events	79,224	76,047
Professional fees – Legal assistance services to Mutual Members	554,206	494,389
Professional fees – Inspection	146,560	160,375
Professional fees – Others	26,383	40,007
Travel expenses	67,766	145,824
Relations with Mutual Members	45,599	85,558
Depreciation of right-of-use assets (Note 11)	30,627	30,842
Interest – Lease liabilities	1,053	2,085
	1,832,419	1,873,182

Operating expenses are comprised of the following:

	2020	2019
	$	$
Salaries and corporate fringe benefits (Note 24)	2,622,800	2,810,464
Rent and administrative expenses	271,793	243,757
IT service expenses	550,060	850,724
Communications & public relations	357,700	413,690
Professional fees	710,650	594,315
Business partnerships	363,177	331,545
Attendance fees – Directors	62,035	87,124
Attendance fees – External members	5,392	11,651
Travel expenses	26,604	93,707
Dues and subscriptions	18,346	21,550
Representation expenses	10,993	22,943
Depreciation of fixed assets (Note 9)	100,054	77,858
Amortization of intangible assets (Note 10)	70,714	285,204
Depreciation of right-of-use assets (Note 11)	36,648	36,648
Interest – Lease liabilities	12,761	14,106
	5,219,727	5,895,286

27. COMPARATIVE FIGURES

Certain comparative information for 2019 have been reclassified to conform to that adopted for the current year.

MMQ

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