# ANNUAL 2016

# UNION IS OUR STRENGTH



L'ASSURANCE MUTUELLE DES FABRIQUES DE MONTRÉAL

CABINET EN ASSURANCE DE DOMMAGES



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Looking to the future

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The pictures in this annual report come from some of our activities and from churches that are members of la Mutuelle.



# Being a member of la Mutuelle: a matter of pride and heart

# MUTUALISM, YOUR MUTUELLE AND YOU, DEAR MEMBERS

For almost 165 years, L'Assurance mutuelle des fabriques de Montréal has taken pride in basing its practices on mutualism and mutual assistance. In insurance, we can find several advantages to this operational model. Mutualism has a specific structure which allows members to participate in the election of officers and in decision-making. In a private company, it is not possible to express yourselves in this way. Because la Mutuelle belongs to its members, it is important that everybody be aware of this major difference and that they express their opinions by using their voting rights when the opportunity arises. In 2016, many members did so by going to assemblies to give their opinion on various decisions regarding the future of la Mutuelle. This made all the difference.

La Mutuelle has the advantage of knowing the needs and expectations of its members. And these days, there are many. That is why we take into consideration the importance of offering you competitive rates, annual profit sharing, a dedicated team, excellent customer service and additional services such as the Centre d'entraide et de prevention, the like of which you won't find in the private sector.

# OUR MISSION

To support, through mutual cooperation and collaboration, the insurance needs of the Roman Catholic Church of Quebec.

# OUR VISION

To be a trusted partner for the fabriques, dioceses and religious institutions.

To be recognized as the best provider of insurance products by those responsible for religious buildings.

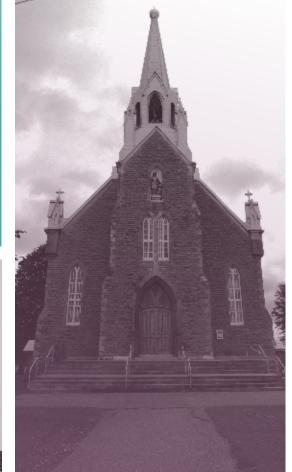
To be recognized as a solid, credible and competent financial institution by the financial community and regulatory agencies.

# OUR VALUES

- Protection, dignity and recognition of each member
- Primacy of collective interest over individual interest
- Mutual assistance, solidarity, fairness and good faith
- Mutualism
- Democratic governance and transparency
- Prevention and caution guarantors of our financial soundness and continuity











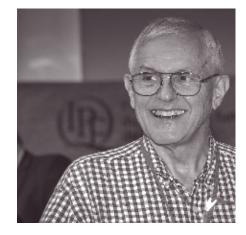


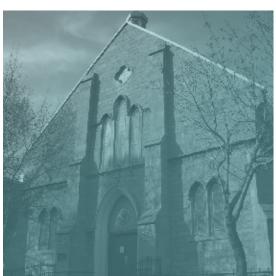


















# Important facts for 2016

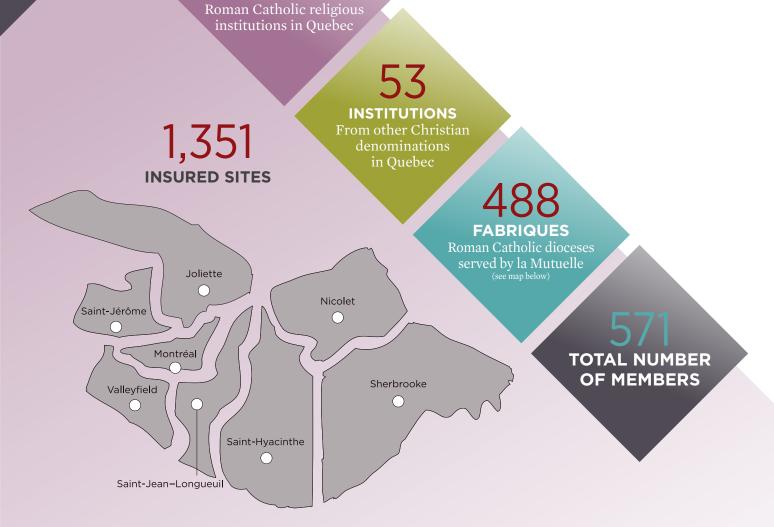
# \$2.6B PROTECTED AND INSURED VALUE

of religious heritage

\$2.4M SUM REDISTRIBUTED

to members in 2016 in the form of programs, grants, and rebates

# OUR COMMUNITY IN NUMBERS



INSTITUTIONS

Approximate values evaluated December 31, 2016.





# MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

### DEAR MEMBERS,

The years go by and times change. And that's a good thing, because change is often an indication of vitality, improvement and renewal, and that is without a doubt a good reflection of what the year 2016 was for la Mutuelle, or should I say, "les mutuelles"! Indeed, driven by its mission to ensure the protection of its members and the sustainability of their places of worship in a mutualist spirit of mutual assistance, la Mutuelle not only prepared significant activities under the theme "A built legacy to protect", but also took up a major project, that of the merger meant to consolidate the strengths of two cooperatives of Church people, L'Assurance mutuelle des fabriques de Montréal (AMFM) and L'Assurance Mutuelle de l'Inter-Ouest.

## A PROJECT ACCOMPLISHED IN THE INTERESTS OF THE PARTIES AND OF THEIR CHURCH

Accomplishing a merger between two companies, even if they are pursuing the same goals, isn't simple. That is why numerous meetings and discussions took place and that is also the reason why we conscientiously crossed each step while being sure to consult you and have you approve any issues that required your approval. Simultaneously, we are required to abide by the requirements of various regulatory authorities, such as the Autorité des marchés financiers (AMF), which at times required us to react within hours of assemblies organized specifically so that the members could adopt resolutions. We are well aware that, at times, certain documents were released a little late, but we are happy to have been able to achieve the ambitious objectives that the situation imposed on us, to accomplish in under a year a merger made necessary in the interests of all the members and the Church. The project was a big one: we had to enable, before the annual renewal of the policies, the merger of two valiant entities, one disposing of great solvency but a reduced infrastructure, and the other disposing of an infrastructure that meets industry and regulatory standards. What I'm most proud of is to have been able to, despite everything, support the gathering of Church people around a common, future-oriented project, rather than participate in the dispersal of members from a sister community to private interest institutions that do not

so proudly carry the torch of mutual assistance and sharing. I therefore hope for a long life for this new mutual of Church people, long life to the Mutuelle d'assurance en Église!

It is also important to me to note the contribution and support of the administrators of L'Assurance Mutuelle de l'Inter-Ouest. As you know, two of them will be part of the board of directors of the new entity alongside the current administrators of the AMFM. Furthermore, the mandates of three of the AMFM's administrators are ending this year and, in accordance with the reduction goals of the new governance structure adopted in April 2016, only two of those positions will be replaced. This year, we will proceed with the election of these two administrators chosen from amongst the members, including the members of L'Assurance Mutuelle de l'Inter-Ouest.

It is therefore in this highly stimulating context that I present you L'Assurance mutuelle des fabriques de Montréal's last annual report for the fiscal year ended on December 31, 2016. L'Assurance Mutuelle de l'Inter-Ouest's final financial report was approved at the last general meeting of its members.



### FINANCIAL RESULTS

This year, la Mutuelle showed a loss of \$1.3 million, which is a slight improvement compared to 2015. This deficit situation was caused mainly by merger fees totalling \$0.5 million as well as by another disappointing year in the global economy resulting in modest returns on our investments.

Despite the weakness of the financial market, the Board of Directors has decided to maintain the amount of the members' surplus distribution at a comparable level to the good years of investment returns. It goes without saying that if this situation were to persist, it may become necessary to adjust the amount of the members' surplus distribution or of the value-added services offered. However, various measures have already been undertaken on an operational level in order to avoid, as much as possible, such a situation.

The series of initiatives that have been introduced allows us to remain optimistic about the future. We therefore distributed \$2.4 million to the members this year in the form of members' surplus distribution, subsidies and programs. Of this amount, the members' surplus distribution represents \$1.8 million.

On the insurance operations side of things, the gross premiums earned have increased by \$0.12 million, or 2%, compared to 2015, in large part because of the indexation of insured values. The portion ceded to reinsurers, more expensive, increased by \$0.14 million, or 3%, compared to 2015, thus generating a slight decrease in net premiums earned of almost \$0.02 million compared to 2015. The insurance operations deficit deteriorated by \$0.6 million, mainly due to merger fees in the order of \$0.5 million and the deterioration of claims and net loss adjustment expenses totalling \$0.1 million.

Gross claims increased to \$1.9 million in 2016 compared to \$1.3 million in 2015. The evolution of some old cases made it necessary to increase our reserves in 2016. Despite everything, the last year remained below the annual average of the last 10 years, which is \$2.1 million. The administration fees, aside from the marginal merger fees, stayed relatively stable in 2016. This allows us to continue to offer you an elaborate range of services as well as a strong team that can support and counsel you in your work as administrator.

Strongly capitalized, la Mutuelle remains a solid financial institution despite the closure of some religious buildings belonging to fabriques, the difficult situation faced by some of our members and the weak financial markets. La Mutuelle is also recognized by its financial and regulatory partners as being a well-managed, prudent and trendsetting organization when it comes to managing risks and guiding its members.

## MAINTAINING YOUR MUTUELLE IN GOOD HEALTH ALSO INVOLVES YOUR COLLABORATION AND YOUR INTEREST IN BEING WELL INFORMED IN ORDER TO BETTER PROTECT YOURSELVES

The year 2016 is now over and already a part of the past. Before turning to 2017, I invite you to familiarize yourselves with the annual report as a whole in order to better know your Mutuelle and its guidelines. As to the future and the upcoming year, we hope to remain your trusted partner to accompany you in all your decisions that are sometimes hard to make regarding the protection of your heritage, but also regarding your protection as administrators and leaders of your religious institutions.

In closing, I would like to thank all our members for their support and confidence, and to note the hard work of our administrators, our managing director, the directors of our various services and all of our devoted employees.

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*ROBERT TASSÉ* Chairman of the Board of Directors

# Review of activities 2016

# MEMBERS' FORUM AND GENERAL MEETINGS – APRIL 26, 2016



Traditionally, la Mutuelle's Members' Forum and annual general meeting are held the last Tuesday of April each year. This time, 249 people went to the St-Pierre de Sorel-Tracy church for the occasion. The Members' Forum was a great success thanks to the interaction between the actors of the famous "Fabrique St Prudent" and the various specialists in specific subjects. Afterwards, in the afternoon, the extraordinary general meeting was held, inviting those present to decide upon the changes related to L'Assurance mutuelle des fabriques de Montréal's (AMFM) governance structure and on a potential merger between the AMFM and L'Assurance Mutuelle de l'Inter-Ouest (AMIO), followed by the annual general meeting.

# GRAND RENDEZ-VOUS DES MEMBRES – SEPTEMBER 28, 2016



Always with the goal of offering the best tools to its members, la Mutuelle, with the support of its Centre d'entraide et de prévention (CEP), prepared an event worth mentioning: the Grand Rendez-vous des membres. Indeed, by going to the Centre communautaire La Résurrection in Brossard, the members were able to talk to over 40 exhibitors, each of them specialists in the renovation and restoration of religious buildings or experts in the prevention and management of risks and losses. Information capsules on various subjects related to our annual theme, "A built legacy to protect" were also all full and received much positive feedback from our members.

We are proud to announce that this first edition was a great success with over 300 participants who were able to take advantage of this great gathering, the first of its kind in Quebec.



# EXTRAORDINARY GENERAL MEETING - NOVEMBER 29, 2016

The merging process between la Mutuelle and the AMIO required that an extraordinary general meeting be held to vote on various regulations necessary for the merger between the two entities. The members showed their involvement; almost 120 people went to the Saint-Laurent church in Saint-Laurent, demonstrating once again their interest in the merger.

# TRAINING SESSIONS

On multiple occasions over the course of the year, the Centre d'entraide et de prévention (CEP) travelled to different regions to better equip la Mutuelle's members in preparing legal fundraising campaigns. The participation rate in this training session was impressive each time, thus strengthening the CEP's commitment to assisting the members in their mandate to properly manage their fabriques.



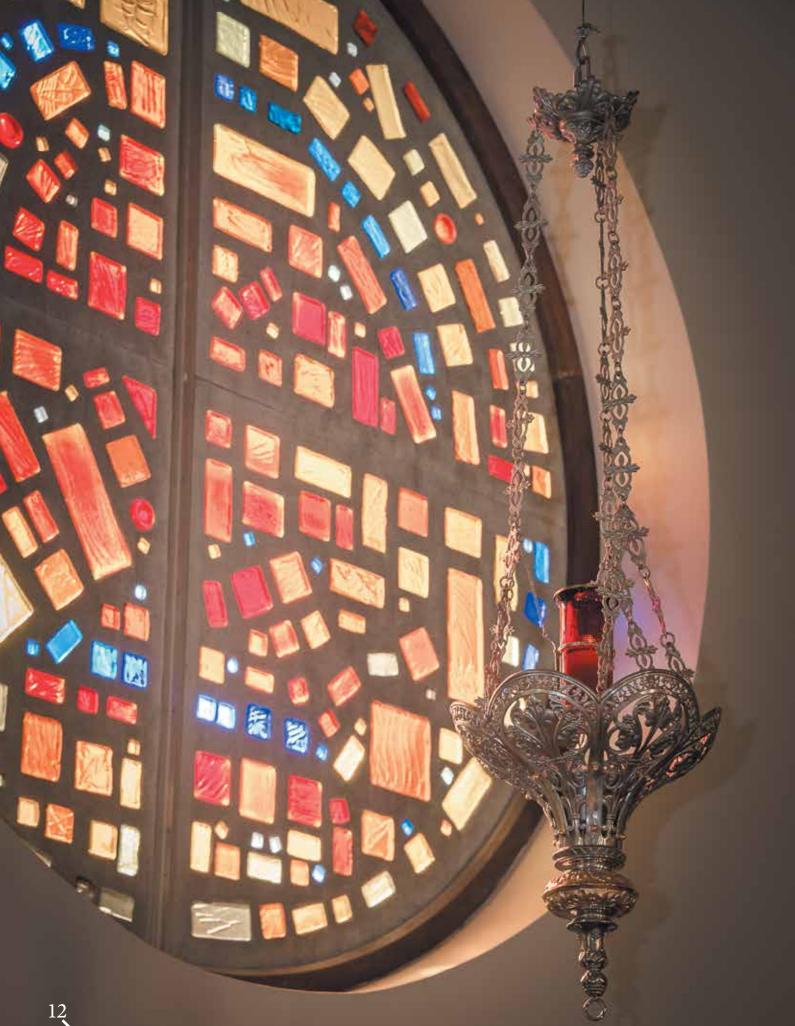


Mr. Robert Tassé, chairman of the board of directors, AMFM, Msgr. Pierre Morissette, Ms. Lucie Turgeon, treasurer, Msgr. Paul-André Durocher, Ms. Carole Garceau, treasurer, Msgr. Raymond Poisson, Mr. Sylvain Beaulieu, managing director, AMFM (absent from photograph)

# MUTUELLE-DIOCESES

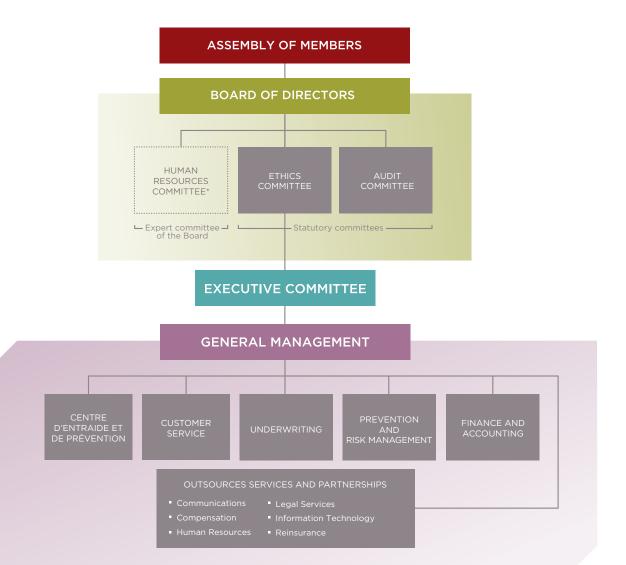
At the extraordinary general meeting in April 2016, the members authorized a reform of la Mutuelle's governance structure for the purpose of maximizing performance. The commitments made at that time were respected, such as the creation of the Mutuelle-Dioceses Liaison Committee whose purpose is to promote the exchange and sharing of ideas between the dioceses and la Mutuelle's leadership. The committee, at its inception, was composed of three bishops, two treasurers, and la Mutuelle's chairman of the board of directors and managing director.

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# GOVERNANCE

As a regulated financial institution, L'Assurance mutuelle des fabriques de Montréal must ensure compliance with all applicable laws in addition to safeguarding the interests of both members and the general public. Accordingly, the Board of Directors has drafted a corporate governance programme which draws inspiration from the best industry practices but which has been adapted to make proper allowance for the size and mutualistic nature of la Mutuelle.



# ORGANIZATIONAL CHART

\* The responsibilities of the human resources committee were assigned to the First Vice-Chairman of the Board of Directors in April 2016.



# MEMBERS OF THE BOARD OF DIRECTORS

1 GILLES GAUDET First Vice-Chairman

Fabrique de la paroisse Saint-Ferdinand

2 DANIELLE PAGÉ Fabrique de la paroisse Marie-Reine-du-Monde et Saint-Patrick

# **3 SERGE LÉONARD** Nominated by the board of directors to fill this vacant position until April 2018

**ROBERT TASSÉ,** CPA, CGA *Chairman* 

L'Évêque Catholique Romain de Saint-Jean-Longueuil

- **5** Monsignor **JEAN-JACQUES MARTIN** Corporation Archiépiscopale Catholique Romaine de Montréal
- **6 CHANTALE FOISY** Fabrique de la paroisse Saint-Esprit



**CLÉMENT BEAUCHEMIN** Fabrique de la paroisse Sainte-Famille de Valcourt

 STÉPHANE BERTRAND, CPA, CA Second Vice-Chairman
 Fabrique de la paroisse de La Présentation

#### DENIS CHARPENTIER, CPA, CA (ABSENT FROM PHOTOGRAPH) Corporation Épiscopale Catholique Romaine de Saint-Hyacinthe

## OFFICERS WHOSE MANDATES ENDED IN 2016:

KEVEN BLONDIN GAÉTAN DESJARLAIS Sister SYLVIA DUPUIS GILLES LAVIGNE Monsignor RAYMOND POISSON ROGER VALLÉE

# Board of directors

# MANDATE OF THE BOARD OF DIRECTORS

As the body responsible for la Mutuelle, the Board of Directors oversees the manner in which business is conducted and supervises the managers invested with the responsibility for day-to-day operations. The Board of Directors approves la Mutuelle's strategic policy, including the company's mission, vision and values, and is further responsible for examining the risks identified by management, as well as the policies, procedures and programs adopted by la Mutuelle to reduce these risks.

# MANDATE OF THE CHAIRMAN

The Chairman leads and presides over members' meetings and the meetings of the Board of Directors. He serves as spokesman for the Board of Directors with management and with third parties. He executes those mandates entrusted to him by the Board of Directors, chairs the Executive Committee and is an ex-officio member of all committees with the exception of the Audit Committee and the Ethics committee.



GILLES GAUDET | First Vice-Chairman ROBERT TASSÉ, CPA, CGA | Chairman STÉPHANE BERTRAND, CPA, CA | Second Vice-Chairman

# EXECUTIVE COMMITTEE

The Executive Committee is invested with the authority to exercise all the powers of the Board of Directors in a backup capacity between meetings of the Board of Directors, subject to the powers and duties of the managing director and the powers which, by virtue of applicable laws, must be carried out by a statutory committee or by the Board of Directors as expressly set out by the latter. The Executive Committee must report on its activities at each meeting of the Board of Directors.

# COMMITTEES OF THE BOARD OF DIRECTORS

The committees of the Board of Directors enable the directors to allocate the requisite resources to the study of specific items of business. By law, the Board of Directors is required to create both an Audit Committee and an Ethics Committee.



# AUDIT COMMITTEE

The Audit Committee comprises directors the majority of whom are appointed exclusively to this committee. In the exercise of their responsibilities, the Audit Committee is empowered to examine the books, records and accounts of la Mutuelle, and to rule on the effectiveness of internal controls, and compliance with accounting standards. It is this committee that recommends to the Board of Directors the adoption of the audited financial statements.

Monsignor JEAN-JACQUES MARTIN STÉPHANE BERTRAND, CPA, CA | Chairman DENIS CHARPENTIER, CPA, CA (absent from photograph)



DANIELLE PAGÉ CHANTALE FOISY | Chairman CLÉMENT BEAUCHEMIN

# ETHICS COMMITTEE

The Ethics Committee must ensure that appropriate rules be drawn up to guarantee compliance with applicable provisions of the law concerning insider trading and conflicts of interest. The committee is obliged by law to investigate any complaint in this regard and to submit an annual report on its activities directly to the Autorité des marchés financiers. Within the scope of its enlarged mandate, this committee is further responsible for examining all questions of an ethical, compliance and governance nature and for making appropriate recommendations to the Board of Directors.







# COMMITTEES OF THE BOARD OF DIRECTORS (CONTD.)

# HUMAN RESOURCES COMMITTEE

Since April 2016, the responsibilities of the human resources committee were assigned to the First Vice-Chairman who, when necessary, creates provisional committees. This committee is responsible for recommending to the Board of Directors the adoption of policies to evaluate board and committee effectiveness, as well as the compensation policy. In compliance with such policies, the committee directs the required studies of the effectiveness of the board, directors, committees and senior management. It is further responsible for board and senior management succession planning, as well as recommending to the Board of Directors a compensation policy for directors and senior management. Whenever elections to the Board of Directors are organized, this committee acts in the capacity of nominating committee.



**GILLES GAUDET** *First Vice-Chairman* 

# FINANCIAL STATEMENTS

Totalater

AS AT DECEMBER 31, 2016



L'ASSURANCE MUTUELLE DES FABRIQUES DE MONTRÉAL

CABINET EN ASSURANCE DE DOMMAGES



Mallette S.E.N.C.R.L.

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 418 656-0800

 Courriel
 info.guebec@mallette.ca

#### **INDEPENDENT AUDITOR'S REPORT**

# To the Members of L'Assurance mutuelle des fabriques de Montréal,

We have audited the accompanying financial statements of L'ASSURANCE MUTUELLE DES FABRIQUES DE MONTRÉAL, which comprise the statement of financial position as at December 31, 2016, and the statements of income, comprehensive income, change in members' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to La Mutuelle's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of La Mutuelle's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of L'Assurance mutuelle des fabriques de Montréal as at December 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

#### **Emphasis on Matter**

Without modifying our opinion, we draw attention to Note 23 to the financial statements which describes the proposed merger of La Mutuelle with an entity operating in the same activity sector.

Mallette L.L.r.

Mallette L.L.P. Partnership of chartered professional accountants

Québec, Canada February 22, 2017

# **Expression of Opinion**

I have valued the policy liabilities and reinsurance recoverables of L'Assurance mutuelle des fabriques de Montréal for its statement of financial position at 31 December, 2016 and their changes 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.

The results of my valuation together with amounts carried in the Annual Return are the following:

Claim Liabilities	Carried in Annual Return (\$'000)	Appointed Actuary's Estimate (\$'000)
(1) Direct unpaid claims and adjustment expenses	3 767	3 765
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	3 767	3 765
(4) Amounts recoverable from reinsurers	3 190	3 188
(5) Other recoverables on unpaid claims	0	0
(6) Other net liabilities	0	0
(7) Net unpaid claims and adjustment expenses (3)-(4)-(5)+(6)	577	577

Premium Liabilities	Carried in Annual Return (col. 1) (\$'000)	Appointed Actuary's Estimate (col. 2) (\$'000)
(1) Gross unearned premium liabilities		884
(2) Net unearned premium liabilities		679
(3) Gross unearned premiums	1 771	
(4) Net unearned premiums	783	
(5) Premium deficiency	0	0
(6) Other net liabilities	0	0
(7) Deferred policy acquisition expenses	0	
(8) Maximum policy acquisition expenses deferrable [(4)+(5)+(9)] <sub>Col.1</sub> – (2) <sub>Col.2</sub>		214
(9) Unearned commissions + Ceded Deferred Premium Taxes + Ceded Deferred Insurance Operations Expenses	110	

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Signature\_

Douan

Pierre Bourassa *Fellow*, Canadian Institute of Actuaries February 22<sup>nd</sup>, 2017

<b>STATEMENT OF INCOME</b> For the year ended December 31,	2016	2015
		(restated)
INSURANCE ACTIVITIES		
GROSS REVENUE Gross written premiums	\$ 7,201,507	\$ 7,062,917
Gross earned premiums Earned premiums ceded to reinsurers	\$ 7,179,053 (4,975,715)	\$ 7,055,686 (4,833,596)
Net earned premiums Reinsurance commissions	 2,203,338 839,455	2,222,090 807,857
	3,042,793	3,029,947
EXPENSES Claims and adjustment expenses (Note 12) Recoveries from reinsurers	 1,854,501 (1,321,872)	1,320,192 (932,537)
Net claims and adjustment expenses Administrative expenses (Notes 8, 14, 15 and 22) Governance expenses	 532,629 3,175,567 372,760	387,655 2,744,967 329,824
	4,080,956	3,462,446
LOSS FROM INSURANCE ACTIVITIES	(1,038,163)	(432,499)
INVESTING ACTIVITIES Investment income (Note 9) Management and custodial fees	 1,749,315 (118,844)	1,390,737 (123,714)
	1,630,471	1,267,023
SURPLUS OF REVENUES OVER EXPENSES BEFORE ATTRIBUTION AND OTHER EXPENSES	592,308	834,524
Attribution to members Subsidies to members – Biennial Maintenance Program and other <i>Centre d'entraide et de prévention</i> (Notes 7 and 8)	1,753,816 304,251 377,888	1,883,886 309,056 314,884
	2,435,955	2,507,826
SHORTFALL OF REVENUES OVER EXPENSES	\$ (1,843,647)	\$ (1,673,302)

<b>STATEMENT OF COMPREHENSIVE INCOME</b> For the year ended December 31,	2016	2015
		(restated)
SHORTFALL OF REVENUES OVER EXPENSES	\$ (1,843,647)	\$ (1,673,302)
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified to the statement of income Changes in unrealized gains on available-for-sale investments Reclassification to the statement of income of gains realized	1,223,633	614,844
on the disposal of available-for-sale investments (Note 9) Reclassification to the statement of income of impairment losses recognized on available-for-sale investments (Note 9)	(674,630) 4,479	(614,498) 254,474
<b>.</b> ,	 4,475	234,474
Net change that occurred during the year on available-for-sale investments	553,482	254,820
COMPREHENSIVE INCOME	\$ (1,290,165)	\$ (1,418,482)

# **STATEMENT OF CHANGE IN MEMBERS' EQUITY** For the year ended December 31, 2016

	Available surplus	Reserved surplus	occumulated other omprehensive income	Total
	 (restated)		(restated)	
<b>BALANCE</b> as at December 31, 2014 As previously reported Prior years restatement (Note 3)	\$ 18,112,062 1,392,516	\$ 26,026,771	\$ 2,930,676 (1,392,516)	\$ 47,069,509 -
Restated	19,504,578	26,026,771	1,538,160	47,069,509
Comprehensive income for the year Shortfall of revenues over expenses Other comprehensive income Changes in unrealized gains	(1,673,302)	-	-	(1,673,302)
on available-for-sale investments Reclassification to the statement of income of gains realized on	-	-	614,844	614,844
the disposal of available-for-sale investments Reclassification to the statement of income of impairment losses	-	-	(614,498)	(614,498)
recognized on available-for-sale investments	 -	-	254,474	254,474
BALANCE as at December 31, 2015	17,831,276	26,026,771	1,792,980	45,651,027
Comprehensive income for the year Shortfall of revenues over expenses Other comprehensive income Changes in unrealized gains	(1,843,647)	-	-	(1,843,647)
on available-for-sale investments Reclassification to the statement of income of gains realized on	-	-	1,223,633	1,223,633
the disposal of available-for-sale investments Reclassification to the statement of income of impairment losses	-	-	(674,630)	(674,630)
recognized on available-for-sale investments Transfer from reserved surplus (Note 18)	- 2,231,771	- (2,231,771)	4,479 -	4,479
BALANCE as at December 31, 2016	\$ 18,219,400	\$ 23,795,000	\$ 2,346,462	\$ 44,360,862

#### STATEMENT OF FINANCIAL POSITION As at December 31, 2016 2015 (restated) ASSETS Cash \$ 4,004,742 \$ 2,309,826 Accounts receivable (Note 10) 1,668,557 1,600,989 Prepaid expenses 66,828 79,391 Investments (Note 11) 44,535,791 41,842,875 Reinsurers' share of the provision for unpaid claims and adjustment expenses (Note 12) 3,189,743 2,714,377 Reinsurers' share of unearned premiums (Note 13) 987,796 958,480 Capital assets (Note 14) 110,048 185,470 Intangible assets (Note 15) 152,711 249,408 \$ 52,023,300 \$ 52,633,732 LIABILITIES Liabilities related to insurance contracts Provision for unpaid claims and adjustment expenses (Note 12) \$ 3,767,079 \$ 3,257,534 Unearned premiums (Note 13) 1,771,088 1,748,634 Unearned reinsurance commissions (Note 17) 102,587 109,583 5,647,750 5,108,755 Attribution payable to members 427,237 472,105 Accounts payable Reinsurers 1,038,939 1,044,327 Other (Note 16) 548,512 357,518 7,662,438 6,982,705 **MEMBERS' EQUITY** 17,831,276 Available surplus 18,219,400 **Reserved surplus** 23,795,000 26,026,771 Accumulated other comprehensive income 2,346,462 1,792,980 44,360,862 45,651,027 \$ 52,023,300 \$ 52,633,732

### L'Assurance mutuelle des fabriques de Montréal

#### Commitments (Note 21)

On behalf of the Board,

Director Director

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STATEMENT OF CASH FLOWS For the year ended December 31,		2016		2015
				(restated)
OPERATING ACTIVITIES Shortfall of revenues over expenses Non-cash items	\$	(1,843,647)	\$	(1,673,302)
Gains realized on the disposal of available-for-sale investments Impairment losses recognized on available-for-sale investments Amortization of premium on bonds Amortization of capital assets Amortization of intangible assets Changes in non-cash working capital items		(674,630) 4,479 276,578 98,266 97,260 120,046		(614,498) 254,474 296,245 145,281 102,064 25,239
Cash flows related to operating activities		(1,921,648)		(1,464,497)
INVESTING ACTIVITIES Acquisition of investments Disposal of investments Capital assets Intangible assets		(3,418,040) 7,058,011 (22,844) (563)		(7,961,767) 8,851,201 (932) (42,047)
Cash flows related to investing activities		3,616,564		846,455
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,694,916		(618,042)
CASH, beginning of year		2,309,826		2,927,868
CASH, end of year	\$	4,004,742	\$	2,309,826
Cash flows related to operating activities from: Interest received Dividends received Income from mutual funds received	\$\$\$	653,649 313,600 399,378	\$\$\$	701,954 305,600 318,050

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 1. REPORTING ENTITY

L'Assurance mutuelle des fabriques de Montréal (hereinafter "La Mutuelle"), which is incorporated under a special act, is subject to the requirements of the Act respecting insurance (Quebec). La Mutuelle is authorized by the Autorité des marchés financiers to underwrite property and liability insurance. La Mutuelle is limited by its by-laws to only offer property and civil liability insurance for buildings and activities of a religious nature. It is exempt from income tax under paragraph 149 (1) (m) of the Income Tax Act.

La Mutuelle has undertaken a process of merger with an entity operating in the same activity sector in order to expand its territory (Note 23).

La Mutuelle is domiciled in Quebec, Canada. La Mutuelle's head office is located at 1071 de la Cathédrale Street, Montreal, Quebec, and the *Centre d'entraide et de prévention* (CEP) is located at 170 George Street, Sorel-Tracy, Quebec.

#### 2. ROLE OF THE ACTUARY AND INDEPENDENT AUDITOR

The actuary is appointed by the Board of Directors of La Mutuelle. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, for policyholder obligations, the actuary must also provide an opinion on the appropriateness of policy liabilities of La Mutuelle at each financial reporting date. A review regarding the accuracy and completeness of the data used during the evaluation as well as the analysis of La Mutuelle's assets are important elements that are considered when forming the actuary's opinion.

For the purposes of the evaluation, policy liabilities include the provision for unpaid claims and adjustment expenses, unearned premiums, unearned reinsurance commissions, as well as the reinsurers' shares of the provision for unpaid claims and adjustment expenses and unearned premiums.

The services of the independent auditor are retained by the members at the annual general meeting. His engagement consists of performing an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and reporting to members with respect to the fair presentation of La Mutuelle's financial statements, in accordance with International Financial Reporting Standards. In conducting the audit, the independent auditor considers the work of the designated actuary and his report on the policy liabilities of La Mutuelle. The independent auditor's report indicates the scope of the audit, as well as his opinion.

#### 3. PRIOR YEARS RESTATEMENT

La Mutuelle has revealed that the accounting for losses on the disposal of investments was incorrect. As a result, the proceeds from investments for the year ended December 31, 2015 were increased by \$10,154 and the shortfall of revenues over expenses and other comprehensive income were reduced by the same amount. In addition, the accumulated other comprehensive income as at January 1, 2015 was reduced by \$1,392,516 and the available surplus as at January 1, 2015 was increased by the same amount.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

4. BASIS OF PREPARATION

#### Compliance statement

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

La Mutuelle's financial statements were approved by the Board of Directors on February 22, 2017.

#### **Basis of measurement**

La Mutuelle's financial statements were prepared on a going concern basis using the historical cost method, except for available-for-sale financial assets, which were valued at fair value.

#### Functional and presentation currency

The Canadian dollar is La Mutuelle's functional currency, which is the currency of the primary economic environment in which La Mutuelle operates as well as its presentation currency.

#### Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments and use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual results may differ from these estimates.

Underlying estimates and assumptions are reviewed on an ongoing basis. The impact of changes in accounting estimates is recognized in the period the change is made and in any future periods affected.

Information about critical judgments made in the application of accounting policies that could have the most significant effect on the amounts recognized in the financial statements is disclosed in Note 11 under "Investments" and Note 12 "Provision for unpaid claims and adjustment expenses".

Information about key assumptions relating to the future and estimates that could have the most significant effect on the amounts recognized in the financial statements is disclosed in the following notes:

- Note 5 Significant accounting policies Useful life of capital assets and intangible assets;
- Note 11 Investments;
- Note 12 Provision for unpaid claims and adjustment expenses.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described below have been consistently applied to all periods presented in the financial statements.

#### **Classification of insurance contracts**

Contracts issued by La Mutuelle are classified as insurance contracts when La Mutuelle accepts a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The insurance risk is significant if an insured event can oblige the insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Contracts that do not meet this definition are classified as investment or service contracts. La Mutuelle classified all its contracts as insurance contracts. Once classified, the contract keeps the same classification until the end of the contract term even if the insurance risk decreases over the period covered.

#### **Revenue recognition**

Premiums are earned on a pro rata basis over the term of the insurance policies and are recognized as revenues. Premiums are recognized as premiums receivable and unearned premiums on the effective date of the contract. Premiums receivable are recognized net of provisions for doubtful accounts.

Reinsurance commissions are recognized on the same basis as premiums to which they are related. Additional commissions are recognized when the amount can be measured reliably and when it is probable that the associated economic benefits will go to La Mutuelle.

Income from investments is recognized according to the accrual basis of accounting as follows:

- Interest is recognized based on the number of days the investment is held during the year and is calculated using the effective interest method;
- Amortization of bond discounts and premiums is recognized using the effective interest method;
- Dividends on investments in listed shares are recognized at the ex-dividend date;
- Income from mutual funds is recognized when earned.

#### Reinsurance

Reinsurance treaties, which transfer a significant insurance risk, fall within the scope of IFRS 4 – Insurance Contracts. Reinsurance contracts are recorded according to the terms of each treaty. Assets related to reinsurance treaties are presented separately from corresponding insurance liabilities. Similarly, revenues and expenses from reinsurance contracts are not offset by the revenues and expenses of the insurance contracts related to them.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the financial reporting date. Revenue and expense transactions denominated in foreign currencies are translated at the rate in effect at the date of the transaction. Exchange gains or losses on financial assets and liabilities are recognized in the statement of income, except for exchange gains or losses on available-for-sale financial assets, which are not monetary items. They are recognized in the changes in unrealized gains and losses on available-for-sale investments under other comprehensive income.

#### Attribution to members

The attribution to members is determined and approved by the Board of Directors before the end of the fiscal year, based on policies in place and La Mutuelle's results, and is paid to members in two annual payments.

#### Subsidies – Biennial Program

The purpose of La Mutuelle's Biennial Program is to support and facilitate the smooth functioning of fire prevention systems in the buildings of some of the members it insures. The costs of this program are recognized in income when services are incurred.

#### Centre d'entraide et de prévention

Expenses of the *Centre d'entraide et de prévention* are comprised of salaries and charges related to the *Centre*. These expenses are recognized in profit or loss when incurred.

#### **Financial instruments**

Financial assets and liabilities are recognized on the settlement date when La Mutuelle becomes a party to the contractual provisions of the financial instrument.

Financial assets and liabilities are initially measured at fair value plus transaction costs.

Financial assets are derecognized when contractual rights on cash flows related to financial assets expire or when financial assets and all significant risks and benefits are transferred.

A financial liability is derecognized when extinguished, terminated, cancelled or expired.

For the purposes of subsequent measurement, financial instruments are classified in the following categories upon initial recognition:

- Available-for-sale financial assets;
- Loans and receivables;
- Other financial liabilities.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

All revenues and expenses relating to financial assets recognized in income are presented in investment income or in management and custodial fees, except for the impairment of accounts receivable, which is presented in administrative expenses.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as being in this category or that do not qualify for classification in any other category of financial assets. Cash and cash equivalents, as well as investments, were designated as being available for sale and measured at fair value.

Except for exchange gains or losses related to monetary items that are recognized in the statement of income, investment-related unrealized gains or losses are recognized in other comprehensive income until the gains or losses are realized or an impairment of the financial asset is recognized. For non-monetary available-for-sale financial assets denominated in foreign currencies, exchange gains and losses are included in unrealized gains or losses recognized in other comprehensive income.

When an investment is disposed of or impaired, the gain or loss on disposal, or impairment recognized in comprehensive income is reclassified under "Investment income".

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Premiums receivable from policyholders, as well as interest and dividends receivable and other receivables are classified as loans and receivables and initially recognized at fair value, and are subsequently measured at amortized cost according to the effective interest method, including any impairment. Interest payable is recognized in profit or loss.

#### Other financial liabilities

Accounts payable and the attribution to members are classified as other financial liabilities and initially recognized at fair value, then subsequently at amortized cost according to the effective interest method.

#### Fair value

The fair value of a financial instrument generally corresponds to the consideration for which the instrument could be exchanged between knowledgeable, willing parties dealing at arm's length.

The best evidence of fair value is published price quotations in an active market. The fair value of bonds, shares and mutual funds is based on their closing price at year-end. When the market for a financial instrument is not active, fair value is established using a valuation technique and, as much as possible, data from observable markets.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments (continued)

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are subject to an impairment test at the end of each financial reporting period. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events after initial recognition of a financial asset and that event has an impact on the estimated future cash flows of the financial asset. The amount of the loss is equal to the difference between the acquisition cost and the current fair value less any impairment to the financial asset previously recognized in net income.

With the exception of available-for-sale equity instruments, if the impairment amount decreases in a subsequent year, and if the decline in value can be objectively tied to an event subsequent to recognition of the impairment, the impairment previously recognized is reversed in net income to the extent that the carrying amount of the investment on the impairment reversal date is not greater than the amortized cost that would have been obtained if the impairment had not been recognized.

When there is evidence of impairment of one or more available-for-sale financial assets, the cumulative loss, recognized in other comprehensive income, must be reclassified in net income. With respect to available-for-sale equity instruments, impairment losses previously recognized in net income are not reversed in net income, but instead directly in the accumulated other comprehensive income.

#### Cash and cash equivalents

Cash and cash equivalents include cash, treasury bills, commercial paper and discounted notes with a maturity of three months or less at acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of change in value.

#### **Reinsurance assets**

#### Reinsurers' share of the provision for unpaid claims and adjustment expenses

La Mutuelle presents the reinsurers' share of the provision for unpaid claims and adjustment expenses in assets to indicate the size of the credit risk associated with reinsurance. Expected reinsurance recoveries from unpaid claims and adjustment expenses are recognized as assets, based on principles consistent with the methods used by La Mutuelle to determine related liabilities.

#### Reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums is recognized as an asset based on principles consistent with the method used by La Mutuelle to determine the liabilities related to unearned premiums.

#### Impairment

Reinsurance assets are tested for impairment on a regular basis and impairment losses are recorded if necessary. If applicable, La Mutuelle gathers objective evidence of the decline in value and recognizes the impairments using the same process adopted for financial instruments which are measured at amortized cost.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Capital assets and intangible assets

Capital assets and intangible assets acquired are measured using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, all of which are finite, at the following annual rates:

Leasehold improvements	16.66%
Furniture, office equipment and computer equipment	20%
Microcomputer equipment	33.3%
Software	20%

The amortization method, residual values, and useful lives are reviewed at each year-end and the impact of any change in estimates is accounted for prospectively.

Amortization of capital assets and intangible assets is accounted for in net income under administrative expenses.

#### Impairment of non-financial assets

The carrying value of capital assets and intangible assets is reviewed at each year-end to determine whether there is an indication that they are impaired. If such an indication exists, the recoverable amount of the assets is estimated.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, management estimates discounted future cash flows that will likely result from the use and eventual disposal of its asset. The impairment loss is the amount by which the carrying amount of a long-term asset exceeds its recoverable amount.

#### Liabilities related to insurance contracts

#### Provision for unpaid claims and adjustment expenses

La Mutuelle presents the provision for unpaid claims and adjustment expenses as a liability to indicate the obligations toward policyholders. This provision is an estimate of the total cost of settling all claims that arose prior to the end of the financial reporting period, whether or not declared to La Mutuelle. Since this provision is necessarily based on estimates, the final value may differ from estimates.

Provision for unpaid claims and adjustment expenses is first of all established on a case-by-case basis, as the claims are made. Complementary provisions are established for late reported claims, reported claims for which insufficient provisions have been made, as well as for all future adjustment expenses related to these claims. These estimates are based on historical data and claims trends, and they take into account the settlement patterns observed. When the effect of the time value of money is significant, the provision for unpaid claims and adjustment expenses is discounted by using a rate reflecting the estimated rate of return from the underlying asset markets. Established estimate practices are periodically reviewed and updated, and all adjustments are reflected in the year's results. Consequently, claims and adjustment expenses are deducted from income as incurred.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 5. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Liabilities related to insurance contracts (continued)

#### Unearned premiums

Unearned premiums represent the written premiums that relate to the unexpired portion of the policy term at year-end.

#### Unearned reinsurance commissions

Unearned reinsurance commissions are recognized in liabilities according to principles consistent with the methods used by La Mutuelle to determine unearned premiums.

#### Liability adequacy test

At the end of each reporting period, La Mutuelle tests the sufficiency of unearned premiums. A liability deficiency would exist if unearned premiums were deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. Potential deficits are fully and immediately recognized in liabilities and net income, by recording an additional expense.

#### Members' equity

Members' equity of La Mutuelle includes available surplus, reserved surplus and accumulated other comprehensive income.

The available surplus consists of undistributed surplus from the current year and prior years.

The reserve entitled "Reserved surplus" addresses liquidity needs for solvency purposes, future investments in targeted programs and the capital amounts required for future undeclared claims and adjustment expenses.

Accumulated other comprehensive income primarily consists of unrealized gains from financial instruments classified as available for sale.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

#### 6. NEW STANDARDS AND INTERPRETATIONS NOT YET IMPLEMENTED

#### New future accounting standards

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC) have published new standards whose application will be mandatory for fiscal years beginning on or after January 1, 2017. Many of these new accounting policies will have no impact on the comprehensive income and statement of financial position of La Mutuelle, so they are not discussed below.

The new accounting standards will be applied by the entity resulting from the merger or by La Mutuelle in the event that the merger is not realized.

#### IAS 7 - Statement of Cash Flows

In February 2016, the IASB published amendments of limited scope to IAS 7 – Statement of Cash Flows to require that companies provide information concerning changes in their financing liabilities. The amendments will apply prospectively to fiscal years beginning on or after January 1, 2017. La Mutuelle has not yet assessed the impact of this new standard on its financial statements.

#### IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers, which aims to replace IAS 18 – Revenue and IAS 11 – Construction Contrats. This new standard establishes how and when revenues are recognized, using a single model, with the exception of leases, financial instruments and insurance policies. Following the IASB's decision to defer by one year the entry into force of the standard, this standard will apply retrospectively from January 1, 2018. The application of this standard will have no significant impact on La Mutuelle's financial statements.

#### IFRS 16 – Leases

This standard, published in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. However, lessor accounting remains largely unchanged in regard to IAS 17 – Leases and the distinction between operating and finance leases is retained. This standard will apply to fiscal years beginning on or after January 1, 2019. La Mutuelle has not yet assessed the impact of this standard on its financial statements.

#### IFRS 9 - Financial Instruments

In July 2014, the IASB issued IFRS 9 – Financial Instruments, which aims to replace IAS 39 on the classification and measurement of financial assets and liabilities, amortization and hedge accounting. A publication of the IASB made public on September 12, 2016 provides for certain measures to allow enterprises, whose principal business model is to issue insurance contracts, the option to postpone the entry into force of this standard until 2021 or the application date of IFRS 17 – Insurance Contracts if applied before 2021. La Mutuelle is eligible for the postponement and intends to postpone the application of the standard. La Mutuelle has not yet assessed the impact of this standard on its financial statements.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

As at December 31, 2016

#### 7. CENTRE D'ENTRAIDE ET DE PRÉVENTION

The primary mission of the *Centre d'entraide et de prévention* (CEP) is to offer additional innovative services aimed at assisting members of La Mutuelle to better understand their insurance cover and mitigate their risks. In addition, the CEP works jointly with La Mutuelle's prevention and claims departments to implement means to raise awareness of loss prevention, and provides all members of La Mutuelle with educational services to improve their risk management.

#### 8. EXPENSES RELATED TO PERSONNEL

The expenses related to personnel, including the *Centre d'entraide et de prévention*, amount to \$2,037,449 for the year ended December 31, 2016 (2015 – \$1,700,893).

#### 9. INVESTMENT INCOME

	2016		2015
			(restated)
Interest Amortization of premium on bonds Dividends Income from mutual funds Gains realized on the disposal of available-for-sale investments	\$ 646,102 (276,578) 310,262 399,378 674,630	\$	698,593 (296,245) 310,315 318,050 614,498
Impairment losses recognized on available-for-sale investments	 (4,479)		(254,474)
	\$ 1,749,315	\$	1,390,797

#### **10. ACCOUNTS RECEIVABLE**

	 2016	2015
Premiums receivable from policyholders Interest and dividends receivable Other	\$ 1,557,235 86,322 25,000	\$ 1,489,501 97,207 14,281
	\$ 1,668,557	\$ 1,600,989

La Mutuelle expects to recover all accounts receivable no later than twelve months following the year-end.

# **11. INVESTMENTS**

	2016	2015
	Cost Fair value	Cost Fair value
Bonds Listed shares Bond mutual funds Equity mutual funds	\$ 18,657,106	10,041,35610,702,99310,586,49510,575,687
	\$ 39,589,090 \$ 41,842,875	<b>5</b> \$ 42,995,544 \$ 44,535,791

The nominal value of bonds as at December 31, 2016 is \$17,987,000 and \$18,734,000 as at December 31, 2015. For bonds, the cost represents the amortized cost.

La Mutuelle examines its portfolio of available-for-sale financial assets quarterly to determine whether impairment must be recognized in net income. In so doing, La Mutuelle must exercise judgment to determine if there is objective evidence of impairment, which includes, among other things, events such as a significant or prolonged decline in the fair value of an equity instrument below its cost. To establish these criteria, La Mutuelle has evaluated historical price fluctuations of securities in its portfolio and the duration of periods when the fair value was lower than the purchase cost.

# 12. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The provision for unpaid claims and adjustment expenses, as well as the related reinsurers' share, are estimates subject to material variations due to events that might ultimately affect claims settlement costs, but which have not and may not occur for some time. The variations may also occur as a result of the receipt of additional information regarding claims, changes in the interpretation of contracts by the courts or significant differences compared to historical trends with respect to the severity or frequency of claims.

# Method for determining provisions

Methodologies used to determine the provision for unpaid claims and adjustment expenses are the same as those used in the previous year:

- The development method assumes that known claims are the best indicator of future claims development. This method does not depend on exposure units. It is commonly used, except when only a small portion of ultimate claims has been reported. In such a situation, this method would result in excessive volatility. This method is not used only when very recent claims are reported to the insurer at a rather slow rate.
- The Bornhuetter-Ferguson method assumes that the difference between the observed and expected experience will remain stable and that the future development will not be affected by known claims. Thus undeclared claims depend on exposure units and are combined with declared claims. This method is used when a relatively large number of claims have not yet been declared or when claims are so recent that the information normally used to calculate provisions is not fully available. This method is primarily applied to claims from the most recent years.

#### NOTES TO FINANCIAL STATEMENTS As at December 31, 2016

# 12. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

# Method for determining provisions (continued)

Claims liabilities include a provision for external claims adjustment expenses. All claims files are entrusted to independent adjusting firms and, consequently, no provision for internal claims adjustment expenses is necessary.

The estimate for the provision for unpaid claims and adjustment expenses is based on various assumptions, including:

- Claims development;
- Discount rate;
- Margin for adverse deviation.

# Sensitivity analysis

The analysis below shows the impact on net income and members' equity of possible variations of certain key assumptions (when all other assumptions remain constant).

			2016		
Sensitivity factors	Changes made to assumptions		Increase the factor	_	ecrease
Claims development Discount rate	10% 1%	\$ \$	(10,964) 8,883	\$ \$	(9,637) (9,358)
			2015		
Sensitivity factors	Changes made to assumptions		Increase the factor		Decrease the factor
Claims development Discount rate	10% 1%	\$ \$	(15,110) 9,720	\$ \$	15,344 (10,124)

The discount rate used by the actuary was 2.21% for the year 2016 (2015 - 1%).

### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 12. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

# Reconciliation of the provision for unpaid claims and adjustment expenses

The change in the provision for claims recorded in the statement of financial position for the year ended December 31 and its impact on the claims and adjustment expenses for the year were as follows:

			2016			2015	
		surance ontracts	Reinsu- rance	Net	Insurance contracts	Reinsu- rance	Net
BALANCE, beginning of year	\$	3,257,534	\$ 2,714,377	\$ 543,157	\$ 2,981,890	\$ 2,381,511	\$ 600,379
Increase (decrease) in losses and estimated expenses for claims incurred in prior years Losses and expenses incurred in the current		(134,780)	(41,716)	(93,064)	(165,512)	43,132	(208,644)
year		1,989,281	1,363,588	625,693	1,485,704	889,405	596,299
Net claims and adjustment expenses		1,854,501	1,321,872	532,629	1,320,192	932,537	387,655
Amounts recovered for claims incurred Current year Prior years	(	(1,044,027) (300,929)	(745,706) (100,800)	(298,321) (200,129)	(599,697) (444,851)	(359,688) (239,983)	(240,009) (204,868)
	(	(1,344,956)	(846,506)	(498,450)	(1,044,548)	(599,671)	(444,877)
BALANCE, end of year	\$	3,767,079	\$ 3,189,743	\$ 577,336	\$ 3,257,534	\$ 2,714,377	\$ 543,157

The table below summarizes the provision for unpaid claims and adjustment expenses, as well as the reinsurers' share:

			2016			2015	
		nsurance contracts	Reinsu- rance	Net	Insurance contracts	Reinsu- rance	Net
Provision for cases Provision for unreported claims	\$	2,808,029	\$ 2,468,298	\$ 339,731	\$ 2,295,298	\$ 1,984,559	\$ 310,739
Provision Impact of discount Impact of margins		706,717 (92,292)	522,953 (74,312)	183,764 (17,980)	733,825 (46,080)	559,548 (37,264)	174,277 (8,816)
for adverse deviation	_	344,625	272,804	71,821	274,491	207,534	66,957
	\$	3,767,079	\$ 3,189,743	\$ 577,336	\$ 3,257,534	\$ 2,714,377	\$ 543,157

# **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 12. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES (continued)

# Reconciliation of the provision for unpaid claims and adjustment expenses (continued)

The table below shows the provision for unpaid claims and adjustment expenses by business line:

		2016			2015	
	Insurance contracts	Reinsu- rance	Net	Insurance contracts	Reinsu- rance	Net
Property Liability	\$830,935 	\$    642,902    \$ 2,546,841	188,033 389,303	\$     740,611 2,516,923	\$     568,912 2,145,465	\$     171,699 371,458
	\$ 3,767,079	\$ 3,189,743 \$	577,336	\$ 3,257,534	\$ 2,714,377	\$ 543,157

# **13. UNEARNED PREMIUMS**

The reconciliation of the provision for unearned premiums is as follows:

	_	2016			2015	
	Insurance contracts	Reinsu- rance	Net	Insurance contracts	Reinsu- rance	Net
BALANCE, beginning of year Written premiums Premiums earned during	\$ 1,748,634 7,201,507	\$     958,480 5,005,031	\$     790,154 2,196,476	\$   1,741,403 7,062,917	\$    937,101 4,854,975	\$ 804,302 2,207,942
the year	(7,179,053)	(4,975,715)	(2,203,338)	(7,055,686)	(4,833,596)	(2,222,090)
BALANCE, end of year	\$ 1,771,088	\$ 987,796	\$ 783,292	\$ 1,748,634	\$ 958,480	\$ 790,154

The liability adequacy tests performed at the end of each financial reporting period did not result in the recognition of any additional liability during the years ended December 31, 2016 and 2015.

# **14. CAPITAL ASSETS**

	_	.easehold provements	 rniture and office quipment	Computer equipment	Micro- computer quipment	Total
Cost Accumulated amortization	\$	418,349 (292,917)	\$ 240,765 (178,730)	\$ 235,338 (234,685)	\$ 391,354 (249,655)	\$ 1,285,806 (955,987)
<b>BALANCE</b> as at December 31, 2014		125,432	62,035	653	141,699	329,819
Acquisitions Amortization		(27,160)	932 (34,667)	- (485)	(82,969)	932 (145,281)
Total changes		(27,160)	(33,735)	(485)	(82,969)	(144,349)
Cost Accumulated amortization		418,349 (320,077)	230,338 (202,038)	235,338 (235,170)	314,807 (256,077)	1,198,832 1,013,362)
BALANCE as at December 31, 2015		98,272	28,300	168	58,730	185,470
Acquisitions Amortization		16,286 (28,889)	678 (17,501)	- (168)	5,880 (51,708)	22,844 (98,266)
Total changes		(12,603)	(16,823)	(168)	(45,828)	(75,422)
Cost Accumulated amortization		429,975 (344,306)	231,016 (219,539)	235,338 (235,338)	320,687 (307,785)	1,217,016 1,106,968)
<b>BALANCE</b> as at December 31, 2016	\$	85,669	\$ 11,477	\$ -	\$ 12,902	\$ 110,048

During the year, La Mutuelle wrote off leasehold improvements for which the cost and accumulated amortization were of \$4,660. During the previous year, La Mutuelle wrote off furniture and office equipment for which the cost and accumulated amortization were of \$11,359 and micro-computer equipment for which the cost and accumulated amortization were of \$76,547.

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# **15. INTANGIBLE ASSETS**

	9	Internally generated software
Cost	\$	733,670
Accumulated amortization		(424,245)
BALANCE as at December 31, 2014		309,425
Acquisitions		42,047
Amortization		(102,064)
Total changes		(60,017)
Cost		748,268
Accumulated amortization		(498,860)
BALANCE as at December 31, 2015		249,408
Acquisitions		563
Amortization		(97,260)
Total changes		(96,697)
Cost		748,831
Accumulated amortization		(596,120)
BALANCE as at December 31, 2016	\$	152,711

During the previous year, La Mutuelle wrote off software for which the cost and accumulated amortization were of \$27,449.

# **16. ACCOUNTS PAYABLE**

	 2016	2015
Suppliers and accrued liabilities Accrued salaries and vacations	\$ 290,992 257,520	\$ 199,490 158,028
	\$ 548,512	\$ 357,518

**17. UNEARNED REINSURANCE COMMISSIONS** 

The reconciliation of unearned reinsurance commissions is as follows:

	 2016	2015
<b>BALANCE</b> , beginning of year Reinsurance commissions on premiums ceded during the year Reinsurance commissions earned	\$ 102,587 445,625 (438,629)	\$ 95,693 411,528 (404,634)
BALANCE, end of year	\$ 109,583	\$ 102,587

# **18. CAPITAL MANAGEMENT**

La Mutuelle defines its capital as members' equity. As at December 31, 2016, members' equity amounted to \$44,360,862 and to \$45,651,027 as at December 31, 2015. The capital management objective of La Mutuelle is to maintain sufficient capital to ensure business continuity and maintain the confidence of reinsurers, the Autorité des marchés financiers (AMF) and its members. La Mutuelle's statutes do not allow the raising of capital other than by collecting contributions from its members.

The actuary, appointed by the Board of Directors in accordance with the Act respecting insurance (Quebec), prepares an annual assessment of the financial position of La Mutuelle. As part of the assessment, the actuary performs dynamic capital adequacy testing (DCAT) of which one objective is to verify the capital adequacy of La Mutuelle despite plausible unfavourable events. These documents are submitted and presented to the Board of Directors.

La Mutuelle is subject to the requirements of the AMF, which has issued a directive regarding a minimum capital test (MCT) of 150%. La Mutuelle's management has set as an internal target, a required minimum capital ratio of 500%. To set the internal target, La Mutuelle assessed the impact of moderately adverse scenarios with a 10% probability of occurrence.

Throughout the year, La Mutuelle complied with AMF requirements and the target set by the Board of Directors. At year-end, the situation was presented as follows:

	 2016	2015
Available capital Minimum capital required	\$ 44,302,000 4,759,000	\$ 45,607,000 4,650,000
Excess capital available over minimum capital required	\$ 39,543,000	\$ 40,957,000

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# **19. INSURANCE AND FINANCIAL RISK MANAGEMENT**

# Objectives and policies for the management of insurance and financial risks

La Mutuelle is exposed to various risks that result from both its insurance and investing activities. Risk is managed by La Mutuelle's management through a risk management and strategic planning committee whose mission is to identify La Mutuelle's main risks and implement relevant policies and procedures to take a proactive and integrated approach to risk management. The Board of Directors and its committees are informed on a regular basis of any changes in risks, as well as the policies and action plans implemented to control them.

With respect to financial management, an investment policy was developed and is updated on a regular basis. The purpose of the policy is to provide a decision-making framework for investment managers. La Mutuelle does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes. The control procedures in the policy ensure sound management of investment-related risks.

#### **Insurance risk**

The most significant risks that La Mutuelle must manage with respect to insurance contracts are as follows:

# Underwriting risk

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Underwriting risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, as well as the reduction, retention and transfer of risks. This risk is significant due to the magnitude of the risks covered in relation the volume of annual premiums.

Insurance policies are written in accordance with management practices and applicable regulations, taking into account La Mutuelle's risk tolerance and underwriting standards, which are endorsed by its reinsurers.

Given the major changes in the policyholder market, such as the certain diminishment of the number of buildings, the reduction of resources available to manage and maintain them, and the fact that La Mutuelle cannot significantly increase members' premiums, the management undertakes a yearly planning and risk management exercise aimed at personalizing and optimizing its offer. This will mean, notably, the establishment of underwriting policies and service programs presenting an added value for the members while improving the risk profile of the policy portfolio.

La Mutuelle has also continued the exercise undertaken in 2013 to review all insured files over a five-year period. The five-year plan is intended to mitigate the risk associated with the bias that has progressively developed over the years with respect to how risks are assessed in a context where members' profiles are likely to change rapidly and where, generally speaking, members' policies do not have a co-insurance clause that would guarantee a long-term balance between the volume of premiums and claims. This last aspect is particularly important given the magnitude of certain risks.

Under its new integrated risk management process, La Mutuelle reviews its portfolio risk profile annually in order to validate the adequacy of its underwriting policies. To date, more than 50% (2015 – 30%) of client files have been reviewed based on the new standards which may be, in certain cases, implemented gradually.

### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

#### Insurance risk (continued)

#### Extreme claims risk

Extreme claims risks can be divided between very high intensity claims pertaining to one contract and one policyholder in contrast with low intensity claims that affect a large number of contracts and policyholders.

La Mutuelle uses reinsurance to reduce the loss that is likely to incur following events that give rise to claims. In addition, it protects itself from extreme claims risk by entering into several non-proportional per event reinsurance treaties.

La Mutuelle has entered into several reinsurance treaties whereby it cedes a portion of its premiums to registered reinsurers in exchange for covering a portion of the claims.

The main characteristic of reinsurance treaties is to limit the maximum loss to \$1,000,000 in property insurance per risk and \$250,000 in liability insurance per event.

In addition, La Mutuelle purchases a comprehensive catastrophe reinsurance of \$19,000,000 in property insurance and \$6,750,000 in liability insurance to protect up to its total maximum losses.

#### Reinsurance risk

Reinsurance risk can arise either from the failure of a reinsurer to meet its commitments or from changes in prevailing market conditions, which could result in reinsurance no longer being available, contract terms no longer being sufficient, or reinsurance rates increasing substantially.

The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect La Mutuelle's ceded volume and profitability. Reinsurance companies exclude some types of coverage from the contracts La Mutuelle purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose La Mutuelle to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. When La Mutuelle cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing protections offered in order to lower its risk.

The general absence of a co-insurance clause in contracts entered into by La Mutuelle and its members effectively transfers the full underwriting risk to La Mutuelle and, consequently, to its reinsurers in the event of an inaccurate assessment of risk. Given the low ratio between the volume of premiums and the magnitude of certain risks, this absence may contribute to a reduced level of interest among the latter to renew their treaties and an increased level of economic dependence of La Mutuelle on its reinsurers.

To La Mutuelle, maintaining effective underwriting and prevention practices, particularly for high-value risks, is essential to preserving a long-term relationship of trust with reinsurers. All treaties expiring on December 31, 2016 have been renewed for a period of one year.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# Insurance risk (continued)

#### Regulatory risk

Since a legal or regulatory change can directly influence the profitability of an economic activity, La Mutuelle has developed a legal environment compliance program with a legal firm to protect itself from this risk.

In addition, La Mutuelle works closely with regulatory authorities and stays abreast of legal and regulatory changes to evaluate their impact on its capacity to meet solvency requirements and other obligations.

#### Concentration risk

Over 80% (2015 – 80%) of gross premiums written by La Mutuelle are based on the property insurance line of business. These risks are geographically distributed on a relatively even basis, except for urban areas, primarily Montréal. However, the main concentration risk lies in the very nature of La Mutuelle's market. As it is limited by its by-laws requiring that it only offers property and civil liability insurance for buildings and activities of a religious nature.

According to the clauses of the contracts in effect, La Mutuelle's responsibility towards its members is limited to \$100,000,000 per claim of any kind. This limitation complies with the by-laws adopted by the Board of Directors of La Mutuelle.

NT (continued)         NT (continued)         vision appearing on the statements of financial position is potentially insufficient. The "Propased on the insured amount of the damaged property or on a repair estimate and the settle set	STATEMENTS       NANUCIAL RISK MANAGEMENT (continued)       Uued)       Uued)       Und)	-'Assurance mutuelle des fabriques	nutuelle d	les fabriq		de Montréal							
13. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued) Insurance risk (continued) Insurance risk (continued) Claims development table below shows the claims provision appearing on the statements of financial position is potentially insufficient. The "Property" period is relatively short. The liability insurance risk is greater. La Mutuelle retains the services of an external actuary to assess this provision. The claims development table below shows the changes in provisions for unpaid claims and adjustment expenses per accident year. As at provision risk is relatively insurance risk is greater. La Mutuelle retains the services of an external actuary to assess this provision. The claims development was as follows. The retains development was as a second of the retains the ret	NT (continued)         vision appearing on the statements of financial position is potentially insufficient. The "Propased on the insured amount of the damaged property or on a repair estimate and the settles greater. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutuelle retains the services of an external actuary to assess this provision.         operator. La Mutaer external actuary to assess this provision.         a 1,733,000       1,636,097       3,44,987       5,1,442,187       1,940,666       1,940,666	NOTES TO FINANCI∕ As at December 31, 2(	AL STATEME 016	ENTS									
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\$ <ul> <li>2,603,804</li> <li>\$                 <ol></ol></li></ul>	\$        2,603,804       \$        1,507,956       \$        4,011,711       \$        1,338,420       \$        1,616,055       \$        1,219,001       \$        1,442,187       \$        1,949,656         2,639,502       1,600,375       3,997,965       2,172,763       1,634,458       2,548,833       3,665,522       1,020,007       971,344       - <th>•</th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>Total</th>	•	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
2,693,258       1,592,000       3,835,000       1,733,000       1,733,000       1,635,097       3,444,921       3,663,398       943,987       971,384       1,949,656       \$         (2,693,258)       (1,592,000)       (3,835,000)       (1,731,475)       (1,635,097)       (899,962)       (3,620,450)       (936,987)       (858,699)       (1,044,027)         \$       -       \$       1,525       \$       -       \$       2,444,959       \$       42,948       \$       7,000       \$       112,685       \$       905,629         \$       -       \$       1,525       \$       -       \$       2,444,959       \$       42,948       \$       7,000       \$       112,685       \$       905,629	2,693,258       1,592,000       3,835,000       1,733,000       1,733,000       1,635,097       3,444,921       3,663,398       943,987       971,384       1,949,656       \$         (2,693,258)       (1,592,000)       (3,835,000)       (1,731,475)       (1,635,097)       (899,962)       (3,620,450)       (936,987)       (858,699)       (1,044,027)         \$       -       \$       1,525       \$       -       \$       2,444,959       \$       42,948       \$       7,000       \$       112,685       \$       905,629       \$       \$       5       505,629       \$       \$       \$       \$       5       505,629       \$       \$       \$       \$       5       505,629       \$       \$       \$       \$       \$       \$       5       505,629       \$	/ear	2,603,804 2,653,004 2,653,049 2,653,049 2,689,865 2,689,865 2,689,865 2,689,865 2,689,865 2,689,865 2,691,615 2,693,258	1,507,956 1,610,975 1,608,734 1,506,426 1,592,408 1,592,408 1,592,408 1,592,408					3,700,625 3,656,522 3,663,398 3,663,398 3,663,398			1,949,656 	
(2.603.258)     (1.592.000)     (3.835,000)     (1.731,475)     (1.635,097)     (899,962)     (3.620,450)     (936,987)     (858,699)     (1.044,027)       \$     - \$     - \$     1,525     \$     - \$     2,444,959     \$     42,948     \$     7,000     \$     112,685     \$     905,629	(2.693.258)       (1.592.000)       (3.835,000)       (1.731.475)       (1.635.097)       (899.962)       (3.620.450)       (936.987)       (858.699)       (1.044,027)         \$       - \$       - \$       1,525 \$       - \$       2,444.959 \$       42,948 \$       7,000 \$       112.685 \$       905,629	Ultimate claims incurred	2,693,258	1,592,000	3,835,000	1,733,000	1,635,097	3,444,921	3,663,398	943,987	971,384		
\$ - \$ - \$ 1,525 \$ - \$ 2,444,959 \$ 42,948 \$ 7,000 \$ 112,685 \$ 905,629	\$ - \$ - \$ - \$ - \$ 2,444,959 \$ 42,948 \$ 7,000 \$ 112,685 \$ 905,629	Paid claims	(2,693,258)	(1,592,000)	(3,835,000)	(1,731,475)	(1,635,097)	(899,962)	(3,620,450)	(936,987)	(858,699)	(1,044,027)	(18,846,
69	6		I	I	\$		<b>⇔</b> '		42,948			905,629	3,514,
		Impact of discounting and margins										I	252,
												\$	

# NOTES TO FINANCIAL STATEMENTS As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Insurance risk (continued)

Claims development (continued)

Net

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# **Financial risks**

# Summary of financial assets and liabilities by class

	2016			2015		
Available-for-sale financial assets Cash Investments	\$	4,004,742 41,842,875		2,309,826 44,535,791		
	\$	45,847,617	\$	46,845,617		
Loans and receivables Premiums receivable from policyholders Interest and dividends receivable Other accounts receivable	\$	1,557,235 86,322 25,000	\$	1,489,501 97,207 14,281		
	\$	1,668,557	\$	1,600,989		
Other financial liabilities Attribution payable to members Accounts payable – reinsurers Other accounts payable	\$	427,237 1,038,939 548,512	\$	472,105 1,044,327 357,518		
	\$	2,014,688	\$	1,873,950		

The main financial risks to which La Mutuelle is exposed, including its financial risk management policies, are described below.

# Credit and counterparty risk

Credit risk is the risk of financial loss if the counterparty to a transaction defaults on its commitments. La Mutuelle is exposed to this type of risk through its cash holdings, premiums receivable from policyholders, portfolio investments in bonds and amounts receivable from reinsurers, if appropriate.

Cash is held with a recognized financial institution with a good credit rating so as to reduce the credit risk associated with this asset.

The premiums receivable from policyholders are generally prepaid and are continuously managed. As a result, La Mutuelle's exposure to doubtful accounts is not significant.

# **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# Financial risks (continued)

# Credit and counterparty risk (continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the claims liabilities and reinsurance contracts. Although La Mutuelle has entered into reinsurance contracts, it is not released from its direct obligations to its policyholders and hence there is a credit risk in respect of the insurance ceded, to the extent that any reinsurer might be unable to meet its obligations under such reinsurance contracts. Consequently, La Mutuelle diversifies its reinsurance portfolio to avoid dependence on a single reinsurer. In addition, during the selection process, in compliance with its reinsurance policy, La Mutuelle deals with insurers registered in Canada and subjects them to a credit checking procedure. Under the policy, major reinsurers must have a minimum "BBB" financial rating from S&P at the signing of contracts. Since it is generally limited to registered reinsurers, La Mutuelle does not require security from its reinsurance liabilities and amounts receivable from reinsurers and establishes provisions for reinsurance amounts deemed uncollectible. As at December 31, 2016 and 2015, none of the reinsurers had suffered a deterioration of their financial ratings in comparison to the reinsurance policy criteria. Management considers that as at December 31, 2016 and 2015, La Mutuelle was not exposed to a significant loss with respect to its reinsurers.

Regarding portfolio investments in bonds, criteria regarding the credit rating of issuers and exposure limits by lender, which encourage the diversification of investments in bonds, protect La Mutuelle from the risks that a payment default could have a material impact on income.

	2016	2015
Bonds by credit rating AAA/Aaa/A-1 AA/Aa/A-2 A/A-3	38.37% 34.90% 26.68%	36.92% 37.34% 25.74%

The carrying value presented in the statement of financial position of La Mutuelle's financial assets exposed to a credit risk generally reflects the maximum amount of credit risk to which La Mutuelle is exposed.

On each closing date, none of the financial assets exposed to a credit risk are impaired. In addition, La Mutuelle considers that on each closing date, the credit quality of all the above-listed financial assets, which are not impaired or past due, is rated good.

As at December 31, 2016 and 2015, La Mutuelle had no past due financial assets.

# **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# Financial risks (continued)

# Liquidity risk

Liquidity risk is the risk that the necessary funds cannot be made available, in a timely manner and at a reasonable price, to cover La Mutuelle's commitments as they become payable and to support anticipated growth resulting from its strategic planning.

To manage its cash flow requirements, La Mutuelle keeps the necessary financial resources available in accordance with its investment policy and by matching them with its liability commitments. In addition, La Mutuelle keeps a portion of its investments in liquid securities.

The table below shows the cash flow amounts related to insurance contract liabilities and other financial liabilities by maturity grouping, as well as the maturity of assets backing liabilities related to insurance contracts. Bonds are presented according to the maturity of the financial instrument, although they remain available for sale.

		2016						
	I	Less than one year	(	One to five years		More than five years		Total
Liabilities								
Provision for unpaid claims and adjustment expenses Attribution payable	\$	2,223,588	\$	1,535,089	\$	8,402	\$	3,767,079
to members Accounts payable –		427,237		-		-		427,237
reinsurers Other accounts payable		1,038,939 548,512		-		-		1,038,939 548,512
	\$	4,238,276	\$	1,535,089	\$	8,402	\$	5,781,767
Assets backing liabilities								
Cash Reinsurers' share of the provision for unpaid claims	\$	4,004,742	\$	-	\$	-	\$	4,004,742
and adjustment expenses Bonds		1,987,985 503,290		1,213,591 15,964,836		(11,833) 2,550,525		3,189,743 19,018,651
	\$	6,496,017	\$	17,178,427	\$	2,538,692	\$	26,213,136

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# **19. INSURANCE AND FINANCIAL RISK MANAGEMENT** (continued)

# Financial risks (continued)

Liquidity risk (continued)

	2015							
		Less than one year		One to five years		More than five years		Total
Liabilities								
Provision for unpaid claims and adjustment expenses Attribution payable to	\$	1,673,673	\$	1,546,121	\$	37,740	\$	3,257,534
members Accounts payable –		472,105		-		-		472,105
reinsurers Other accounts payable		1,044,327 357,518		-		-		1,044,327 357,518
	\$	3,547,623	\$	1,546,121	\$	37,740	\$	5,131,484
Assets backing liabilities								
Cash Reinsurers' share of the provision for unpaid claims	\$	2,309,826	\$	-	\$	-	\$	2,309,826
and adjustment expenses Bonds		1,407,536 752,218		1,308,402 14,526,444		(1,561) 4,931,590		2,714,377 20,210,252
	\$	4,469,580	\$	15,834,846	\$	4,930,029	\$	25,234,455

#### Market risk

Market risk includes several risk categories. Fluctuations in factors such as exchange rates, interest rates and prices of listed financial instruments influence the fair value of available-for-sale financial assets. The latter are particularly sensitive to fluctuations in bond market interest rates, prices of listed shares and the fair value of listed financial instruments. This risk is managed by separating financial instruments into several categories and by diversifying in various economic segments and geographical areas.

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Market risk (continued)

Foreign exchange risk

La Mutuelle is exposed to foreign exchange risk due to listed shares being denominated in US dollars.

		2016			
	_	Canadian dollars	Percentage of total assets		
Shares US dollars	\$	2,448,048	4.71%		
		20	15		
	_	Canadian dollars	Percentage of total assets		
Shares US dollars	\$	2,933,737	5.57%		

If the Canadian dollar had strengthened or weakened by 10% against the US dollar, with all other variables held constant, La Mutuelle's total assets and comprehensive income as at December 31, 2016 and 2015 would have been lower or higher by \$245,000 and by \$293,000, respectively.

La Mutuelle does not enter into contracts so as to hedge its foreign exchange risk exposure.

Concentration risk

Concentration risk arises when investments are made with a single entity or with multiple entities that share similar characteristics. La Mutuelle manages concentration risk by requiring prudent diversification in the portfolios and by establishing an investment policy that is updated on a regular basis.

### Interest rate risk

Bonds bear interest at fixed rates, thereby exposing La Mutuelle to a risk of change in fair value due to interest rate fluctuations.

		Interest-bearing instruments			
	_	2016		2015	
Bonds	\$	19,018,651	\$	20,210,252	

If the prevailing interest rate on the market had strengthened or weakened by 1%, with all other variables held constant, La Mutuelle's total assets and comprehensive income as at December 31, 2016 and 2015 would have been lower or higher by approximately \$510,000 and \$699,000, respectively.

### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# Financial risks (continued)

Market risk (continued)

Price risk

	Fair value			Percentage of total assets		
		2016	2015	2016	2015	
Listed shares	\$	9,671,547 \$	10,702,993	18.59%	20.33%	
Bond mutual funds	\$	10,944,394 \$	10,575,687	21.04%	20.09%	
Equity mutual funds	\$	2,208,283 \$	3,046,859	4.24%	5.79%	

If the price of shares and mutual funds traded had strengthened or weakened by 10%, with all other variables held constant, La Mutuelle's total assets and comprehensive income as at December 31, 2016 and 2015 would have been higher or lower by \$2,282,000 and by \$2,433,000 respectively.

# Available-for-sale investments at fair value

The schedule of investments, except for shares and mutual funds with no specific maturities, is distributed as follows:

	20	)16	2015			
	Amortized		Amortized			
	cost	Fair value	cost	Fair value		
Bonds						
Canada – Federal government						
Less than one year	\$-	\$-	\$-	\$-		
One to five years	6,220,151	6,340,104	4,907,036	5,010,309		
More than five years	613,716	602,830	2,006,901	2,083,388		
Provincial governments						
Less than one year	502,596	503,290	550,238	550,594		
One to five years	10,816,807	11,060,533	9,289,448	9,516,135		
More than five years	155,577	157,044	2,727,303	2,848,202		
Municipalities and public administrations						
Less than one year	-	-	199,758	201,624		
One to five years	348,259	354,850				
	\$ 18,657,106	\$ 19,018,651	\$ 19,680,684	\$ 20,210,252		

# **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 19. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

# Available-for-sale listed shares at fair value

	2016					2015			
	_	Cost		Fair value		Cost	Fair value		
Canadian									
Telecommunications services	\$	365,163	\$	381,550	\$	368,958	\$	382,088	
Energy		1,404,321		1,599,754		1,678,775		1,431,332	
Basic materials		538,484		600,284		690,076		623,463	
Industrial products		595,337		708,606		635,582		695,436	
Consumer products		479,470		552,202		987,540		1,130,050	
Public services		150,178		175,376		150,246		166,474	
Financial services		2,518,550		3,049,837		3,127,967		3,186,504	
Information technologies		115,478		155,890		140,554		153,909	
		6,166,981		7,223,499		7,779,698		7,769,256	
American									
Telecommunications services		12,074		22,842		15,545		24,526	
Energy		191,257		201,837		238,772		207,636	
Basic materials		28,323		32,491		36,328		40,224	
Industrial products		165,966		213,692		229,470		261,635	
Consumer products		351,931		491,752		392,587		529,082	
Health care		349,206		453,065		409,701		607,939	
Financial services		337,842		460,280		455,729		581,385	
Information technologies		372,951		572,089		483,526		681,310	
		1,809,550		2,448,048		2,261,658		2,933,737	
	\$	7,976,531	\$	9,671,547	\$	10,041,356	\$	10,702,993	

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2016

# 20. CLASSIFICATION OF FAIR VALUE MEASUREMENT

To reflect the significance of the inputs used in determining fair value measurement, La Mutuelle uses a fair value hierarchy to classify its financial instruments by category. All financial instruments recognized at fair value in the statement of financial position are classified according to a hierarchy that consists of three levels:

- Level 1: Measurement based on quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Measurement techniques based on prices for similar instruments quoted in active markets, prices for identical or similar instruments quoted in markets that are not active, inputs other than quoted prices used in a measurement model, which are observable for the instrument measured, and inputs that are derived principally from observable data or are corroborated by observable market data by correlation or other means;
- Level 3: Measurement techniques not based on observable market data (i.e. unobservable inputs).

The hierarchy that applies in determining fair value requires the use of observable market data whenever available. A financial instrument is classified at the lowest level of the hierarchy when significant data is taken into account in the fair value measurement.

The following table shows the hierarchy of assets measured at fair value as at December 31, 2016:

		20	016	
	Level 1	Level 2	Level 3	Total
Cash	\$ 4,004,742	\$-	\$-	\$ 4,004,742
Bonds	6,942,934	12,075,717	-	19,018,651
Listed shares	9,671,547	-	-	9,671,547
Bond mutual funds	10,944,394	-	-	10,944,394
Equity mutual funds	2,208,283	-	-	2,208,283
	\$ 33,771,900	\$ 12,075,717	\$-	\$ 45,847,617

# 20. CLASSIFICATION OF FAIR VALUE MEASUREMENT (continued)

The following table shows the hierarchy of assets measured at fair value as at December 31, 2015:

		20	015	
	Level 1	Level 2	Level 3	Total
Cash	\$ 2,309,826	\$	\$ -	\$ 2,309,826
Bonds Listed shares	7,093,698 10,702,993	13,116,554 -	-	20,210,252 10,702,993
Bond mutual funds Equity mutual funds	10,575,687 3,046,859	-	-	10,575,687 3,046,859
	\$ 33,729,063	\$ 13,116,554	\$-	\$ 46,845,617

La Mutuelle assesses the classification of its financial instruments at the close of each exercise. During the years ended December 31, 2016 and 2015, no transfer was made between different levels.

# 21. COMMITMENTS

La Mutuelle has lease commitments until 2019 for the rental of offices, equipment and services. The balance of commitments subsequent to these leases, excluding common expenses, is established at \$157,343. Minimum payments payable over the next three years are as follows:

2017 -	\$ 132,984
2018 -	\$ 21,710
2019 -	\$ 2,649

# 22. KEY MANAGEMENT PERSONNEL

Key management personnel includes directors (whether executives or otherwise) as well as members of the management committee. The compensation of key management personnel is as follows:

	 2016	2015	
Short-term benefits	\$ 1,039,211	\$ 829,855	

#### **NOTES TO FINANCIAL STATEMENTS** As at December 31, 2016

# 23. PROPOSED MERGER

On November 29, 2016, the members of La Mutuelle adopted a conversion regulation allowing La Mutuelle to be converted into a mutual insurance company governed by the Act respecting insurance. The members also adopted a merger agreement allowing La Mutuelle to merge with the Assurance Mutuelle de l'Inter-Ouest (hereinafter "AMIO"), incorporated under a provincial special act and subject to the requirements of the Act respecting insurance of Québec and the Insurance Act of Ontario.

Subject to approval by the Autorité des marchés financiers (AMF) and the ministre des Finances du *Québec*, La Mutuelle and AMIO intend to proceed with their respective conversion and to merge on April 1, 2017. La Mutuelle and AMIO operate in the same activity sector, which is decreasing, hence the opportunity for a merger. After this merger, the operational structure of the new entity, its ways, means, business strategies and processes will be substantially identical to the situation currently prevailing in La Mutuelle.

In the perspective of the merger, La Mutuelle and AMIO have signed different agreements to facilitate the transition. La Mutuelle has been first entrusted with the responsibility of conducting subscription operations of AMIO from June 30, 2016, without any financial consideration, and operations relating to claims from December 5, 2016 through outsourcing contracts. A cession agreement transfers substantially all of AMIO's policies to La Mutuelle from January 1, 2017. Finally, under a deposit agreement, AMIO shall deposit \$4,508,612 in a trust. All these agreements are in effect until the date of the merger, or in the event of the failure of the merger, until the notification date of the notice transmitted by one of the parties.

During the year, La Mutuelle has incurred merger-related costs of \$482,868.

# 164 years of experience counts for something, and that's reassuring!

# LA MUTUELLE AND ITS CENTRE D'ENTRAIDE ET DE PRÉVENTION, LOOKING TO THE FUTURE FOR THE BENEFIT OF ITS MEMBERS



L'ASSURANCE MUTUELLE DES FABRIQUES DE MONTRÉAL CABINET EN ASSURANCE DE DOMMAGES



On a financial level, despite the negative results of the last two years, the closure of some religious buildings belonging to fabriques, the difficult situation faced by some of our members and the weak financial markets, your Mutuelle remains a solid financial institution. The imminent merger with our neighbour in western Quebec will add another string to our bow and will further solidify our joint assets for the future.

Just as the times change, la Mutuelle is also transforming, modernizing itself and adapting to its members' current situation. This requires a good dose of innovation from the management committee and la Mutuelle's other employees in order to offer flexible products and services that distinguish us from traditional insurers. Nobody knows the needs of Church people better than your insurance cooperative, and we continue to develop our expertise in that respect. 164 years of experience counts for something, and that's reassuring!

In addition, it is also important to understand the leading role that you play as members in maintaining the health of your mutual insurance company. As a matter of fact, your role is played at various levels, particularly through simple actions such as informing yourselves, through your agent, of your various property and civil liability policy coverages. This can save you from unpleasant surprises following a claim, as well as help to reduce the amount of indemnities, which are increasing year by year. Those efforts would be reflected in future annual reports, and better financial results would lead to a reduction in the annual premiums. Don't forget that, to help you in the maintenance of your religious buildings and in your decision-making, a wide array of training and information sessions are available to you, as well as numerous subsidies in the context of various programs established by your Centre d'entraide et de prévention (CEP).

Let us remember that 2017 and the years to follow will be a crucial time for reflection, decisions and actions to safeguard our future. Together, we can achieve a successful future, because union is our strength.



# L'ASSURANCE MUTUELLE DES FABRIQUES DE MONTRÉAL

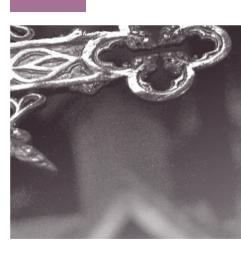
CABINET EN ASSURANCE DE DOMMAGES



CENTRE D'ENTRAIDE ET DE PRÉVENTION











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