

MALLETTE

Société de
comptables professionnels agréés

Compagnie mutuelle d'assurance en Église

Financial Statements
As at December 31, 2018

Together with Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

To the Members of
Compagnie mutuelle d'assurance en Église,

Opinion

We have audited the financial statements of **COMPAGNIE MUTUELLE D'ASSURANCE EN ÉGLISE** (La Mutuelle), which comprise the statement of financial position as at December 31, 2018, and the statements of income, comprehensive income, change in members' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of La Mutuelle as at December 31, 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of La Mutuelle in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

Those charged with governance are responsible for overseeing La Mutuelle's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of La Mutuelle's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on La Mutuelle's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause La Mutuelle to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

 ¹

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

Québec, Canada
February 21, 2019

¹ CPA auditor, CA, public accountancy permit No. A119429

Expression of Opinion

I have valued the policy liabilities and reinsurance recoverables of Compagnie mutuelle d'assurance en Église for its statement of financial position at 31 December, 2018 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 | 5 148 | 5 148 |
| (2) Assumed unpaid claims and adjustment expenses | 0 | 0 |
| (3) Gross unpaid claims and adjustment expenses (1) + (2) | 5 148 | 5 148 |
| (4) Amounts recoverable from reinsurers | 3 934 | 3 934 |
| (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) | 1 215 | 1 215 |

| Premium Liabilities | Carried in Annual Return (col. 1) (\$'000) | Appointed Actuary's Estimate (col. 2) (\$'000) |
|---|--|--|
| (1) Gross unearned premium liabilities | | 885 |
| (2) Net unearned premium liabilities | | 1 354 |
| (3) Gross unearned premiums | 1 994 | |
| (4) Net unearned premiums | 1 993 | |
| (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)] _{Col. 1} - (2) _{Col. 2} | | 639 |
| (9) Unearned commissions + Ceded Deferred Premium Taxes + Ceded Deferred Insurance Operations Expenses | 0 | |

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 _____



Jean-Marc Léveillé

Fellow, Canadian Institute of Actuaries

Montreal, Quebec

February 21, 2019

Compagnie mutuelle d'assurance en Église

STATEMENT OF INCOME

For the year ended December 31,

2018

2017

INSURANCE ACTIVITIES

GROSS REVENUE

| | | |
|------------------------|--------------|--------------|
| Gross written premiums | \$ 8,119,881 | \$ 8,035,528 |
|------------------------|--------------|--------------|

| | | |
|-------------------------------------|--------------------|--------------------|
| Gross earned premiums | \$ 8,063,416 | \$ 7,868,681 |
| Earned premiums ceded to reinsurers | <u>(3,078,651)</u> | <u>(5,424,307)</u> |

| | | |
|-------------------------|-----------|-----------|
| Net earned premiums | 4,984,765 | 2,444,374 |
| Reinsurance commissions | - | 913,219 |

| | | |
|--|------------------|------------------|
| | <u>4,984,765</u> | <u>3,357,593</u> |
|--|------------------|------------------|

EXPENSES

| | | |
|--|-----------------|------------------|
| Claims and adjustment expenses (Note 10) | 612,557 | 1,772,872 |
| Recoveries from reinsurers (Note 10) | <u>(82,706)</u> | <u>(578,623)</u> |

| | | |
|--------------------------------------|----------------|----------------|
| Net claims and adjustment expenses | 529,851 | 1,194,249 |
| Administrative expenses (Schedule A) | 2,935,711 | 3,062,210 |
| Governance expenses (Schedule B) | <u>483,170</u> | <u>482,637</u> |

| | | |
|--|------------------|------------------|
| | <u>3,948,732</u> | <u>4,739,096</u> |
|--|------------------|------------------|

| | | |
|---|-------------------------|---------------------------|
| SURPLUS (LOSS) FROM INSURANCE ACTIVITIES | <u>1,036,033</u> | <u>(1,381,503)</u> |
|---|-------------------------|---------------------------|

INVESTING ACTIVITIES

| | | |
|-------------------------------|------------------|------------------|
| Investment income (Note 7) | 1,555,334 | 2,297,079 |
| Management and custodial fees | <u>(119,014)</u> | <u>(124,039)</u> |

| | | |
|--|------------------|------------------|
| | <u>1,436,320</u> | <u>2,173,040</u> |
|--|------------------|------------------|

SURPLUS OF REVENUES OVER EXPENSES

| | | |
|---|-------------------------|-----------------------|
| BEFORE ATTRIBUTION AND OTHER ITEMS | <u>2,472,353</u> | <u>791,537</u> |
|---|-------------------------|-----------------------|

| | | |
|---|----------------|----------------|
| Attribution to members | 1,688,440 | 1,788,996 |
| Subsidies to members – Biennial Maintenance Program and other <i>Centre d'entraide et de prévention</i> (Schedule C) | <u>311,016</u> | <u>343,151</u> |
| | <u>347,975</u> | <u>437,394</u> |

| | | |
|--|------------------|------------------|
| | <u>2,347,431</u> | <u>2,569,541</u> |
|--|------------------|------------------|

EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES

| | | |
|---------------------------|--------------------------|------------------------------|
| BEFORE OTHER ITEMS | <u>\$ 124,922</u> | <u>\$ (1,778,004)</u> |
|---------------------------|--------------------------|------------------------------|

Compagnie mutuelle d'assurance en Église

STATEMENT OF INCOME (continued) For the year ended December 31,

| | 2018 | 2017 |
|--|--------------|----------------|
| EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES BEFORE OTHER ITEMS | \$ 124,922 | \$ (1,778,004) |
| OTHER ITEMS | | |
| Costs resulting from the litigations related to governance settled during the year (Schedule D) | (862,778) | (210,039) |
| Gain resulting from the combination (Note 2) | - | 4,238,581 |
| | (862,778) | 4,028,542 |
| EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES | \$ (737,856) | \$ 2,250,538 |

Compagnie mutuelle d'assurance en Église

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31,

2018

2017

| | | |
|--|-----------------------|---------------------|
| EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES | \$ (737,856) | \$ 2,250,538 |
| OTHER COMPREHENSIVE INCOME | | |
| Items that will be reclassified to the statement of income | | |
| Changes in unrealized gains (losses) on available-for-sale investments | (1,256,083) | 840,083 |
| Reclassification to the statement of income of gains realized on the disposal of available-for-sale investments (Note 7) | (555,115) | (1,164,367) |
| Reclassification to the statement of income of impairment losses recognized on available-for-sale investments (Note 7) | <u>183,330</u> | <u>24,353</u> |
| Net change that occurred during the year on available-for-sale investments | <u>(1,627,868)</u> | <u>(299,931)</u> |
| COMPREHENSIVE INCOME | \$ (2,365,724) | \$ 1,950,607 |

Compagnie mutuelle d'assurance en Église

STATEMENT OF CHANGE IN MEMBERS' EQUITY

For the year ended December 31,

| | Available surplus | Reserved surplus | Accumulated other comprehensive income | Total |
|--|----------------------|---------------------|---|---------------|
| BALANCE as at December 31, 2016 | \$ 18,219,400 | \$ 23,795,000 | \$ 2,346,462 | \$ 44,360,862 |
| Comprehensive income for the year | | | | |
| Excess of revenues over expenses | 2,250,538 | - | - | 2,250,538 |
| Other comprehensive income | | | | |
| Changes in unrealized gains on available-for-sale investments | - | - | 840,083 | 840,083 |
| Reclassification to the statement of income of gains realized on the disposal of available-for-sale investments | - | - | (1,164,367) | (1,164,367) |
| Reclassification to the statement of income of impairment losses recognized on available-for-sale investments | - | - | 24,353 | 24,353 |
| Transfer to reserved surplus (Note 16) | (2,020,000) | 2,020,000 | - | - |
| BALANCE as at December 31, 2017 | 18,449,938 | 25,815,000 | 2,046,531 | 46,311,469 |
| Comprehensive income for the year | | | | |
| Shortfall of revenues over expenses | (737,856) | - | - | (737,856) |
| Other comprehensive income | | | | |
| Changes in unrealized losses on available-for-sale investments | - | - | (1,256,083) | (1,256,083) |
| Reclassification to the statement of income of gains realized on the disposal of available-for-sale investments | - | - | (555,115) | (555,115) |
| Reclassification to the statement of income of impairment losses recognized on available-for-sale investments | - | - | 183,330 | 183,330 |
| Transfer to reserved surplus (Note 16) | 420,000 | (420,000) | - | - |
| BALANCE as at December 31, 2018 | \$ 18,132,082 | \$ 25,395,000 | \$ 418,663 | \$ 43,945,745 |

Compagnie mutuelle d'assurance en Église

STATEMENT OF FINANCIAL POSITION

As at December 31,

2018

2017

ASSETS

| | | |
|--|----------------------|----------------------|
| Cash | \$ 5,929,136 | \$ 3,216,960 |
| Accounts receivable (Note 8) | 1,966,027 | 2,100,815 |
| Prepaid expenses | 70,554 | 68,082 |
| Investments (Note 9) | 39,730,224 | 45,474,286 |
| Reinsurers' share of the provision for unpaid claims and adjustment expenses (Note 10) | 3,933,506 | 4,298,161 |
| Reinsurers' share of unearned premiums (Note 11) | 589 | 1,072,730 |
| Capital assets (Note 12) | 44,055 | 84,854 |
| Intangible assets (Note 13) | 124,339 | 166,026 |
| | \$ 51,798,430 | \$ 56,481,914 |

LIABILITIES

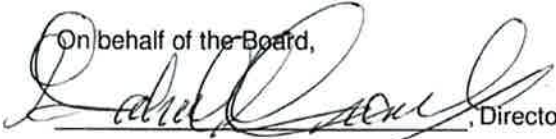
| | | |
|---|------------------|-------------------|
| Liabilities related to insurance contracts | | |
| Provision for unpaid claims and adjustment expenses (Note 10) | \$ 5,148,415 | \$ 5,582,332 |
| Unearned premiums (Note 11) | 1,994,400 | 1,937,935 |
| Unearned reinsurance commissions (Note 15) | - | 113,758 |
| | 7,142,815 | 7,634,025 |
| Attribution payable to members | 411,527 | 453,920 |
| Accounts payable | | |
| Reinsurers | - | 1,371,398 |
| Other (Note 14) | 298,343 | 711,102 |
| | 7,852,685 | 10,170,445 |


MEMBERS' EQUITY

| | | |
|--|----------------------|----------------------|
| Available surplus | 18,132,082 | 18,449,938 |
| Reserved surplus | 25,395,000 | 25,815,000 |
| Accumulated other comprehensive income | 418,663 | 2,046,531 |
| | 43,945,745 | 46,311,469 |
| | \$ 51,798,430 | \$ 56,481,914 |

Commitments (Note 19)

On behalf of the Board,


 Daniel Chouinard, Director


 Daniel Gagnon, Director

Compagnie mutuelle d'assurance en Église

STATEMENT OF CASH FLOWS

For the year ended December 31,

| | 2018 | 2017 |
|--|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Excess (shortfall) of revenues over expenses | \$ (737,856) | \$ 2,250,538 |
| Non-cash items | | |
| Gains realized on the disposal of available-for-sale investments | (555,115) | (1,164,367) |
| Impairment losses recognized on available-for-sale investments | 183,330 | 24,353 |
| Gain resulting from the combination (Note 2) | - | (4,238,581) |
| Amortization of premium on bonds | 112,096 | 163,616 |
| Amortization of capital assets | 49,270 | 54,843 |
| Amortization of intangible assets | 64,625 | 97,610 |
| Changes in non-cash working capital items | (748,648) | 403,054 |
| Cash flows related to operating activities | (1,632,298) | (2,408,934) |
| INVESTING ACTIVITIES | | |
| Cash and cash equivalents received from the combination (Note 2) | - | 1,624,986 |
| Acquisition of investments | (9,836,866) | (20,094,633) |
| Disposal of investments | 14,212,749 | 20,231,373 |
| Capital assets | (8,471) | (29,649) |
| Intangible assets | (22,938) | (110,925) |
| Cash flows related to investing activities | 4,344,474 | 1,621,152 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,712,176 | (787,782) |
| CASH, beginning of year | 3,216,960 | 4,004,742 |
| CASH, end of year | \$ 5,929,136 | \$ 3,216,960 |
| Cash flows related to operating activities from: | | |
| Interest received | \$ 419,015 | \$ 521,646 |
| Dividends received | \$ 284,842 | \$ 237,530 |
| Income from mutual funds received | \$ 580,237 | \$ 599,562 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

1. REPORTING ENTITY

Compagnie mutuelle d'assurance en Église is a mutual insurance company under the Act respecting insurance (Quebec) and a damage insurance firm under the Act respecting the distribution of financial products and services. 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.

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 get various tools in order to identify 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.

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

2. COMBINATION OF ENTITIES

On April 1, 2017, L'Assurance mutuelle des fabriques de Montréal (AMFM) has combined with L'Assurance Mutuelle de l'Inter-Ouest (AMIO), in order to expand its territory. The new entity resulting from the combination operates under the name "Compagnie mutuelle d'assurance en Église". Now, the operational structure of the new entity, its ways, means, business strategies and processes are substantially identical to those that prevailed within AMFM.

Management has accounted for the combination as a business acquisition in accordance with International Financial Reporting Standards, more precisely IFRS 3 – Business Combinations. AMFM was identified as the acquirer since the new Board of Directors is composed of a majority of members appointed by AMFM and that, as a result, AMFM has the ability to direct its activities. In addition, the procedures, policies and executives of the amalgamated entity are those that were in place at AMFM.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

2. COMBINATION OF ENTITIES (continued)

This transaction is summarized as follows:

| | |
|--|------------------|
| Acquired assets | |
| Cash and cash equivalents | \$ 1,624,986 |
| Accrued interest | 22,428 |
| Prepaid expenses | 132 |
| Investments | 3,091,684 |
| Reinsurers' share of the provision for unpaid claims and adjustment expenses | <u>1,078,078</u> |
| | <u>5,817,308</u> |
| Assumed liabilities | |
| Provision for unpaid claims and adjustment expenses | 1,164,363 |
| Employee benefits | 273,511 |
| Accounts payable | <u>140,853</u> |
| | <u>1,578,727</u> |
| Acquired net assets | \$ 4,238,581 |
| Consideration paid | \$ - |

Since the amount of the consideration paid is nil, an amount of \$4,238,581 has been recorded in the statement of income under "Other items" for the year 2017.

This transaction does not involve any potential consideration agreement nor indemnification asset.

The combination expenses incurred during the year 2017 amount to \$77,195 and have been recognized as administrative expenses.

3. 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

3. ROLE OF THE ACTUARY AND INDEPENDENT AUDITOR (continued)

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.

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 21, 2019.

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 9 under "Investments" and Note 10 "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 2 – Fair value of assets acquired and liabilities assumed in the combination of entities;
- Note 5 – Significant accounting policies – Useful life of capital assets and intangible assets;
- Note 9 – Investments;
- Note 10 – Provision for unpaid claims and adjustment expenses.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

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.

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 other 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, claims refund receivable, as well as interest and dividends receivable, amounts receivable from reinsurers and insurers 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

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 and non-reserved surplus from the current year and prior years.

The reserved surplus has been established to meet liquidity requirements for solvency purposes, and to cover future investments in targeted programs and 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.

6. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

New accounting standard applied

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. The application of this standard had no impact on La Mutuelle's financial statements.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

6. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

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, 2019. 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.

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 determined that the application of this standard will have no significant impact on its financial statements.

IFRS 9 – Financial Instruments

In July 2014, the IASB published IFRS 9 – Financial Instruments, which aims to replace IAS 39 – Financial Instruments: Recognition and Measurement on the classification and measurement of financial assets and liabilities, amortization and hedge accounting. The enterprises, whose principal business model is to issue insurance contracts have the option to postpone the entry into force of this standard until 2022. La Mutuelle is eligible for the postponement and intends to postpone the application of the standard. La Mutuelle is currently assessing the impact of this standard on its financial statements.

The following table presents the fair value at the closing date and the amount of change in fair value for the following two groups of financial assets:

| | SPPI Cash flows* | Other |
|-------------------------|-----------------------------|---------------|
| Change in fair value | \$ (98,372) | \$ (602,596) |
| Fair value, end of year | \$ 11,167,507 | \$ 28,562,717 |

* Debt instrument whose cash flows correspond solely to principal and interest repayments.

IFRS 17 – Insurance Contracts

In May 2017, the IASB published the new standard IFRS 17 – Insurance Contracts. This new standard requires that insurance contract liabilities be assessed using a method based on the present value, in addition to proposing a more consistent assessment and disclosure approach for all insurance contracts. The standard establishes a general accounting method and a variable expense method applicable to all insurance and reinsurance contracts. The standard also establishes a simplified accounting method for insurance contracts that meet certain criteria. These requirements are intended to ensure a consistent accounting for insurance contracts based on principles. IFRS 17 replaces IFRS 4 – Insurance Contracts as well as the related interpretations and will be effective for fiscal years beginning on or after January 1, 2022. La Mutuelle is currently assessing the impact of this standard on its financial statements.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

7. INVESTMENT INCOME

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Interest | \$ 423,188 | \$ 485,194 |
| Amortization of premium on bonds | (112,096) | (163,616) |
| Dividends | 292,220 | 235,925 |
| Income from mutual funds | 580,237 | 599,562 |
| Gains realized on the disposal of available-for-sale investments | 555,115 | 1,164,367 |
| Impairment losses recognized on available-for-sale investments | (183,330) | (24,353) |
| | \$ 1,555,334 | \$ 2,297,079 |

8. ACCOUNTS RECEIVABLE

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Premiums receivable from policyholders | \$ 1,737,661 | \$ 1,682,372 |
| Claims refund receivable | - | 345,070 |
| Interest and dividends receivable | 59,816 | 48,265 |
| Amounts receivable | | |
| Reinsurers | 41,031 | - |
| Insurer | 100,263 | - |
| Other | 27,256 | 25,108 |
| | \$ 1,966,027 | \$ 2,100,815 |

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

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

9. INVESTMENTS

| | 2018 | | 2017 | |
|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Cost | Fair value | Cost | Fair value |
| Bonds | \$ 11,195,635 | \$ 11,167,507 | \$ 13,578,213 | \$ 13,474,073 |
| Listed shares | 9,276,396 | 9,678,959 | 7,284,683 | 9,028,425 |
| Bond mutual funds | 16,755,107 | 16,239,604 | 20,969,743 | 20,701,510 |
| Equity mutual funds | 2,268,057 | 2,644,154 | 1,613,646 | 2,270,278 |
| | \$ 39,495,195 | \$ 39,730,224 | \$ 43,446,285 | \$ 45,474,286 |

For bonds, the cost represents the amortized cost and the nominal value is \$10,995,000 (2017 - \$13,066,000).

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.

10. 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

10. 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).

| <u>Sensitivity factors</u> | 2018 | | |
|----------------------------|------------------------------------|-------------------------------|-------------------------------|
| | <u>Changes made to assumptions</u> | <u>Increase in the factor</u> | <u>Decrease in the factor</u> |
| Claims development | 10% | \$ (497,578) | \$ 593,586 |
| Discount rate | 1% | \$ 10,665 | \$ (10,963) |

| <u>Sensitivity factors</u> | 2017 | | |
|----------------------------|------------------------------------|-------------------------------|-------------------------------|
| | <u>Changes made to assumptions</u> | <u>Increase in the factor</u> | <u>Decrease in the factor</u> |
| Claims development | 10% | \$ (60,872) | \$ 90,914 |
| Discount rate | 1% | \$ 14,747 | \$ (15,320) |

The discount rate used by the actuary was 2.84% (2017 – 2.53%).

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

10. 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:

| | 2018 | | | 2017 | | |
|---|---------------------|-------------------|--------------|---------------------|-------------------|--------------|
| | Insurance contracts | Reinsurance ceded | Net | Insurance contracts | Reinsurance ceded | Net |
| BALANCE , beginning of year | \$ 5,582,332 | \$ 4,298,161 | \$ 1,284,171 | \$ 3,767,079 | \$ 3,189,743 | \$ 577,336 |
| Increase (decrease) in losses and estimated expenses for claims incurred in prior years | (522,054) | 75,831 | (597,885) | (374,593) | (731,179) | 356,586 |
| Losses and expenses incurred in the current year | 1,134,611 | 6,875 | 1,127,736 | 2,147,465 | 1,309,802 | 837,663 |
| Net claims and adjustment expenses | 612,557 | 82,706 | 529,851 | 1,772,872 | 578,623 | 1,194,249 |
| Amounts recovered for claims incurred | | | | | | |
| Current year | (254,733) | - | (254,733) | (662,542) | (435,773) | (226,769) |
| Prior years | (791,741) | (447,361) | (344,380) | (459,440) | (112,510) | (346,930) |
| | (1,046,474) | (447,361) | (599,113) | (1,121,982) | (548,283) | (573,699) |
| Assets and liabilities acquired in the combination (Note 2) | - | - | - | 1,164,363 | 1,078,078 | 86,285 |
| BALANCE , end of year | \$ 5,148,415 | \$ 3,933,506 | \$ 1,214,909 | \$ 5,582,332 | \$ 4,298,161 | \$ 1,284,171 |

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

| | 2018 | | | 2017 | | |
|---|---------------------|-------------------|--------------|---------------------|-------------------|--------------|
| | Insurance contracts | Reinsurance ceded | Net | Insurance contracts | Reinsurance ceded | Net |
| Provision for reported claims | \$ 4,223,669 | \$ 3,517,639 | \$ 706,030 | \$ 4,563,266 | \$ 3,654,477 | \$ 908,789 |
| Provision for unreported claims | | | | | | |
| Provision | 667,186 | 232,485 | 434,701 | 751,530 | 449,254 | 302,276 |
| Impact of discount | (102,231) | (73,529) | (28,702) | (106,754) | (72,525) | (34,229) |
| Impact of margins for adverse deviation | 359,791 | 256,911 | 102,880 | 374,290 | 266,955 | 107,335 |
| | \$ 5,148,415 | \$ 3,933,506 | \$ 1,214,909 | \$ 5,582,332 | \$ 4,298,161 | \$ 1,284,171 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

10. 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:

| | 2018 | | | 2017 | | |
|-----------|---------------------|-------------------|--------------|---------------------|-------------------|--------------|
| | Insurance contracts | Reinsurance ceded | Net | Insurance contracts | Reinsurance ceded | Net |
| Property | \$ 1,003,628 | \$ 284,280 | \$ 719,348 | \$ 1,296,226 | \$ 952,799 | \$ 343,427 |
| Liability | 4,144,787 | 3,649,226 | 495,561 | 4,286,106 | 3,345,362 | 940,744 |
| | \$ 5,148,415 | \$ 3,933,506 | \$ 1,214,909 | \$ 5,582,332 | \$ 4,298,161 | \$ 1,284,171 |

11. UNEARNED PREMIUMS

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

| | 2018 | | | 2017 | | |
|------------------------------------|---------------------|-------------------|--------------|---------------------|-------------------|-------------|
| | Insurance contracts | Reinsurance ceded | Net | Insurance contracts | Reinsurance ceded | Net |
| BALANCE , beginning of year | \$ 1,937,935 | \$ 1,072,730 | \$ 865,205 | \$ 1,771,088 | \$ 987,796 | \$ 783,292 |
| Written premiums | 8,119,881 | 2,006,510 | 6,113,371 | 8,035,528 | 5,509,241 | 2,526,287 |
| Premiums earned during the year | (8,063,416) | (3,078,651) | (4,984,765) | (7,868,681) | (5,424,307) | (2,444,374) |
| BALANCE , end of year | \$ 1,994,400 | \$ 589 | \$ 1,993,811 | \$ 1,937,935 | \$ 1,072,730 | \$ 865,205 |

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, 2018 and 2017.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

12. CAPITAL ASSETS

| | Leasehold improvements | Furniture and office equipment | Computer equipment | Micro- computer equipment | Total |
|---|---------------------------|--------------------------------------|-----------------------|---------------------------------|--------------|
| Cost | \$ 429,975 | \$ 231,016 | \$ 235,338 | \$ 320,687 | \$ 1,217,016 |
| Accumulated amortization | (344,306) | (219,539) | (235,338) | (307,785) | (1,106,968) |
| BALANCE as at December 31, 2016 | 85,669 | 11,477 | - | 12,902 | 110,048 |
| Acquisitions | - | - | - | 29,649 | 29,649 |
| Amortization | (30,918) | (8,913) | - | (15,012) | (54,843) |
| Total changes | (30,918) | (8,913) | - | 14,637 | (25,194) |
| Cost | 420,262 | 149,587 | 153,240 | 76,230 | 799,319 |
| Accumulated amortization | (365,511) | (147,023) | (153,240) | (48,691) | (714,465) |
| BALANCE as at December 31, 2017 | 54,751 | 2,564 | - | 27,539 | 84,854 |
| Acquisitions | - | - | - | 8,471 | 8,471 |
| Amortization | (29,216) | (2,000) | - | (18,054) | (49,270) |
| Total changes | (29,216) | (2,000) | - | (9,583) | (40,799) |
| Cost | 229,890 | 126,263 | - | 76,148 | 432,301 |
| Accumulated amortization | (204,355) | (125,699) | - | (58,192) | (388,246) |
| BALANCE as at December 31, 2018 | \$ 25,535 | \$ 564 | \$ - | \$ 17,956 | \$ 44,055 |

La Mutuelle wrote off the following capital assets:

| | 2018 | | 2017 | |
|-----------------------------------|------------|-----------------------------|------------|-----------------------------|
| | Cost | Accumulated amortization | Cost | Accumulated amortization |
| Leasehold improvements | \$ 190,372 | \$ 190,372 | \$ 9,713 | \$ 9,713 |
| Furniture and office equipment | \$ 23,324 | \$ 23,324 | \$ 81,429 | \$ 81,429 |
| Computer equipment | \$ 153,240 | \$ 153,240 | \$ 82,098 | \$ 82,098 |
| Microcomputer equipment | \$ 8,553 | \$ 8,553 | \$ 274,106 | \$ 274,106 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

13. INTANGIBLE ASSETS

| | <u>Internally generated software</u> |
|--|--|
| Cost | \$ 748,831 |
| Accumulated amortization | <u>(596,120)</u> |
| BALANCE as at December 31, 2016 | <u>152,711</u> |
| Acquisitions | 110,925 |
| Amortization | <u>(97,610)</u> |
| Total changes | <u>13,315</u> |
| Cost | 669,083 |
| Accumulated amortization | <u>(503,057)</u> |
| BALANCE as at December 31, 2017 | <u>166,026</u> |
| Acquisitions | 22,938 |
| Amortization | <u>(64,625)</u> |
| Total changes | <u>(41,687)</u> |
| Cost | 575,620 |
| Accumulated amortization | <u>(451,281)</u> |
| BALANCE as at December 31, 2018 | \$ 124,339 |

During the year, La Mutuelle wrote off software for which the cost and accumulated amortization were of \$116,401 (2017 – \$190,673).

14. ACCOUNTS PAYABLE

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|-----------------------|-------------------|
| Suppliers and accrued liabilities | \$ 139,572 | \$ 290,819 |
| Accrued salaries and vacations | <u>158,771</u> | <u>420,283</u> |
| | \$ 298,343 | \$ 711,102 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

15. UNEARNED REINSURANCE COMMISSIONS

The reconciliation of unearned reinsurance commissions is as follows:

| | 2018 | 2017 |
|---|------------|------------|
| BALANCE , beginning of year | \$ 113,758 | \$ 109,583 |
| Commissions cancelled | (113,758) | - |
| Reinsurance commissions on premiums ceded during the year | - | 464,387 |
| Reinsurance commissions earned | - | (460,212) |
| BALANCE , end of year | \$ - | \$ 113,758 |

16. CAPITAL MANAGEMENT

La Mutuelle defines its capital as members' equity. As at December 31, 2018, members' equity amounted to \$43,945,745 and to \$46,311,469 as at December 31, 2017. 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%. As a result, an amount of \$25,395,000 was reserved for members' equity. 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:

| | 2018 | 2017 |
|--|---------------|---------------|
| Available capital | \$ 43,821,000 | \$ 46,139,000 |
| Minimum capital required | 5,079,000 | 5,163,000 |
| Excess capital available over minimum capital required | \$ 38,742,000 | \$ 40,976,000 |

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. 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. Risks are managed by La Mutuelle's Board of Directors 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.

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 manager. 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

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, a five-year plan, to review all insured files. The five-year plan's deployment was extended following the merger and should be completed in 2019.

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 85% (2017 – 68%) of client files have been reviewed based on the new standards which may be, in certain cases, implemented gradually.

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NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. 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 premium to registered reinsurers in exchange for covering a portion of the claims.

The main characteristic of reinsurance treaties is to limit the maximum loss for La Mutuelle to \$500,000 per event.

In addition, La Mutuelle purchases a comprehensive catastrophe reinsurance of \$35,000,000 in property insurance and \$10,000,000 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.

Given the low ratio between the volume of premiums and the magnitude of certain risks, La Mutuelle is highly dependent economically on its reinsurers and therefore, must maintain their interest to renew their treaties annually.

To La Mutuelle, maintaining effective underwriting and prevention practices, particularly for high-value risks, and evaluating the underwriting risks undertaken by the five-year plan are essentials to preserving a long-term relationship of trust with reinsurers.

All treaties expiring on December 31, 2018 have been renewed for a period of one year.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Insurance risk (continued)

Regulatory and governance 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.

The quality of governance is a crucial factor for entities operating in the field of insurance. Consequently, it is essential that the directors adhere to the values and objectives of La Mutuelle. One of the roles of the ethics committee is to ensure compliance with the policies and procedures put in place by La Mutuelle in terms of governance. To do this, the ethics committee has a well-established framework and can use the services of a third party to support it and thus preserve the reputational risk.

Concentration risk

Over 85% (2017 – 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Insurance risk (continued)

Claims development

La Mutuelle is exposed to the risk that the claims provision appearing on the statements of financial position is potentially insufficient. The "Property" provision risk is relatively low, since the estimate is based on the insured amount of the damaged property or on a repair estimate and the settlement 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 tables below show the changes in provisions for unpaid claims and adjustment expenses per accident year. As at December 31, 2018, claims development was as follows:

Gross

| | 2008 and before | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|--------------------------------------|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Estimate of ultimate claims incurred | | | | | | | | | | | | |
| At the end of the year | | \$ 4,011,711 | \$ 1,388,429 | \$ 1,961,505 | \$ 964,488 | \$ 3,700,625 | \$ 1,219,001 | \$ 1,442,187 | \$ 1,947,656 | \$ 2,085,262 | \$ 1,096,546 | |
| One year later | | 3,997,985 | 2,172,763 | 1,634,458 | 2,548,833 | 3,656,522 | 1,020,807 | 971,384 | 1,425,676 | 1,449,935 | - | |
| Two years later | | 3,982,982 | 1,674,146 | 1,663,588 | 2,880,302 | 3,651,466 | 943,987 | 1,390,286 | 1,406,483 | - | - | |
| Three years later | | 3,845,226 | 1,699,798 | 1,629,561 | 2,930,621 | 3,663,398 | 945,904 | 1,345,583 | - | - | - | |
| Four years later | | 3,835,719 | 1,720,102 | 1,634,693 | 3,444,921 | 3,620,053 | 946,561 | - | - | - | - | |
| Five years later | | 3,835,719 | 1,733,657 | 1,635,097 | 3,379,693 | 3,606,752 | - | - | - | - | - | |
| Six years later | | 3,835,719 | 1,733,000 | 1,635,097 | 3,758,762 | - | - | - | - | - | - | |
| Seven years later | | 3,835,000 | 1,524,299 | 1,635,097 | - | - | - | - | - | - | - | |
| Eight years later | | 3,835,000 | 1,520,796 | - | - | - | - | - | - | - | - | |
| Nine years later | | 3,835,000 | - | - | - | - | - | - | - | - | - | |
| Ultimate claims incurred | \$ 922,122 | 3,835,000 | 1,520,796 | 1,635,097 | 3,758,762 | 3,606,752 | 946,561 | 1,345,583 | 1,406,483 | 1,449,935 | 1,096,546 | \$ 21,523,637 |
| Paid claims | - | (3,835,000) | (1,520,796) | (1,635,097) | (1,102,696) | (3,606,752) | (946,561) | (1,177,934) | (1,396,313) | (1,156,900) | (254,733) | (16,632,782) |
| Unpaid claims | \$ 922,122 | \$ - | \$ - | \$ - | \$ 2,656,066 | \$ - | \$ - | \$ 167,649 | \$ 10,170 | \$ 293,035 | \$ 841,813 | 4,890,855 |
| Impact of discounting and margins | | | | | | | | | | | | 257,560 |
| | | | | | | | | | | | | \$ 5,148,415 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Insurance risk (continued)

Claims development (continued)

Net

| | 2008 and before | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|--------------------------------------|--------------------|------------|------------|------------|--------------|-------------|------------|------------|------------|--------------|------------|--------------|
| Estimate of ultimate claims incurred | | | | | | | | | | | | |
| At the end of the year | \$ 800,977 | \$ 353,924 | \$ 444,524 | \$ 405,610 | \$ 1,354,898 | \$ 379,692 | \$ 570,449 | \$ 607,791 | \$ 804,818 | \$ 1,092,046 | | |
| One year later | 803,093 | 369,849 | 402,127 | 375,244 | 1,348,276 | 296,077 | 501,680 | 439,590 | 535,915 | - | - | |
| Two years later | 795,280 | 362,270 | 395,425 | 516,962 | 1,343,315 | 263,589 | 907,763 | 427,024 | - | - | - | |
| Three years later | 769,879 | 356,976 | 380,615 | 419,504 | 1,351,533 | 264,132 | 864,912 | - | - | - | - | |
| Four years later | 766,473 | 357,765 | 380,707 | 439,596 | 1,341,041 | 265,188 | - | - | - | - | - | |
| Five years later | 766,473 | 358,292 | 380,281 | 409,695 | 1,336,347 | - | - | - | - | - | - | |
| Six years later | 766,473 | 358,194 | 380,281 | 442,717 | - | - | - | - | - | - | - | |
| Seven years later | 767,000 | 350,083 | 380,281 | - | - | - | - | - | - | - | - | |
| Eight years later | 767,000 | 349,946 | - | - | - | - | - | - | - | - | - | |
| Nine years later | 767,000 | - | - | - | - | - | - | - | - | - | - | |
| Ultimate claims incurred | \$ 9,221 | 767,000 | 349,946 | 380,281 | 442,717 | 1,336,347 | 265,188 | 864,912 | 427,024 | 535,915 | 1,092,046 | \$ 6,470,597 |
| Paid claims | - | (767,000) | (349,946) | (380,281) | (432,291) | (1,336,347) | (265,188) | (697,263) | (420,922) | (425,896) | (254,732) | (5,329,866) |
| Unpaid claims | \$ 9,221 | \$ - | \$ - | \$ - | \$ 10,426 | \$ - | \$ - | \$ 167,649 | \$ 6,102 | \$ 110,019 | \$ 837,314 | 1,140,731 |
| Impact of discounting and margins | | | | | | | | | | | | 74,178 |
| | | | | | | | | | | | | \$ 1,214,909 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks

Summary of financial assets and liabilities by class

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Available-for-sale financial assets | | |
| Cash | \$ 5,929,136 | \$ 3,216,960 |
| Investments | 39,730,224 | 45,474,286 |
| | \$ 45,659,360 | \$ 48,691,246 |
| Loans and receivables | | |
| Premiums receivable from policyholders | \$ 1,737,661 | \$ 1,682,372 |
| Claims refund receivable | - | 345,070 |
| Interest and dividends receivable | 59,816 | 48,265 |
| Amounts receivable | | |
| Reinsurers | 41,031 | - |
| Insurer | 100,263 | - |
| Other accounts receivable | 27,256 | 25,108 |
| | \$ 1,966,027 | \$ 2,100,815 |
| Other financial liabilities | | |
| Attribution payable to members | \$ 411,527 | \$ 453,920 |
| Accounts payable – reinsurers | - | 1,371,398 |
| Other accounts payable | 298,343 | 711,102 |
| | \$ 709,870 | \$ 2,536,420 |

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, claims refund receivable, portfolio investments in bonds and amounts receivable from reinsurers and insurers, 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. 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 should 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 reinsurers. On each financial information reporting date, La Mutuelle assesses the reinsurers' shares of insurance liabilities and amounts receivable from reinsurers and establishes provisions for reinsurance amounts deemed uncollectible. As at December 31, 2018 and 2017, 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, 2018 and 2017, 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.

| | 2018 | 2017 |
|------------------------|--------|--------|
| Bonds by credit rating | | |
| AAA/Aaa/A-1 | 51.86% | 40.59% |
| AA/Aa/A-2 | 40.44% | 43.73% |
| A/A-3 | 7.70% | 15.68% |

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, 2018 and 2017, La Mutuelle had no past due financial assets.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. 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 tables below show 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.

| | 2018 | | | Total |
|--|---------------------|---------------------|----------------------|----------------------|
| | Less than one year | One to five years | More than five years | |
| Liabilities | | | | |
| Provision for unpaid claims and adjustment expenses discounted | \$ 2,827,640 | \$ 1,395,515 | \$ 925,260 | \$ 5,148,415 |
| Attribution payable to members | 411,527 | - | - | 411,527 |
| Accounts payable – reinsurers | - | - | - | - |
| Other accounts payable | 298,343 | - | - | 298,343 |
| | \$ 3,537,510 | \$ 1,395,515 | \$ 925,260 | \$ 5,858,285 |
| Assets backing liabilities | | | | |
| Cash | \$ 5,929,136 | \$ - | \$ - | \$ 5,929,136 |
| Amounts receivable from reinsurers | 41,031 | - | - | 41,031 |
| Reinsurers' share of the provision for unpaid claims and adjustment expenses | 2,128,582 | 891,618 | 913,306 | 3,933,506 |
| Bonds | 87,711 | 6,274,928 | 4,804,868 | 11,167,507 |
| | \$ 8,186,460 | \$ 7,166,546 | \$ 5,718,174 | \$ 21,071,180 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Liquidity risk (continued)

| | 2017 | | | Total |
|--|---------------------|---------------------|----------------------|----------------------|
| | Less than one year | One to five years | More than five years | |
| Liabilities | | | | |
| Provision for unpaid claims and adjustment expenses discounted | \$ 4,077,522 | \$ 629,812 | \$ 874,998 | \$ 5,582,332 |
| Attribution payable to members | 453,920 | - | - | 453,920 |
| Accounts payable – reinsurers | 1,371,398 | - | - | 1,371,398 |
| Other accounts payable | 642,352 | 68,750 | - | 711,102 |
| | <u>\$ 6,545,192</u> | <u>\$ 698,562</u> | <u>\$ 874,998</u> | <u>\$ 8,118,752</u> |
| Assets backing liabilities | | | | |
| Cash | \$ 3,216,960 | \$ - | \$ - | \$ 3,216,960 |
| Reinsurers' share of the provision for unpaid claims and adjustment expenses | 3,146,925 | 292,690 | 858,546 | 4,298,161 |
| Bonds | 1,207,080 | 6,771,333 | 5,495,660 | 13,474,073 |
| | <u>\$ 7,570,965</u> | <u>\$ 7,064,023</u> | <u>\$ 6,354,206</u> | <u>\$ 20,989,194</u> |

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. 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.

| | 2018 | | 2017 | |
|------------|------------------|----------------------------|------------------|----------------------------|
| | Canadian dollars | Percentage of total assets | Canadian dollars | Percentage of total assets |
| Shares | | | | |
| US dollars | \$ 2,320,433 | 4.49% | \$ 2,539,691 | 4.50% |

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 would have been lower or higher by approximately \$232,000 (2017 – approximately \$254,000).

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 and bond mutual funds 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 | |
|-------------------|------------------------------|---------------|
| | 2018 | 2017 |
| Bonds | \$ 11,167,507 | \$ 13,474,073 |
| Bond mutual funds | \$ 16,239,604 | \$ 20,701,510 |

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 would have been lower or higher by approximately \$1,210,000 (2017 – approximately \$1,614,000).

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Market risk (continued)

Price risk

| | Fair value | | Percentage of total assets | |
|---------------------|--------------|--------------|----------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Listed shares | \$ 9,678,959 | \$ 9,028,425 | 18.72% | 15.98% |
| Equity mutual funds | \$ 2,644,154 | \$ 2,270,278 | 5.11% | 4.02% |

If the price of shares and equity mutual funds traded had strengthened or weakened by 10%, with all other variables held constant, La Mutuelle's total assets and comprehensive income would have been higher or lower by approximately \$1,232,000 (2017 – approximately \$1,130,000).

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:

| | 2018 | | 2017 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| Bonds | | | | |
| Canada – Federal government | | | | |
| Less than one year | \$ - | \$ - | \$ 1,005,889 | \$ 1,007,080 |
| One to five years | 3,950,189 | 3,961,215 | 2,522,985 | 2,521,203 |
| More than five years | 1,784,009 | 1,743,154 | 2,005,869 | 1,940,028 |
| Provincial governments | | | | |
| Less than one year | 88,346 | 87,711 | - | - |
| One to five years | 2,307,510 | 2,313,713 | 3,883,445 | 3,908,453 |
| More than five years | 3,065,581 | 3,061,714 | 3,620,278 | 3,555,631 |
| Municipalities and public administrations | | | | |
| One to five years | - | - | 339,747 | 341,678 |
| Corporates | | | | |
| Less than one year | - | - | 200,000 | 200,000 |
| | \$ 11,195,635 | \$ 11,167,507 | \$ 13,578,213 | \$ 13,474,073 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

17. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Available-for-sale listed shares at fair value

| | 2018 | | 2017 | |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|
| | Cost | Fair value | Cost | Fair value |
| Canadian | | | | |
| Telecommunications services | \$ 348,965 | \$ 332,478 | \$ 251,097 | \$ 269,295 |
| Energy | 1,800,884 | 1,552,687 | 1,368,813 | 1,456,157 |
| Basic materials | 485,511 | 413,762 | 564,570 | 575,927 |
| Industrial products | 746,199 | 879,194 | 555,029 | 707,500 |
| Consumer products | 816,704 | 882,059 | 379,151 | 459,621 |
| Public services | 100,473 | 118,553 | 66,020 | 83,690 |
| Financial services | 2,698,677 | 2,948,609 | 1,886,439 | 2,517,927 |
| Information technologies | 261,389 | 231,184 | 345,464 | 418,614 |
| | 7,258,802 | 7,358,526 | 5,416,583 | 6,488,731 |
| American | | | | |
| Telecommunications services | - | - | 44,231 | 50,538 |
| Energy | 154,628 | 152,692 | 170,322 | 169,884 |
| Basic materials | - | - | 26,884 | 30,799 |
| Industrial products | 241,502 | 274,731 | 147,119 | 212,519 |
| Consumer products | 394,395 | 443,368 | 391,209 | 486,081 |
| Health care | 255,530 | 295,339 | 290,896 | 397,794 |
| Financial services | 470,468 | 511,412 | 328,368 | 477,293 |
| Information technologies | 501,071 | 642,891 | 469,071 | 714,786 |
| | 2,017,594 | 2,320,433 | 1,868,100 | 2,539,694 |
| | \$ 9,276,396 | \$ 9,678,959 | \$ 7,284,683 | \$ 9,028,425 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

18. 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, 2018:

| | 2018 | | | |
|---------------------|----------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash | \$ 5,929,136 | \$ - | \$ - | \$ 5,929,136 |
| Bonds | 5,704,369 | 5,463,138 | - | 11,167,507 |
| Listed shares | 9,678,959 | - | - | 9,678,959 |
| Bond mutual funds | 16,239,604 | - | - | 16,239,604 |
| Equity mutual funds | 2,644,154 | - | - | 2,644,154 |
| | \$ 40,196,222 | \$ 5,463,138 | \$ - | \$ 45,659,360 |

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

18. CLASSIFICATION OF FAIR VALUE MEASUREMENT (continued)

The following table shows the hierarchy of assets measured at fair value as at December 31, 2017:

| | 2017 | | | |
|---------------------|----------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash | \$ 3,216,960 | \$ - | \$ - | \$ 3,216,960 |
| Bonds | 5,468,313 | 8,005,760 | - | 13,474,073 |
| Listed shares | 9,028,425 | - | - | 9,028,425 |
| Bond mutual funds | 20,701,510 | - | - | 20,701,510 |
| Equity mutual funds | 2,270,278 | - | - | 2,270,278 |
| | \$ 40,685,486 | \$ 8,005,760 | \$ - | \$ 48,691,246 |

La Mutuelle assesses the classification of its financial instruments at each year-end date. During the years ended December 31, 2018 and 2017, no transfer was made between the different levels.

19. COMMITMENTS

La Mutuelle has lease commitments until 2023 for the rental of offices, equipment and services. The balance of commitments subsequent to these leases is established at \$848,998. Minimum payments payable over the next years are as follows:

| | |
|--------|------------|
| 2019 – | \$ 433,458 |
| 2020 – | \$ 341,366 |
| 2021 – | \$ 63,739 |
| 2022 – | \$ 8,001 |
| 2023 – | \$ 2,434 |

20. 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:

| | 2018 | 2017 |
|---------------------|---------------------|---------------------|
| Short-term benefits | \$ 1,025,835 | \$ 1,121,181 |
| Severance pay | 341,139 | - |
| | \$ 1,366,974 | \$ 1,121,181 |

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2018

21. COMPARATIVE FIGURES

Certain comparative figures of the previous year have been reclassified to conform to the presentation used in the current year. In that respect, a part of the expenses included in the governance expenses of the previous year, in the amount of \$210,039, was transferred to "Costs resulting from the litigations related to governance settled during the year".

Compagnie mutuelle d'assurance en Église

SCHEDULES

For the year ended December 31,

2018

2017

A - ADMINISTRATIVE EXPENSES

| | | |
|-----------------------------------|---------------------|---------------------|
| Salaries | \$ 1,467,271 | \$ 1,244,397 |
| Employer contributions | 255,379 | 257,546 |
| Postage and courier | 19,800 | 25,401 |
| Insurance | 42,010 | 38,446 |
| Contributions | 9,157 | 14,464 |
| Repairs and maintenance | 16,485 | 19,883 |
| Travel expenses | 14,645 | 29,387 |
| Training expenses | 6,047 | 14,570 |
| Meeting expenses | 9,826 | 8,480 |
| Miscellaneous | 5,245 | 4,167 |
| Stationery and office supplies | 22,065 | 31,922 |
| Inspections | 110,486 | 120,605 |
| Rent | 121,549 | 119,142 |
| Advertising | 3,353 | 3,853 |
| Telecommunication and IT services | 395,485 | 497,024 |
| Professional fees | 315,847 | 465,899 |
| Taxes and permits | 7,166 | 14,571 |
| Amortization of capital assets | 49,270 | 54,843 |
| Amortization of intangible assets | 64,625 | 97,610 |
| | \$ 2,935,711 | \$ 3,062,210 |

B - GOVERNANCE EXPENSES

| | | |
|-------------------------------|-------------------|-------------------|
| Directors' remuneration | \$ 202,849 | \$ 260,409 |
| Employer contributions | 19,847 | 18,860 |
| Training expenses | 7,099 | - |
| Assembly and meeting expenses | 38,555 | 25,884 |
| Travel expenses | 5,836 | 12,216 |
| Miscellaneous | 4,473 | 8,937 |
| Professional fees | 204,511 | 156,331 |
| | \$ 483,170 | \$ 482,637 |

C - CENTRE D'ENTRAIDE ET DE PRÉVENTION

| | | |
|------------------------|-------------------|-------------------|
| Salaries | \$ 258,276 | \$ 309,436 |
| Employer contributions | 51,059 | 64,981 |
| Meeting expenses | 844 | - |
| Travel expenses | 7,375 | 6,369 |
| Miscellaneous | 2,963 | 7,654 |
| Rent | 15,600 | 15,600 |
| Products | (1,925) | - |
| Professional fees | 13,783 | 33,354 |
| | \$ 347,975 | \$ 437,394 |

Compagnie mutuelle d'assurance en Église

SCHEDULES

For the year ended December 31,

2018

2017

D - COSTS RESULTING FROM THE LITIGATIONS RELATED TO GOVERNANCE SETTLED DURING THE YEAR

| | | | | |
|--------------------------|----|-----------|----|---------|
| Directors' remuneration | \$ | 38,184 | \$ | 56 258 |
| Employer contributions | | 2,935 | | 4 325 |
| Travel expenses | | 3,145 | | 6 137 |
| Professional fees | | 918,777 | | 143,319 |
| Recovery from an insurer | | (100,263) | | - |
| | \$ | 862,778 | \$ | 210,039 |
