



**MUTUELLE
D'ASSURANCE
EN ÉGLISE**

AGENCE EN ASSURANCE DE DOMMAGES

**MORE
THAN JUST
AN INSURER**



ANNUAL REPORT
2019





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



MORE THAN JUST AN INSURER

For more than 165 years, the Mutuelle has stood the test of time despite the disruptions it has experienced over the years, the organizational changes and the ever-changing context of the church community. Its strength? Mutual aid and the willingness of its members to remain united within a specific organization, mutualism, which allows them to take part in the election of officers and in making important decisions.

Indeed, the Mutuelle belongs to its members. This is a major advantage that is not found in a private company where the members are not owners. This substantial difference is what gives the Mutuelle its richness and uniqueness. It is therefore up to each member to take advantage of every opportunity to express their opinion, for instance by using their right to vote when the time comes for elections.

It is also important to remember that by being part of the Mutuelle, each member also contributes to the financial health of the Catholic community, because each member's efforts in the area of prevention translate into a positive collective effect for all members. Thanks to mutualism and the pooling of resources that underlies it, members also collectively acquire exceptional means that enable them to maintain and even improve the quality of their risk profile for the future, while benefiting from protection designed for them. Being a member of the Mutuelle d'assurance en Église is therefore not a simple matter of contract, it is a matter of heart and pride.

Furthermore, because it evolved over the years in the unique Church environment, the Mutuelle is also very aware of the current and future challenges faced by our members and has the advantage of knowing their needs well. That is why we take into consideration the importance of offering them competitive rates, annual members' surplus distribution, a devoted team, outstanding customer service and additional services such as the Centre d'entraide et de prevention, which are not offered by other insurers.

OUR MISSION

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

OUR VISION

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

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

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

OUR VALUES

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



IMPORTANT FACTS 2019

Our Community In Numbers

26

INSTITUTIONS

Roman Catholic religious institutions in Quebec

542

FABRIQUES

Roman Catholic dioceses served by la Mutuelle
(see map below)

664

TOTAL NUMBER OF MEMBERS

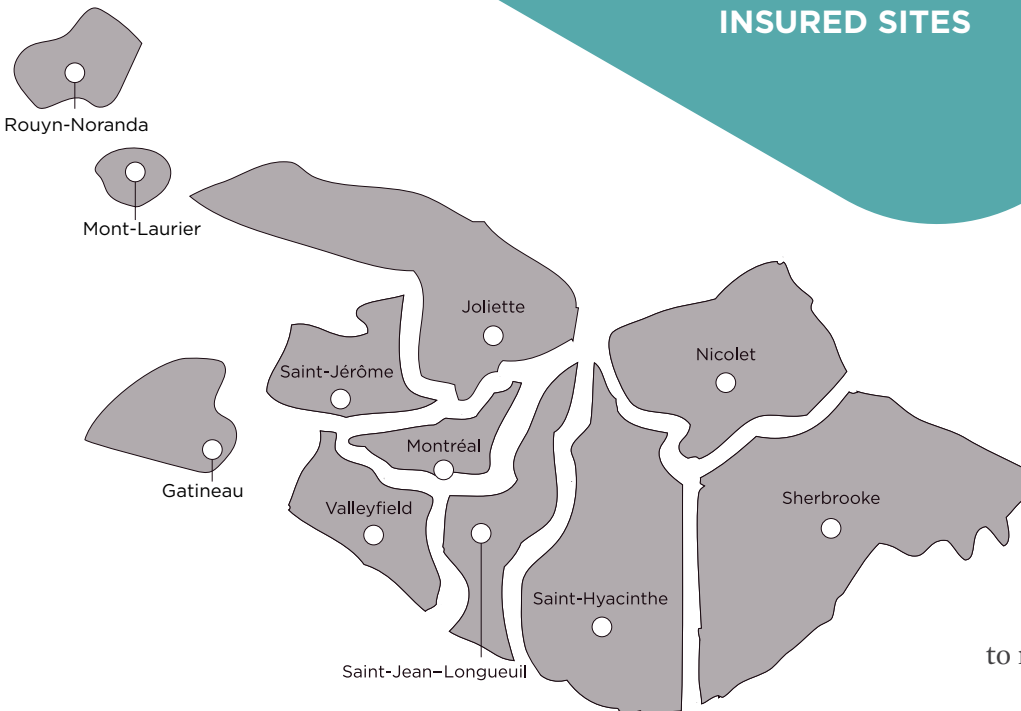
96

INSTITUTIONS

From other Christian denominations in Quebec

1496

INSURED SITES



\$3.2 G

PROTECTED AND INSURED VALUE of religious heritage

\$2.3 M

SUM REDISTRIBUTED IN 2019

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

Approximate values evaluated December 31, 2019.

A WORD FROM THE EXECUTIVE DIRECTOR



Dear members,

I am pleased for this opportunity to present you an overview of the Mutuelle's activities for the year 2019.

Financial future and strategic planning

2019 was a busy year in terms of governance and thinking about the Mutuelle's financial future. Ensuring the sustainability of the Mutuelle is obviously the primary concern of its management team. We have addressed this issue many times during the year, and the opportunities available to us as well. To this end, a strategic planning process was initiated in the fall of 2019 to evaluate the most promising options for the development of the Mutuelle, establish new orientations and define clear strategies to achieve the targets we have set.

Where does the Mutuelle currently stand?

We are aware that the market of the fabriques, the Mutuelle's main client base, is not currently growing in Quebec. We also know, however, that the Mutuelle remains well capitalized, which allows us to look to the future with a certain amount of confidence.

Where do we want to take the Mutuelle?

In our desire to determine the best possible avenues, the Mutuelle necessarily relies on feedback from our members to complete the reflection process and guide our actions. A first step in this process was therefore to prepare a survey dedicated to members in order to better understand their insurance needs and, eventually, to integrate the survey results into the strategic reflection process.

How do we get there?

The Mutuelle will need to be sure to make the necessary changes to its ambitions and determine the best way to achieve its growth and profitability objectives. We will also have to be sure to define a realistic timetable for achieving these objectives.

The electronic survey sent to all members at the beginning of 2020 provides some very interesting insights. Other measures will follow to enrich the reflection and lead to solid and comprehensive strategic planning.

Governance

There were many changes in the Board of Directors throughout 2019. The year was marked by the arrival of new board members and resignations. However, it is important to note that this instability in governance did not affect the Mutuelle's solvency or its day-to-day operations. It should also be noted that steps have been taken, and will continue in 2020, to re-establish a balance in governance and to put in place a new Board of Directors. This process was recently initiated by the provisional administrator who took office on February 26, 2020.

Financial aspects

This year, the Mutuelle posted a comprehensive loss of \$5.8 million, the main features of which are as follows:

With respect to insurance operations

Gross earned premiums increased by \$306,000 or 3.8% compared to 2018, mainly due to the indexation of insured values and the addition of a few new members.

The portion ceded to reinsurers increased by \$164,000, or 5.3% compared to 2018, whereas the increases observed in the reinsurance market were significantly higher.

The Mutuelle had a difficult year in terms of claims experience. Here are a few examples compared to 2018:

- Higher claim frequency, 211 claims this year (compared to 154);
- Windstorm, \$1.025 M in 2019 (compared to \$91,000);
- Fires, \$356,000 in 2019 (compared to a recovery of \$233,000);
- Water damage, \$430,000 in 2019 (compared to \$245,000).

In addition, a significant provision had to be recorded in respect of civil liability lawsuits. Incurred claims and related adjustment expenses for 2019 therefore amount to \$9.6 M, compared to an annual average of approximately \$2 M over the past few years. We should remember that we had an exceptional year in terms of claims in 2018 with only \$530,000.

Administrative expenses decreased by \$376,000 in 2019 and governance expenses decreased by \$115,000 from 2018. Various efforts were undertaken in 2019 to optimize the services offered by the Mutuelle. As a result, we have reduced our operating expenses despite the increase in the cost of living, and we will continue to closely monitor expenditures.

As a result, the insurance operations deficit is \$7.5 M, compared to a surplus of \$1 M in 2018.

Members' surplus distribution and subsidies

Quebec's religious heritage is invaluable. We work closely with our policyholders to avoid an unfortunate event. Should such an event occur, we must be able to react quickly to limit the damage.

We distributed \$2.3 M in the form of members' surplus distribution, subsidies and programs to our members. Of this amount, the members' surplus distribution represents \$1.6 M.

In conclusion,

I would like to thank and congratulate the team at the Mutuelle for the excellent work they each do every day. The results of the recent survey clearly show your appreciation for them. Finally, I would like to join the entire team in thanking you, dear members, for the confidence you have shown in your Mutuelle. Rest assured that you can always count on us. We are there for you.

Sincerely,

Serge Ouellette, B. Sc. Act.
Executive Director
Mutuelle d'assurance en Église

2019 REVIEW OF ACTIVITIES



ANNUAL AND EXTRAORDINARY GENERAL MEETINGS APRIL 30, 2019

It is in the Ahuntsic-Cartierville borough of Montreal, in a large hall of the Greek-Melkite Catholic Cathedral of Saint-Sauveur, that our annual and extraordinary general meetings were held this year. For the occasion, 196 participants gathered, including 134 representatives (proxy holders) representing 216 organizations. Under the chairmanship of Mr. Gabriel Groulx, Mr. Simon Potter agreed to preside over the meetings. Two new administrators from the Dioceses of Montreal and Gatineau were elected by secret ballot. The meetings were also an opportunity to introduce members to the new General Manager of the Mutuelle, Mr. Serge Ouellette, who has been in office since April 29, 2019.



EXTRAORDINARY GENERAL MEETING JUNE 14, 2019

Following a formal request from eight members of the Mutuelle, an extraordinary general meeting was held on June 14, 2019 at Church Saint-Sixte, borough Saint-Laurent, Montreal. At the end of this meeting, it was decided not to amend the Remuneration By-law which imposes a total \$250,000 ceiling on all board members annually. It was also voted by the members to waive the claims for amounts paid in excess to the directors in 2017.



TRAINING SESSIONS

This year, in addition to offering in June in Gatineau the training How to Conduct a Legal Fundraising Campaign, the Centre d'entraide et de prévention (CEP) of the Mutuelle also presented two new training sessions in November in Brossard: Preventing Water Damage and Preventing the Fall of Stone Walls. These last two training sessions attracted close to 50 participants and generated important knowledge and experience sharing. They will be offered again in 2020.

These training sessions are in addition to the nine other training and information sessions already available.



EXTRANET PROJECT UNDER DEVELOPMENT

In order to promote communication with its members, modernize its member services, reduce operating costs and facilitate the organization of annual elections, the Mutuelle is developing the Extranet project approved by the Board of Directors in 2019. It should be operational in the fall of 2020.

“TOGETHER, LET’S ACT NOW” AWARENESS RAISING CAMPAIGN

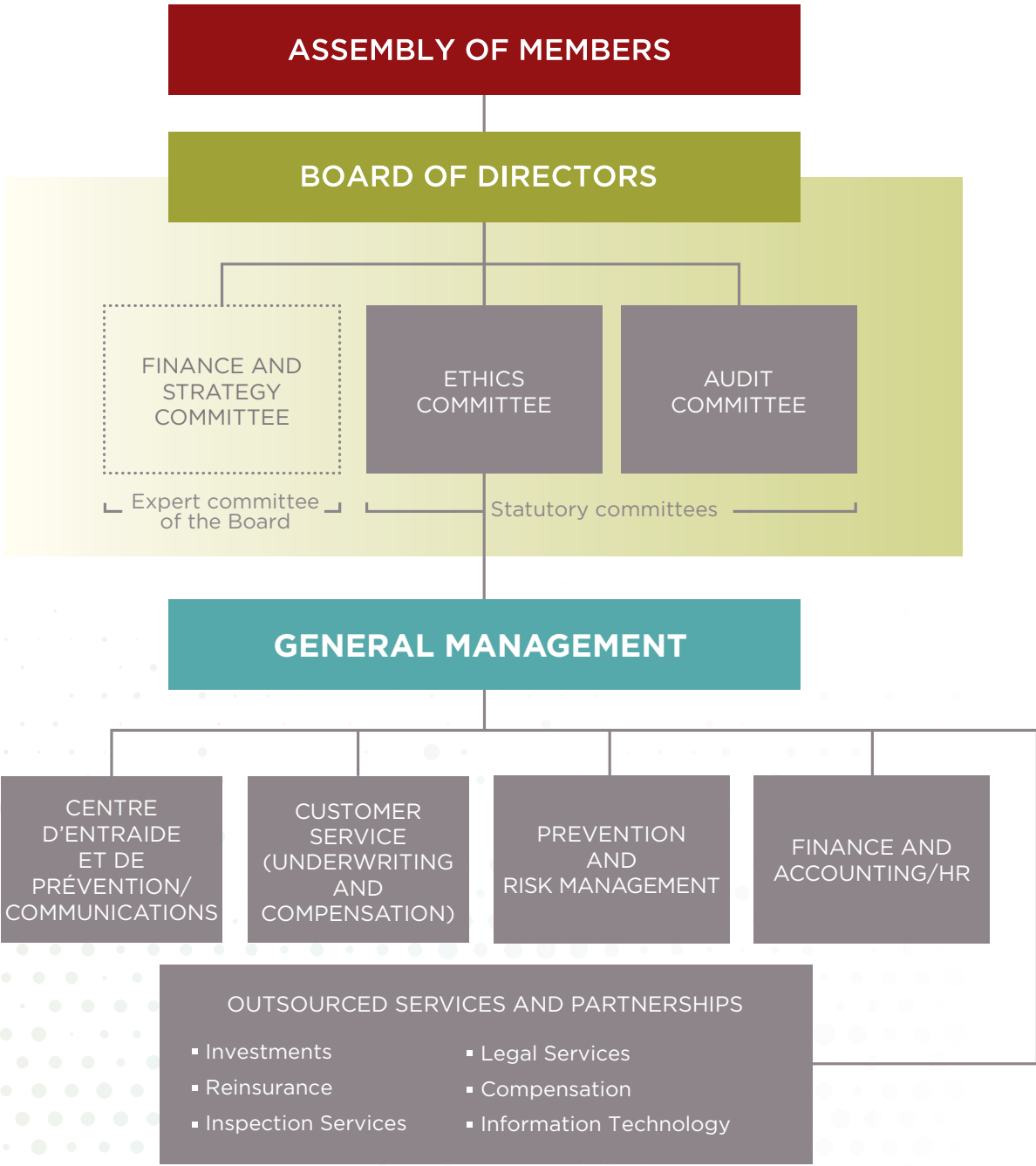
As the number of stone walls falling from religious buildings is on the rise, the Mutuelle has launched an awareness campaign “Together, Let’s Act Now” to draw the attention of its members to this important issue. An insert was first sent by mail, followed by a newsletter in which a video was presented. A special newsletter on the subject and a training session on the prevention of falling stone walls were also set up to encourage members to take action and to call us if they had any doubts about the structure of their buildings. Other interventions will take place during 2020.





As a regulated financial institution, the Mutuelle d'assurance en Église must ensure compliance with all applicable laws in addition to safeguarding the interests of both members and the general public. Accordingly, the Board of Directors has drafted a corporate governance program which draws inspiration from the best industry practices but which has been adapted to make proper allowance for the size and mutualistic nature of the Mutuelle.

ORGANIZATIONAL CHART



MEMBERS OF THE BOARD OF DIRECTORS AND LEADERSHIP 2019

GABRIEL GROULX, FCPA, FCA, ASC

Chairman

Resignation: January 2020

MAURICE LALONDE, LAWYER*

Vice-Chairman and Secretary

Chairman starting January 2020

SERGE OUELLETTE, B. SC. ACT.

Executive Director

Non-member of the Board

FERDINAND ALFIERI, CPA, CA*

MICHEL BARNABÉ*

Mandate started in April 2019

ALFONSO GRACEFFA*

MICHEL LAMONTAGNE, ASC

Resignation: August 2019

HÉLÈNE MARCIL, CPA AUDITOR, CA

Mandate started in April 2019 –

Resignation: August 2019

JEAN PRÉCOURT, FCPA, FCGA*

Since September 2019

MEMBERS OF THE COMMITTEES 2019

AUDIT COMMITTEE

MICHEL LAMONTAGNE, ASC

Interim Chairman

Until August 2019

JEAN PRÉCOURT, FCPA, FCGA

Chairman

Since September 2019

ALFONSO GRACEFFA

MAURICE LALONDE, LAWYER

Since May 2019

HÉLÈNE MARCIL

From May to August 2019

ETHICS COMMITTEE

MAURICE LALONDE, LAWYER

Chairman

FERDINAND ALFIERI, CPA, CA

MICHEL BARNABÉ

Since May 2019

MICHEL LAMONTAGNE, ASC

Until May 2019

FINANCE AND STRATEGY COMMITTEE

FERDINAND ALFIERI, CPA, CA

Chairman

Until October 2019

JEAN PRÉCOURT, FCPA, FCGA

Chairman

Since October 2019, member since September 2019

GABRIEL GROULX, FCPA, FCA, ASC

MICHEL BARNABÉ

Since May 2019

*A provisional administrator was appointed by Order of the Superior Court of Quebec on February 26, 2020, which terminated the mandate of the board members on March 4, 2020. A contestation of the Order has been filed and the matter is currently before the Court.



BOARD OF DIRECTORS AND COMMITTEES

MANDATE OF THE CHAIRMAN

The Chairman leads and presides over members' meetings and the meetings of the Board of Directors. He serves as spokesperson for the Board of Directors with management and with third parties. He executes those mandates entrusted to him by the Board of Directors.

AUDIT COMMITTEE

In the exercise of their responsibilities, the Audit Committee may obtain any information necessary to determine the effectiveness of internal controls and compliance with accounting standards so that the financial statements present a true picture of the financial situation and business risks of the Mutuelle. It is this committee that recommends to the Board of Directors the adoption of the audited financial statements.

ETHICS COMMITTEE

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

FINANCE AND STRATEGY COMMITTEE

The Finance and Strategy Committee reviews matters affecting the Mutuelle's financial and operational structure and strategic direction and makes recommendations to the Board of Directors. The Committee is composed of at least two directors.



**MUTUELLE
D'ASSURANCE
EN ÉGLISE**

AGENCE EN ASSURANCE DE DOMMAGES

FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2019

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, 2019, 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, 2019, 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.

Emphasis of Matters – Subsequent Events

We draw your attention to Note 2 to the financial statements which indicates the subsequent events.

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:

- We 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;
- We 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;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We 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;
- We 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
March 18, 2020

¹ CPA auditor, CA, public accountancy permit No. A110548

Opinion of the Actuary

I have valued the policy liabilities and reinsurance recoverables of the Compagnie mutuelle d'assurance en Église for its statement of financial position at December 31, 2019 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 is reliable and sufficient. I have 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	15,711	15,711
(2) Assumed unpaid claims and adjustment expenses	0	0
(3) Gross unpaid claims and adjustment expenses (1) + (2)	15,711	15,711
(4) Amounts recoverable from reinsurers	6,346	6,346
(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)	9,365	9,365
Premium Liabilities	Carried in Annual Return (col. 1) (\$'000)	Appointed Actuary's Estimate (col. 2) (\$'000)
(1) Gross unearned premium liabilities		849
(2) Net unearned premium liabilities		1,276
(3) Gross unearned premium	2,123	
(4) Net unearned premium	2,123	
(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}		847
(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 20, 2020

Compagnie mutuelle d'assurance en Église

STATEMENT OF INCOME

For the year ended December 31,

2019

2018

INSURANCE ACTIVITIES

GROSS REVENUE

Gross written premiums	\$ 8,498,207	\$ 8,119,881
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Gross earned premiums	\$ 8,369,577	\$ 8,063,416
Earned premiums ceded to reinsurers	<u>(3,242,985)</u>	<u>(3,078,651)</u>

Net earned premiums	<u>5,126,592</u>	<u>4,984,765</u>
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EXPENSES

Claims and adjustment expenses (Note 10)	14,434,332	612,557
Recoveries from reinsurers (Note 10)	<u>(4,784,549)</u>	<u>(82,706)</u>

Net claims and adjustment expenses	9,649,783	529,851
Administrative expenses (Schedule A)	2,559,664	2,935,711
Governance expenses (Schedule B)	<u>368,371</u>	<u>483,170</u>

	<u>12,577,818</u>	<u>3,948,732</u>
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SURPLUS (LOSS) FROM INSURANCE ACTIVITIES	<u>(7,451,226)</u>	<u>1,036,033</u>
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INVESTING ACTIVITIES

Investment income (Note 7)	1,850,847	1,555,334
Management and custodial fees	<u>(117,437)</u>	<u>(119,014)</u>

	<u>1,733,410</u>	<u>1,436,320</u>
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EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES BEFORE CONTRIBUTION AND OTHER ITEM	<u>(5,717,816)</u>	<u>2,472,353</u>
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Attribution to members	1,646,590	1,688,440
Subsidies to members – Biennial Maintenance Program and other	301,118	311,016
<i>Centre d'entraide et de prévention</i> (Schedule C)	<u>311,505</u>	<u>347,975</u>

	<u>2,259,213</u>	<u>2,347,431</u>
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EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES BEFORE OTHER ITEM	<u>\$ (7,977,029)</u>	<u>\$ 124,922</u>
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Compagnie mutuelle d'assurance en Église

STATEMENT OF INCOME (continued)

For the year ended December 31,

2019

2018

EXCESS (SHORTFALL) OF REVENUES OVER EXPENSES
BEFORE OTHER ITEM

\$ (7,977,029) \$ 124,922

OTHER ITEM

Costs resulting from the litigations related to governance (Schedule D)

- (862,778)

SHORTFALL OF REVENUES OVER EXPENSES

\$ (7,977,029) \$ (737,856)

Compagnie mutuelle d'assurance en Église

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31,

2019

2018

SHORTFALL OF REVENUES OVER EXPENSES	\$ (7,977,029)	\$ (737,856)
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OTHER COMPREHENSIVE INCOME

Items that will be reclassified to the statement of income

Changes in unrealized gains and losses on available-for-sale investments	2,810,247	(1,256,083)
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Reclassification to the statement of income of gains realized on the disposal of available-for-sale investments (Note 7)	(688,448)	(555,115)
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Reclassification to the statement of income of impairment losses recognized on available-for-sale investments (Note 7)	46,167	183,330
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Net change that occurred during the year on available-for-sale investments	2,167,966	(1,627,868)
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COMPREHENSIVE INCOME	\$ (5,809,063)	\$ (2,365,724)
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Compagnie mutuelle d'assurance en Église

STATEMENT OF CHANGE IN MEMBERS' EQUITY

	Available surplus	Reserved surplus	Accumulated other comprehensive income	Total
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 items				
Changes in unrealized gains and 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 14)	420,000	(420,000)	-	-
BALANCE as at December 31, 2018	18,132,082	25,395,000	418,663	43,945,745
Comprehensive income for the year				
Shortfall of revenues over expenses	(7,977,029)	-	-	(7,977,029)
Other comprehensive income items				
Changes in unrealized gains and losses on available-for-sale investments	-	-	2,810,247	2,810,247
Reclassification to the statement of income of gains realized on the disposal of available-for-sale investments	-	-	(688,448)	(688,448)
Reclassification to the statement of income of impairment losses recognized on available-for-sale investments	-	-	46,167	46,167
Transfer to reserved surplus (Note 14)	3,887,500	(3,887,500)	-	-
BALANCE as at December 31, 2019	\$ 14,042,553	\$ 21,507,500	\$ 2,586,629	\$ 38,136,682

Compagnie mutuelle d'assurance en Église

STATEMENT OF FINANCIAL POSITION

As at December 31,

2019

2018

ASSETS

Cash	\$ 8,427,385	\$ 5,929,136
Accounts receivable (Note 8)	2,082,353	1,966,027
Prepaid expenses	51,538	71,143
Investments (Note 9)	39,616,390	39,730,224
Reinsurers' share of the provision for unpaid claims and adjustment expenses (Note 10)	6,345,325	3,933,506
Tangible and intangible assets (Note 12)	184,217	168,394
	\$ 56,707,208	\$ 51,798,430

LIABILITIES

Liabilities related to insurance contracts		
Provision for unpaid claims and adjustment expenses (Note 10)	\$ 15,710,582	\$ 5,148,415
Unearned premiums (Note 11)	2,123,030	1,994,400
	17,833,612	7,142,815
Attribution payable to members	411,688	411,527
Accounts payable (Note 13)	276,344	298,343
Lease liability	48,882	-
	18,570,526	7,852,685

MEMBERS' EQUITY

Available surplus	14,042,553	18,132,082
Reserved surplus	21,507,500	25,395,000
Accumulated other comprehensive income	2,586,629	418,663
	38,136,682	43,945,745
	\$ 56,707,208	\$ 51,798,430

Commitments (Note 17)

On behalf of the Board,



Executive
Director



Provisional
administrator

Compagnie mutuelle d'assurance en Église

STATEMENT OF CASH FLOWS

For the year ended December 31,

	2019	2018
OPERATING ACTIVITIES		
Shortfall of revenues over expenses	\$ (7,977,029)	\$ (737,856)
Non-cash items		
Gains realized on the disposal of available-for-sale investments	(688,448)	(555,115)
Impairment losses recognized on available-for-sale investments	46,167	183,330
Amortization of premium on bonds	65,833	112,096
Amortization of tangible and intangible assets	86,832	113,895
	<u>(8,466,645)</u>	(883,650)
Changes in non-cash working capital items	<u>8,160,419</u>	(748,648)
Cash flows related to operating activities	<u>(306,226)</u>	(1,632,298)
INVESTING ACTIVITIES		
Acquisition of investments	(14,638,044)	(9,836,866)
Disposal of investments	17,496,292	14,212,749
Tangible and intangible assets	(43,684)	(31,409)
Cash flows related to investing activities	<u>2,814,564</u>	4,344,474
FINANCING ACTIVITIES		
Reimbursement of the lease liability	(10,089)	-
INCREASE IN CASH AND CASH EQUIVALENTS	2,498,249	2,712,176
CASH, beginning of year	<u>5,929,136</u>	3,216,960
CASH, end of year	\$ 8,427,385	\$ 5,929,136
Cash flows related to operating activities from:		
Interest received	\$ 430,317	\$ 419,015
Dividends received	\$ 263,275	\$ 284,842
Income from mutual funds received	\$ 590,146	\$ 580,237

La Mutuelle recorded a rental asset and a lease liability in the amount of \$58,971.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

1. REPORTING ENTITY

Compagnie mutuelle d'assurance en Église is a mutual insurance company under the Insurers Act 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. SUBSEQUENT EVENTS

On February 26, 2020, at the request of the Autorité des marchés financiers, the Superior Court of Quebec ordered ex parte the appointment of a provisional administrator. The provisional administrator will exercise the powers of the members of La Mutuelle's Board of Directors. In particular, he will have to appoint new board members capable of performing their duties in the interest of La Mutuelle, and in sufficient numbers to comply with the provisions of the Insurers Act.

The coronavirus (COVID-19) pandemic is causing an economic slowdown across the entire markets, giving rise to significant economic uncertainty. As a result, it is difficult to reliably measure the potential impact of this uncertainty on the future financial results of La Mutuelle.

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 and unearned premiums, as well as the reinsurers' share of the provision for unpaid claims and adjustment expenses.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

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 March 18, 2020.

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 as well as liabilities related to insurance contracts prepared in accordance with the accounting policies set out in Note 5.

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 "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 9 – Investments;
- Note 10 – Provision for unpaid claims and adjustment expenses and reinsurers' share of provision for unpaid claims and adjustment expenses.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

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.

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, 2019

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 income 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, 2019

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, 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 income.

Other financial liabilities

Attribution to members, accounts payable and lease liability 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 counterparty for which the instrument could be exchanged between knowledgeable and willing parties dealing at arm's length in full competition.

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, 2019

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets, other than those at fair value through net income, 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 asset

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.

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, 2019

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible and intangible assets

Tangible 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 and office equipment	20%
Microcomputer equipment	33.3%
Internally-generated 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 tangible and intangible assets is recognized in net income under administrative expenses.

Rental assets

Rental assets are initially recognized at cost, which includes the initial amount of the lease liability.

The rental assets are subsequently depreciated on a straight-line basis from the commencement date of the lease to the first due date between the end of the assets' useful life and the end of the leases. The useful life of a rental asset is assessed on the same basis as La Mutuelle's other tangible assets. The rental assets are depreciated over periods ranging from three to five years.

La Mutuelle presents its rental assets with its other tangible and intangible assets.

Impairment of non-financial assets

The carrying value of tangible 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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Unearned premiums

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

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.

Lease liability

The lease liability is initially recognized at the present value of the lease payments that have not yet been made using the interest rate implicit in the lease contract or, if this rate cannot be easily determined, La Mutuelle's marginal borrowing rate. Lease payments under the lease include fixed payments.

The lease liability is subsequently revalued at amortized cost using the effective interest rate method.

When there is a change in the contractual payments as a result of a change in an index or a rate, the amount of such adjustment to the lease liability is charged against the unamortized cost of the rental asset or to the statement of income when the rental asset is fully impaired.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

La Mutuelle adopted IFRS 16 for the financial year beginning January 1, 2019. It applied the requirements of the standard using the modified retrospective approach and chose the option to measure the asset at the same amount as the lease liability, adjusted by the amount of prepaid or accrued rentals that were recognized in respect of those leases immediately before the date of first-time adoption, if any. The application of this standard had no impact on the opening balance of members' equity.

The book value of the lease liability was determined by discounting the lease payments using the marginal borrowing rate at the date of first application, which was 4.95%. La Mutuelle thus recognized a rental asset of \$22,090 and a lease liability of the same amount as at January 1, 2019.

Given that IFRS 16 is replacing the straight-line expense relating to operating leases with an amortization charge for rental assets and an interest charge on lease liability, the nature of the expenses relating to these leases is different.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

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 pronouncements whose application will be mandatory for financial years beginning after January 1, 2020. Several of these new standards will have no impact on La Mutuelle's comprehensive income and statement of financial position and are therefore not discussed below.

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. La Mutuelle is currently evaluating the impact of this new standard on its financial statements. An amendment to IFRS 4 – Insurance Contracts, published by the IASB on September 12, 2016, provides for certain measures to allow entities, whose principal business model is to issue insurance contracts, the option to postpone the entry into force of IFRS 9 until January 1, 2021, the effective date of IFRS 17 – Insurance Contracts. This exemption remains valid with the publication of IFRS 17 in May 2017. In November 2018, the IASB proposed to defer the effective date of IFRS 17 to January 1, 2022, which would also defer the exemption from adopting IFRS 9 until that date. La Mutuelle will avail itself of the deferral until the maximum date allowed.

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	\$ 235,977	\$ 3,262,718
Fair value, end of year	\$ 13,466,635	\$ 36,659,493

* 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, which is intended to replace IFRS 4 – 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. This standard will apply to fiscal years beginning on or after January 1, 2023. La Mutuelle is currently assessing the impact of this standard on its financial statements, particularly on the presentation, disclosure and valuation of insurance and reinsurance contracts.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

6. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

New future accounting standards (continued)

Conceptual Framework for Financial Reporting

On March 29, 2018, the IASB published a comprehensive revision of the Conceptual Framework for Financial Reporting. The IASB decided to revise the Conceptual Framework for Financial Reporting because significant issues were not addressed and some guidance was outdated or unclear. The revised version includes, for example, a new section on evaluation, guidance on the presentation of financial performance and improved definitions of an asset and a liability and guidance to support those definitions. The conceptual framework assists entities in developing their accounting policies when no IFRS applies to a particular situation. The requirements will apply prospectively to financial statements beginning on or after January 1, 2020. This revision will have no impact on La Mutuelle's financial statements.

IAS 1 – Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

On October 31, 2018, the IASB published an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The amendment, entitled 'Definitions of Material', clarifies the definition of material in IAS 1 and the explanations accompanying that definition, and aligns the definitions used in the various IFRS standards. The provisions of this amendment will apply prospectively to financial statements beginning on or after January 1, 2020. La Mutuelle is currently evaluating the impact of this amendment on its financial statements.

7. INVESTMENT INCOME

	2019	2018
Interest	\$ 434,246	\$ 423,188
Amortization of premium on bonds	(65,833)	(112,096)
Dividends	250,007	292,220
Income from mutual funds	590,146	580,237
Gains realized on the disposal of available-for-sale investments	688,448	555,115
Impairment losses recognized on available-for-sale investments	(46,167)	(183,330)
	\$ 1,850,847	\$ 1,555,334

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

8. ACCOUNTS RECEIVABLE

	2019	2018
Premiums receivable from policyholders	\$ 1,844,415	\$ 1,737,661
Interest and dividends receivable	50,477	59,816
Amounts receivable		
Reinsurers	162,461	41,031
Insurer	-	100,263
Other	25,000	27,256
	\$ 2,082,353	\$ 1,966,027

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

9. INVESTMENTS

	2019		2018	
	Cost	Fair value	Cost	Fair value
Available-for-sale investments				
Bonds				
Canada – Federal Government				
One to five years	\$ 4,410,996	\$ 4,405,583	\$ 3,950,189	\$ 3,961,215
More than five years	1,124,310	1,113,132	1,784,009	1,743,154
Provincial Governments				
Less than a year	101,085	100,989	88,346	87,711
One to five years	-	-	2,307,510	2,313,713
More than five years	5,722,578	5,764,578	3,065,581	3,061,714
	11,358,969	11,384,282	11,195,635	11,167,507
Canadian shares	4,386,600	5,480,681	7,258,802	7,358,526
American shares	1,733,776	2,529,650	2,017,594	2,320,433
Bond mutual funds	17,210,155	17,146,309	16,755,107	16,239,604
Equity mutual funds	2,354,508	3,075,468	2,268,057	2,644,154
	\$ 37,044,008	\$ 39,616,390	\$ 39,495,195	\$ 39,730,224

For bonds, the cost represents the amortized cost and the nominal value is \$11,152,000 (2018 – \$10,995,000).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

9. INVESTMENTS (continued)

Every six months, La Mutuelle examines its portfolio of available-for-sale financial assets 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.

The procedures that give rise to claims can also influence the development of provisions. Recently, certain class actions have been filed, including with La Mutuelle. Class actions are filed on behalf of all persons in the cited situation. These new phenomena increase the complexity of estimating provisions, given the lack of historical data and the few comparable cases. The evolution of class actions involves several elements such as the awareness of newly reported facts, the periods affected, the addition of new cases not reported but related to the class action as well as updated jurisprudence which can significantly modify the best estimates for each fiscal year. The provision for unpaid claims and adjustment expenses determined at year-end is based on management's best estimates.

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.
- 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, 2019

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).

Sensitivity factors	2019		
	Changes made to assumptions	Increase in the factor	Decrease in the factor
Claims development	10%	\$ (277,835)	\$ 366,877
Discount rate	1%	\$ 87,813	\$ (88,045)

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

The discount rate used by the actuary was 2.2% (2018 – 2.84%).

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

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:

	2019			2018		
	Insurance contracts	Reinsurance ceded	Net	Insurance contracts	Reinsurance ceded	Net
BALANCE , beginning of year	\$ 5,148,415	\$ 3,933,506	\$ 1,214,909	\$ 5,582,332	\$ 4,298,161	\$ 1,284,171
Increase (decrease) in losses and estimated expenses for claims incurred in prior years	(634,140)	(552,713)	(81,427)	(522,054)	75,831	(597,885)
Losses and expenses incurred in the current year	15,068,472	5,337,262	9,731,210	1,134,611	6,875	1,127,736
Net claims and adjustment expenses	14,434,332	4,784,549	9,649,783	612,557	82,706	529,851
Amounts recovered for claims incurred						
Current year	(1,090,649)	-	(1,090,649)	(254,733)	-	(254,733)
Prior years	(2,781,516)	(2,372,730)	(408,786)	(791,741)	(447,361)	(344,380)
	(3,872,165)	(2,372,730)	(1,499,435)	(1,046,474)	(447,361)	(599,113)
BALANCE , end of year	\$ 15,710,582	\$ 6,345,325	\$ 9,365,257	\$ 5,148,415	\$ 3,933,506	\$ 1,214,909

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

	2019			2018		
	Insurance contracts	Reinsurance ceded	Net	Insurance contracts	Reinsurance ceded	Net
Provision for reported claims	\$ 13,349,468	\$ 6,032,811	\$ 7,316,657	\$ 4,223,669	\$ 3,517,639	\$ 706,030
Provision for unreported claims						
Provision	388,186	151,857	236,329	667,186	232,485	434,701
Impact of discount	(406,625)	(179,375)	(227,250)	(102,231)	(73,529)	(28,702)
Impact of margins for adverse deviation	2,379,553	340,032	2,039,521	359,791	256,911	102,880
	\$ 15,710,582	\$ 6,345,325	\$ 9,365,257	\$ 5,148,415	\$ 3,933,506	\$ 1,214,909

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

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:

	2019			2018		
	Insurance contracts	Reinsurance ceded	Net	Insurance contracts	Reinsurance ceded	Net
Property	\$ 1,826,813	\$ 719,068	\$ 1,107,745	\$ 1,003,628	\$ 284,280	\$ 719,348
Liability	13,883,769	5,626,257	8,257,512	4,144,787	3,649,226	495,561
	\$ 15,710,582	\$ 6,345,325	\$ 9,365,257	\$ 5,148,415	\$ 3,933,506	\$ 1,214,909

11. UNEARNED PREMIUMS

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

	2019			2018		
	Insurance contracts	Reinsurance ceded	Net	Insurance contracts	Reinsurance ceded	Net
BALANCE , beginning of year	\$ 1,994,400	\$ 589	\$ 1,993,811	\$ 1,937,935	\$ 1,072,730	\$ 865,205
Written premiums	8,498,207	3,242,396	5,255,811	8,119,881	2,006,510	6,113,371
Premiums earned during the year	(8,369,577)	(3,242,985)	(5,126,592)	(8,063,416)	(3,078,651)	(4,984,765)
BALANCE , end of year	\$ 2,123,030	\$ -	\$ 2,123,030	\$ 1,994,400	\$ 589	\$ 1,993,811

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, 2019 and 2018.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

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12. TANGIBLE AND INTANGIBLE ASSETS

	Leasehold improvements	Furniture and office equipment	Micro- computer equipment	Rental assets	Internally generated software	Total
Cost	\$ 420,262	\$ 149,587	\$ 76,230	\$ -	\$ 669,083	\$ 1,315,162
Accumulated amortization	(365,511)	(147,023)	(48,691)	-	(503,057)	(1,064,282)
BALANCE as at December 31, 2017	54,751	2,564	27,539	-	166,026	250,880
Acquisitions	-	-	8,471	-	22,938	31,409
Amortization	(29,216)	(2,000)	(18,054)	-	(64,625)	(113,895)
Total changes	(29,216)	(2,000)	(9,583)	-	(41,687)	(82,486)
Cost	229,890	126,263	76,148	-	575,620	1,007,921
Accumulated amortization	(204,355)	(125,699)	(58,192)	-	(451,281)	(839,527)
BALANCE as at December 31, 2018	25,535	564	17,956	-	124,339	168,394
Adjustments related to the adoption of IFRS 16						
Cost	-	-	-	22,090	-	22,090
Accumulated amortization	-	-	-	-	-	-
	-	-	-	22,090	-	22,090
Acquisitions	-	-	-	36,881	43,684	80,565
Amortization	(18,177)	(322)	(11,402)	(10,288)	(46,643)	(86,832)
Total changes	(18,177)	(322)	(11,402)	26,593	(2,959)	(6,267)
Cost	229,890	126,263	76,148	58,971	619,304	1,110,576
Accumulated amortization	(222,532)	(126,021)	(69,594)	(10,288)	(497,924)	(926,359)
BALANCE as at December 31, 2019	\$ 7,358	\$ 242	\$ 6,554	\$ 48,683	\$ 121,380	\$ 184,217

La Mutuelle wrote off the following capital assets:

	2019		2018	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Leasehold improvements	\$ -	\$ -	\$ 190,372	\$ 190,372
Furniture and office equipment	\$ -	\$ -	\$ 23,324	\$ 23,324
Microcomputer equipment	\$ -	\$ -	\$ 8,553	\$ 8,553
Internally generated software	\$ -	\$ -	\$ 116,401	\$ 116,401

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13. ACCOUNTS PAYABLE

	<u>2019</u>	<u>2018</u>
Suppliers and accrued liabilities	\$ 83,141	\$ 139,572
Accrued salaries and vacations	193,203	158,771
	<u>\$ 276,344</u>	<u>\$ 298,343</u>

14. CAPITAL MANAGEMENT

La Mutuelle defines its capital as members' equity. 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 premiums from its members.

The actuary, appointed by the Board of Directors in accordance with the Insurers Act (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 350%. As a result, an amount of \$21,507,500 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:

	<u>2019</u>	<u>2018</u>
Available capital	\$ 38,015,000	\$ 43,821,000
Minimum capital required	6,145,000	5,079,000
Excess capital available over minimum capital required	\$ 31,870,000	\$ 38,742,000
MCT Ratio	<u>619%</u>	<u>863%</u>

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. 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.

Under its integrated risk management process, La Mutuelle reviews its portfolio risk profile annually in order to validate the adequacy of its underwriting policies. On a regular basis, client files are reviewed based on La Mutuelle's standards which may be, in certain cases, implemented gradually.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. 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 or 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 the reinsurance treaties in effect for the 2019 fiscal year is to limit the maximum loss for La Mutuelle to \$500,000 per event.

For the 2019 fiscal year, La Mutuelle purchased 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.

The maintenance of effective underwriting and prevention practices by La Mutuelle, particularly for high-value risks, and evaluating the underwriting risks, are essential measures to preserve a long-term relationship of trust with reinsurers.

All treaties expiring on December 31, 2019 have been renewed for a period of one year.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. 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% (2018 – 85%) 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, 2019

15. 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 comprehensive income 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, 2019, claims development was as follows:

Gross

	2009 and before	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims incurred												
At the end of the year		\$ 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	\$ 13,136,420	
One year later		2,172,763	1,634,458	2,548,833	3,656,522	1,020,807	971,384	1,425,676	1,449,935	769,933	-	
Two years later		1,674,146	1,663,588	2,880,302	3,651,466	943,987	1,390,286	1,419,483	1,565,124	-	-	
Three years later		1,699,798	1,629,561	2,930,621	3,663,398	945,504	1,649,583	1,414,340	-	-	-	
Four years later		1,720,102	1,634,693	3,444,921	3,620,053	1,799,561	1,819,988	-	-	-	-	
Five years later		1,733,657	1,635,097	3,379,693	3,659,752	1,799,561	-	-	-	-	-	
Six years later		1,733,000	1,635,097	3,796,762	3,659,752	-	-	-	-	-	-	
Seven years later		1,524,299	1,770,097	3,362,749	-	-	-	-	-	-	-	
Eight years later		1,706,796	1,770,097	-	-	-	-	-	-	-	-	
Nine years later		1,706,796	-	-	-	-	-	-	-	-	-	
Ultimate claims incurred	\$ 899,521	1,706,796	1,770,097	3,362,749	3,659,752	1,799,561	1,819,988	1,414,340	1,565,124	769,933	13,136,420	\$ 31,904,281
Paid claims	-	(1,706,796)	(1,770,097)	(3,266,246)	(3,659,752)	(1,799,561)	(1,542,088)	(1,414,340)	(1,386,238)	(529,812)	(1,091,697)	(18,166,627)
Unpaid claims	\$ 899,521	\$ -	\$ -	\$ 96,503	\$ -	\$ -	\$ 277,900	\$ -	\$ 178,886	\$ 240,121	\$ 12,044,723	13,737,654
Impact of discounting and margins												1,972,928
												\$ 15,710,582

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Insurance risk (continued)

Claims development (continued)

Net

	2009 and before	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims incurred												
At the end of the year		\$ 353,924	\$ 444,524	\$ 405,610	\$ 1,354,898	\$ 379,692	\$ 570,449	\$ 607,791	\$ 804,818	\$ 1,092,046	\$ 7,965,208	
One year later		369,849	402,127	375,244	1,348,276	296,077	501,680	439,590	535,915	759,157	-	
Two years later		362,270	395,425	516,962	1,343,315	263,589	907,763	432,024	660,782	-	-	
Three years later		356,976	380,615	419,504	1,351,533	264,132	1,040,912	428,938	-	-	-	
Four years later		357,765	380,707	439,596	1,341,041	408,188	1,192,232	-	-	-	-	
Five years later		358,292	380,281	409,695	1,365,347	408,188	-	-	-	-	-	
Six years later		358,194	380,281	463,717	1,365,347	-	-	-	-	-	-	
Seven years later		350,083	450,281	463,726	-	-	-	-	-	-	-	
Eight years later		458,946	450,281	-	-	-	-	-	-	-	-	
Nine years later		458,946	-	-	-	-	-	-	-	-	-	
Ultimate claims incurred	\$ 10,961	458,946	450,281	463,726	1,365,347	408,188	1,192,232	428,938	660,782	759,157	7,965,208	\$ 14,163,766
Paid claims	-	(458,946)	(450,281)	(453,589)	(1,365,347)	(408,188)	(923,302)	(428,938)	(500,680)	(529,812)	(1,091,697)	(6,610,780)
Unpaid claims	\$ 10,961	-	-	10,137	-	-	268,930	-	160,102	229,345	6,873,511	7,552,986
Impact of discounting and margins												1,812,271
												\$ 9,365,257

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks

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

Credit and counterparty risk

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

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.

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, 2019 and 2018, 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, 2019 and 2018, La Mutuelle was not exposed to a significant loss with respect to its reinsurers.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Credit and counterparty risk (continued)

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.

	2019	2018
Bonds by credit rating		
AAA/Aaa/A-1	48%	52%
AA/Aa/A-2	33%	40%
A/A-3	19%	8%

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, 2019 and 2018, La Mutuelle had no past due financial assets.

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.

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Liquidity risk (continued)

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.

	2019			Total
	Less than one year	One to five years	More than five years	
Liabilities				
Provision for unpaid claims and adjustment expenses discounted	\$ 1,482,819	\$ 13,213,231	\$ 1,014,532	\$ 15,710,582
Attribution payable to members	411,688	-	-	411,688
Accounts payable	276,344	-	-	276,344
Lease liability	48,882	-	-	48,882
	\$ 2,219,733	\$ 13,213,231	\$ 1,014,532	\$ 16,447,496
Assets backing liabilities				
Cash	\$ 8,427,385	\$ -	\$ -	\$ 8,427,385
Amounts receivable from reinsurers	162,461	-	-	162,461
Reinsurers' share of the provision for unpaid claims and adjustment expenses	473,525	4,948,798	923,002	6,345,325
Investments	28,333,097	4,405,583	6,877,710	39,616,390
	\$ 37,396,468	\$ 9,354,381	\$ 7,800,712	\$ 54,551,561

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

15. INSURANCE AND FINANCIAL RISK MANAGEMENT (continued)

Financial risks (continued)

Liquidity risk (continued)

	2018			
	Less than one year	One to five years	More than five years	Total
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	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
Accounts 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
Investments	28,650,428	6,274,928	4,804,868	39,730,224
	\$ 36,749,177	\$ 7,166,546	\$ 5,718,174	\$ 49,633,897

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 and to 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, 2019

15. 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.

	2019		2018	
	Canadian dollars	Percentage of total assets	Canadian dollars	Percentage of total assets
Shares				
US dollars	\$ 2,529,650	4.46%	\$ 2,320,433	4.49%

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 \$253,000 (2018 – approximately \$232,000).

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.

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 \$1,392,000 (2018 – approximately \$1,210,000).

Price risk

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 \$1,109,000 (2018 – approximately \$1,232,000).

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

16. 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, 2019:

	2019			
	Level 1	Level 2	Level 3	Total
Cash	\$ 8,427,385	\$ -	\$ -	\$ 8,427,385
Bonds	5,518,715	5,865,567	-	11,384,282
Listed shares	8,010,331	-	-	8,010,331
Bond mutual funds	17,146,309	-	-	17,146,309
Equity mutual funds	3,075,468	-	-	3,075,468
	\$ 42,178,208	\$ 5,865,567	\$ -	\$ 48,043,775

Compagnie mutuelle d'assurance en Église

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2019

16. CLASSIFICATION OF FAIR VALUE MEASUREMENT (continued)

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

La Mutuelle assesses the classification of its financial instruments at each year-end date. During the years ended December 31, 2019 and 2018, no transfer was made between the different levels.

17. COMMITMENTS

La Mutuelle has lease commitments until 2021 for the rental of computer systems and equipment. The balance of commitments subsequent to these leases is established at \$396,499. Minimum payments payable over the next years are as follows:

2020 –	\$	334,161
2021 –	\$	62,338

18. 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:

	2019	2018
Short-term benefits	\$ 746,546	\$ 762,020
Severance pay	-	341,139
	\$ 746,546	\$ 1,103,159

The key management personnel's remuneration is set out in Schedules B and D.

Compagnie mutuelle d'assurance en Église

SCHEDULES

As at December 31,

2019

2018

A - ADMINISTRATIVE EXPENSES

Salaries	\$ 1,139,929	\$ 1,467,271
Employer contributions	222,592	255,379
Postage and courier	14,978	19,800
Insurance	48,472	42,010
Contributions	11,072	9,157
Repairs and maintenance	16,550	16,485
Travel expenses	11,382	14,645
Training expenses	8,418	6,047
Meeting expenses	6,619	9,826
Miscellaneous	14,448	5,245
Stationery and office supplies	15,613	22,065
Inspections	154,730	110,486
Rent	123,955	121,549
Advertising	2,365	3,353
Telecommunication and IT services	431,243	395,485
Professional fees	247,654	315,847
Taxes and permits	6,910	7,166
Amortization of tangible and intangible assets	82,734	113,895
	\$ 2,559,664	\$ 2,935,711

B - GOVERNANCE EXPENSES

Directors' remuneration	\$ 215,841	\$ 202,849
Employer contributions	17,330	19,847
Training expenses	-	7,099
Assembly and meeting expenses	37,913	38,555
Travel expenses	4,509	5,836
Miscellaneous	-	4,473
Professional fees	92,778	204,511
	\$ 368,371	\$ 483,170

C - CENTRE D'ENTRAIDE ET DE PRÉVENTION

Salaries	\$ 232,064	\$ 258,276
Employer contributions	46,374	51,059
Travel expenses	5,329	7,375
Meeting expenses	344	844
Miscellaneous	3,676	2,963
Rent	10,400	15,600
Products	(3,175)	(1,925)
Professional fees	12,395	13,783
Amortization of tangible assets	4,098	-
	\$ 311,505	\$ 347,975

Compagnie mutuelle d'assurance en Église

SCHEDULES

As at December 31,

2019

2018

D - COSTS RESULTING FROM THE LITIGATIONS RELATED TO GOVERNANCE

Directors' remuneration	\$	-	\$	38,184
Employer contributions		-		2,935
Travel expenses		-		3,145
Professional fees		-		918,777
Recovery from an insurer		-		(100,263)
				<hr/>
	\$	-	\$	862,778



**MUTUELLE
D'ASSURANCE
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AGENCE EN ASSURANCE DE DOMMAGES



**CENTRE
D'ENTRAIDE
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