ANNUAL REPORT 2020

Shared Purpose | Mutual Values

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

COMPANY INFORMATION

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

HEAD OFFICE

The Mutual Fire Insurance Company of British Columbia
9366 200A Street
Langley, BC V1M 4B3
Canada

T: 604.881.1250
TF: 866.417.2272
E: info@mutualfirebc.com

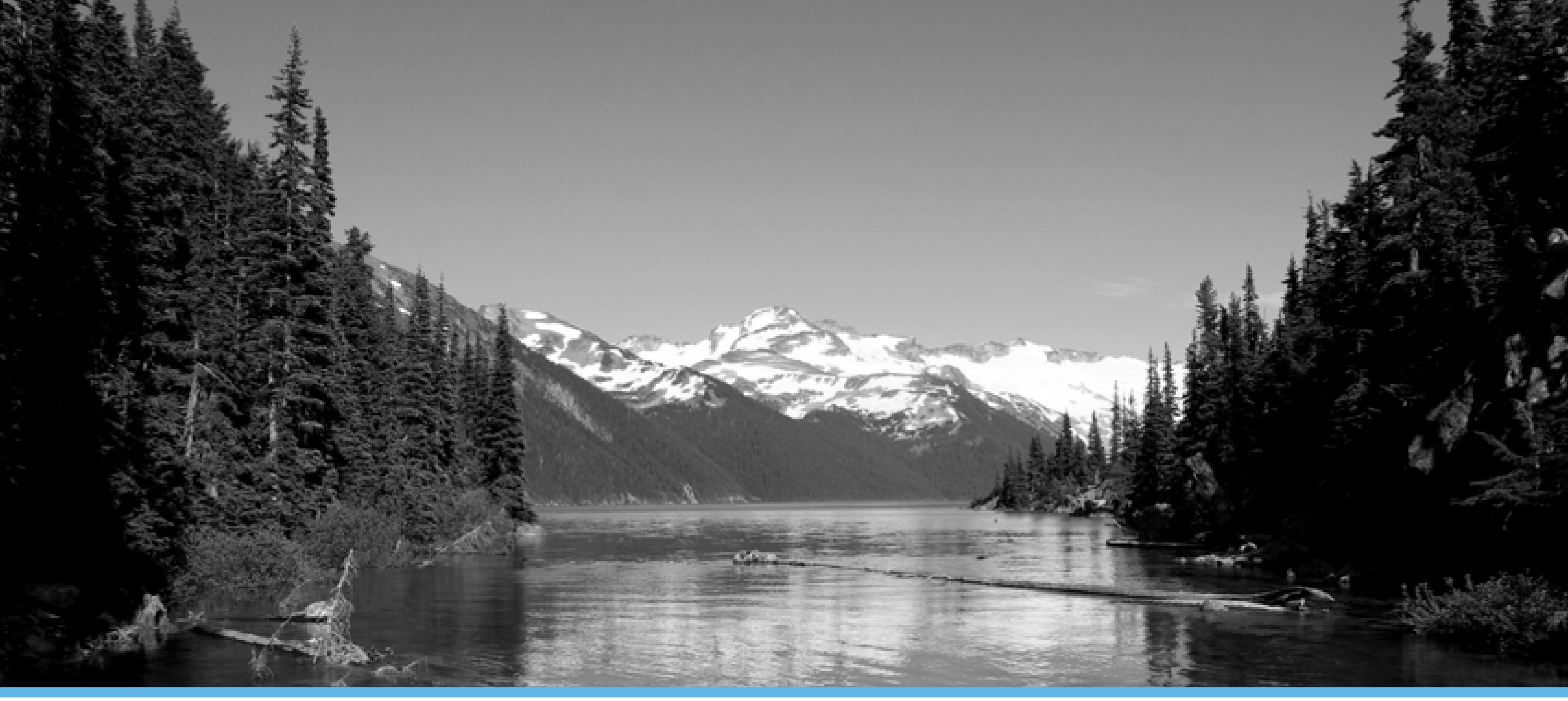
AUDITORS

KPMG
777 Dunsmuir Street
Vancouver, BC V7Y 1K3
Canada

ACTUARY

Baron Actuaries
206 Laird Drive, Suite 205
Toronto, ON M4G 3W4
Canada

Financial Strength Rating
AM BEST
A- Excellent



CONTENTS

VISION

Mutual Fire Insurance's decisions and behaviour are governed by our Mission, Vision, and Values. We live and breathe these fundamental statements in our daily operations to deliver the best service to our members and key partners.

VISION

Embracing Change to PROTECT You

ASPIRATION

Become the Mutual Insurer of Choice

MISSION

Creating innovative solutions and responding with unparalleled service for members and key partners.

VALUES

Passion- We believe in what we do.

Honour - We encourage mutual trust through personal and professional integrity.

Empowerment - We empower talented people to embrace change.

Community- We promote and support philanthropy and volunteerism.

Mutuality- We work together to meet our common goals, unify relationships and celebrate success.

A MESSAGE FROM

Mike Bose
Chair of the Board
The Mutual Fire Insurance Company of British Columbia

As Chair of the Board, and on behalf of the Directors and our President and CEO, I am proud to summarize the most successful year in the history of The Mutual Fire Insurance Company of British Columbia.

Alongside vendor, broker, and reinsurance partners, Mutual Fire Insurance started the year like any other. This swiftly changed with the spread of the COVID-19 pandemic. Through the immediate application of the Catastrophe Response Plan, the leadership and information technology teams moved our entire MFI family to work from home within ten days of the federal declaration of the outbreak. Drawing on our vision and mission statements, Mutual Fire Insurance embraced this new reality while continuing to provide the same level of service as our staff worked safely from home. The transition was carried out with such ease, many broker partners were unaware the team was operating virtually. This exemplary service is testament of management and staff's commitment to our values.

For a year with so many challenges, Mutual Fire Insurance experienced even more positives to reflect upon. The management team began the year on the heels of successfully fulfilling the previous three-year strategic plan. With eyes on the new vision for Mutual Fire Insurance, the team launched into action and made considerable efforts towards the current three-year strategy. The Company saw steady, managed growth across all lines of business and in all jurisdictions where we do business. While we are known for our farm product, our growth in commercial and personal lines has led us to a strong close to the year. In November, Mutual Fire Insurance was named one of the 'Top Insurance Workplaces in Canada' through *Insurance Business Canada*. As we look forward to 2021, the same leadership, innovation, passion, and mutuality will guide our continued success.

Through the efforts of our investment partners, Raymond James and BMO Wealth Management, our investment portfolio saw strong returns once again. Our real estate holdings, through Anthem Properties, continue to add to the Company's investment diversity, and financial success.

As a strong Canadian mutual insurance company, it is with great pride today that I declare on behalf of the Board of Directors, a patronage refund to members in the amount of $600,000. We are proud our members remain at the forefront of how we operate. As a mutual, our members have a say in who we are and what we do. And we are honored they have continued to insure with us.

On behalf of the Board and myself, thank you to our broker partners for their continued support of our Company. I personally wish to thank the Board for their continued engagement, guidance, and support this past year; management for their leadership and wisdom; and staff for their hard work, skill, and dedication.

Most importantly, thank you to our members and policyholders for their confidence in The Mutual Fire Insurance Company of British Columbia.

Mike Bose
Chair, of the Board

A MESSAGE FROM

Darin Lord Nessel
President & CEO
The Mutual Fire Insurance Company of British Columbia

Last year proved the insurance industry can respond quickly to changing circumstances and as the Company moved to remote work, it became clear we would have to look for a different approach to enable our close working relationships with brokers. Our Business Development team promptly transitioned to virtual broker visits and webinar product training to ensure Mutual Fire Insurance stayed top of mind.

Remaining vigilant with our vision of 'Embracing Change to PROTECT You' has never been more critical than right now, as we not only look to keep pace with technology but also understand the changing needs of our broker partners while adjusting our approach to meet shifting customer behaviours. In just a few short months, Mutual Fire Insurance will complete the projects currently under way, expanding the options for consumers to do business with us.

The leadership team has spent an extensive amount of time strategically working on our key pillars, in particular 'internal effectiveness'. By developing initiatives which enhance the customer experience, our focus on speed to market, convenience, reliability, and relentless consistency are enabling long-lasting customer loyalty. All are key attributes we feel are essential to becoming the Mutual Insurer of Choice.

Disciplined underwriting was once again at the forefront of our organization. We continued to see vast improvement in our gross loss ratios year over year, and for the past five years. Our strategy of enhancing farm and hobby farm profitability to attain a 55% or less gross loss ratio was met and exceeded in year one of the plan with a remarkable 46%. This discipline will be further developed through the use of data analytics, allowing us to remain selective and definitive in our risk approach. Furthering this initiative, we have also hired our first pricing actuary who is working closely with all teams to meet the needs of our membership, while allowing the Company to retain the necessary earnings to support our growth and meet regulatory requirements. This will enable Mutual Fire Insurance to remain competitive well into the future.

Overall, the industry continues to face challenges such as: the pandemic, decline in investment income, climate change, the increasing threat of cyber risks, technology, lengthy and costly claims litigation, and hardening reinsurance rates. The list is substantial. And so are the opportunities.

Developing new products which are clearer in their interpretation thus reducing the need for costly litigation—as we have seen already with the creation of our innovative farm product, FarmPROTECT™— is the Company's greatest potential. We also prudently look for new ways to conservatively invest and increase our yield while remaining protective of our member surplus. Our key initiatives already underway challenge the concerns of climate change, pandemic, and technology.

To our members, thank you for placing your insurance with Mutual Fire Insurance and trusting our Company to meet your insurance needs. I wish to thank our broker partners for their continued support throughout this challenging year. I am beyond proud of our staff and management team for the incredible work accomplished this year. We are grateful for the effective leadership provided by our Board of Directors, and guidance provided by our key advisors. As President and CEO, I look forward to another successful year at Mutual Fire Insurance.

Darin Lord Nessel
President & CEO

FINANCE REPORT

Jason Christopherson CPA, CGA,BAccS, ARe
Chief Financial Officer
The Mutual Fire Insurance Company of British Columbia

Adaptive change is described as change that requires new learning to face a rapidly changing environment. It can be overwhelming for some businesses where it often feels like the challenges in today's environment move at such a speed that keeping up is a losing proposition. Companies which pivot quickly and continuously, naturally think of better ways to do business. Mutual Fire Insurance has shown there is always a better way and through diligent work, success will come.

2020 saw a significant rise in premiums from $127 million in 2019 to $152 million in 2020. More importantly with a $25 million increase in premiums, we saw $1 million less in net claims, an achievement that separates Mutual Fire Insurance from its competitors and generated a net underwriting income of $8 million.

Investments were also up $321,000 in a year when the Canadian economy faced unprecedented and rapid change. At times during the year, the Company's other comprehensive income showed substantial losses but, with our solid investment approach and careful management, Mutual Fire Insurance finished with a $900,000 increase in unrealized gains.

Our resulting net income from both underwriting and investments before taxes is $9.6 million, approximately $11.7 million ahead of the previous year. The net income is a record for Mutual Fire Insurance and a record improvement year over year.

Taking a close look at our ratios it is easy to see how different 2020 was when compared to 2019. The 2020 net loss ratio of 46.75% is over 12 points better than the prior year. That kind of improvement in one year is industry leading. Mutual Fire Insurance last achieved a comparable net loss ratio in 2010; however, it was a different company then with only $30 million in written premium. Our expense ratio is slightly higher than last year, but 2020 expenses include a significant increase in spending for Contingent Profit Commissions which we are happy to provide to our broker partners who helped us achieve these industry leading results. A combined ratio of 87.43% puts us in the top tier of Canadian insurance companies.

It is easy to say that COVID-19 helped improve the financial results but when breaking down the Company's gross loss ratio by line of business, we see a continued and steady decline in gross loss ratios over the last five years. Certainly not an anomaly, it is the result of improved internal processes in all departments.

A good measure of how well Mutual Fire Insurance performs is by looking at our attritional losses. By analyzing the various classes of losses which make up our gross loss ratio, we identified that our attritional losses improved by four points over 2019. Certainly, in part due to people staying home; however, this improvement was not as significant as the nine point improvement in attritional losses between 2018 and 2019 without COVID-19. Our larger losses over $500,000 as a percentage of our gross loss ratio were half of what they were last year. The shift and exceptional results this year occurred because both attritional losses and large losses declined in tandem rather than prior years when the two were inverse of each other. The continued hardening of the insurance market is also responsible as rates begin to show some signs of normalcy. The takeaway is these results are not solely the result of COVID-19. It is a clearly apparent trend in our loss ratios over the last three years meaning Mutual Fire Insurance, as a team focused on a common goal, can repeat these results.

Transformation when faced with a constantly shifting environment requires a culture of open communication, empowered employees, and disciplined processes. The results of 2020 have been the cumulation of hard work and a constant drive to be successful by all. Mutual Fire Insurance has demonstrated it is well positioned to face the challenges ahead with a singular focus to be the Mutual Insurer of Choice.

Jason Christopherson
Chief Financial Officer

COMPANY PROFILE

HEAD COUNT

DECEMBER 2019
62

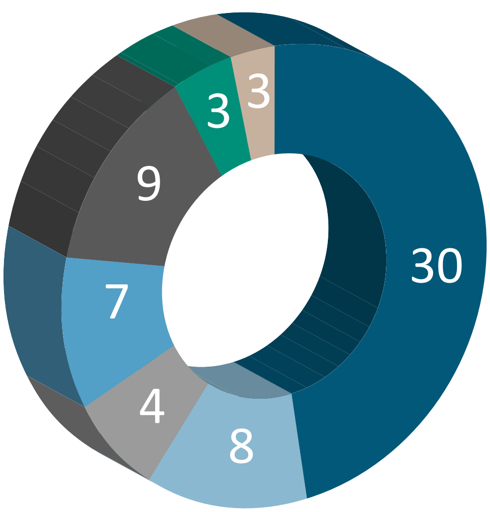
DECEMBER 2020
64

EMPLOYEE GENDER

47 WOMEN
74% OF OUR POPULATION

17 MEN
26% OF OUR POPULATION

EMPLOYEES BY DEPARTMENT



- ADMINISTRATION
- BUSINESS DEVELOPMENT
- CLAIMS
- EXECUTIVE
- FINANCE
- INFORMATION TECHNOLOGY
- UNDERWRITING

AVERAGE LENGTH OF SERVICE

ALL EMPLOYEES
5 YEARS

EXECUTIVE
12 YEARS

EMPLOYEES BY AGE GROUP

18-24 YEARS	25-30 YEARS	31-40 YEARS	41-50 YEARS	51-60 YEARS	60+ YEARS
3	10	14	16	16	5

2020 HIGHLIGHTS

We work together to meet our common goals, unify relationships and celebrate success.

ACCOUNTING/FINANCE

MFI transitioned to 100% paperless broker statements and 70% of our broker partners are now making payments electronically.

BUSINESS DEVELOPMENT

Traditional in-person broker visits transitioned to virtual visits with all webinar training successfully moving from Skype to the Teams platform.

CLAIMS

Working from home made us stronger as a team as we concentrated our efforts to stay connected. The claims team was able to maintain and excel upon our high service levels. We introduced e-Transfers which provided us the ability to pay claims quickly and conveniently.

INFORMATION TECHNOLOGY

2020 saw an investment in Business Intelligence through hiring new staff. Our team benefits the Company by identifying valuable business insights allowing us to make improved decisions with increased operational efficiency and customer satisfaction.

UNDERWRITING

With skilled underwriting, competitive rating, and exceptional partner service, targets were not only met but exceeded!

OPERATIONS

Successfully deployed all staff to work from home within days of the pandemic announcement while still meeting and exceeding partner expectations and claims service levels.

2020 BOARD OF DIRECTORS

Mike Bose
Chair of the Board

Sam Wind CIP
Vice Chair

W.J (Bill) Adams CPA, CA
Treasurer

Steve Czeck
Director

Ken Huttema
Director

Yvonne Hogenes
Director

Micheal Kendler
Director

David Prium CPA, CMA
Director

DIRECTOR COMMITTEES

Audit Committee

Bill Adams (Chair)
Dave Pruim
Ken Huttema

Conduct Review Committee

Michael Kendler (Chair)
Steve Czeck
Ken Huttema

Donations Committee

Yvonne Hogenes (Chair)
Mike Bose
Ken Huttema

Enterprise Risk Management (ERM) Committee

Dave Prium (Chair)
Steve Czeck
Sam Wind
Ken Huttema

Nominating Committee

Sam Wind (Chair)
Yvonne Hogenes

Investment Committee

Sam Wind (Chair)
Yvonne Hogenes
Bill Adams
Michael Kendler

IT Steering Committee

Steve Czeck (Chair)
Dave Pruim
Bill Adams

EXECUTIVE TEAM

Darin Lord Nessel
President & CEO

Jason Christopherson CPA, CGA, BAccS, ARe
Chief Financial Officer

Clare Stewart ACIP, CAIB
Chief Operations Officer

Pete Smith
Chief Information Officer

Pamala Louttit CIP
Vice President,
Claims

Nirmal Binnag CAIB
Vice President,
Underwriting

Christine Young CIP, CAIB
Vice President,
Business Development

MANAGEMENT'S STATEMENT

The financial statements are the responsibility of management and have been prepared in conformity with International Financial Report Standards including the accounting requirements of the Insurance Act of British Columbia and the Financial Institutions Act. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of The Mutual Fire Insurance Company of British Columbia within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors is responsible for approving the financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the financial statements. The Audit Committee then submits its report to the Board of Directors recommending approval of the financial statements. The Financial Institutions Commission makes a biannual examination and inquiry into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Act of British Columbia and the Financial Institutions Act.

The actuary has been appointed by the Board of Directors. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its financial statements and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. The actuary, in his verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The Company's external auditors have been appointed by the members to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the members. In carrying out their audit, the auditors also make use of the actuary and his report on the Company's policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

Darin Lord Nessel
President & CEO

Jason Christopherson CPA, CGA, BAccS, ARe
Chief Financial Officer

KPMG

PO Box 10426 777 Dunsmuir Street

Vancouver, BC V7Y 1K3 Canada

Telephone: 604.691.3000 | Fax: 604.691.3031

INDEPENDENT AUDITORS' REPORT

To the Members of The Mutual Fire Insurance Company of British Columbia

Opinion

We have audited the financial statements of The Mutual Fire Insurance Company of British Columbia (the "Company"), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in members' surplus and reserves for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 19, 2021

REPORT OF THE ACTUARY

Baron Insurance Services Inc.

Actuaries & Consultants

206 Laird Drive, Suite 205 Toronto, Ontario M4G 3W4 Canada

Phone: 416.486.0093 | Fax: 416.486.6300

DESCRIPTION OF THE ACTUARY'S ROLE

The actuary is appointed by the Board of Directors of The Mutual Fire Insurance Company of British Columbia pursuant to the Insurance Act. The actuary is responsible for ensuring that the assumptions and methods used in the valuation of policyholder liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the policyholder liabilities at the balance sheet date to meet all policyholder obligations of the company. Examination of supporting data for accuracy and completeness and consideration of the company's assets are important elements of the work required to form this opinion.

Policyholder liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments. The actuary uses the work of the external auditors in verifying data used for valuation purposes.

APPOINTED ACTUARY'S REPORT

To the Members of The Mutual Fire Insurance Company of British Columbia

I have valued the policyholder liabilities and the reinsurance recoverable of The Mutual Fire Insurance Company of British Columbia for its statement of financial position at December 31, 2020 and their change in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Toronto, Ontario
February 18, 2021

Barb Addie
Fellow, Canadian Institute of Actuaries

THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

FINANCIAL STATEMENTS

(Expressed in thousands of dollars)

AND INDEPENDENT AUDITORS' REPORT THEREON
YEAR ENDED DECEMBER 31, 2020

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION

(EXPRESSED IN THOUSANDS OF DOLLARS)

December 31, 2020, with comparative information for 2019

	Notes	2020	2019
Assets			
Cash and cash equivalents		$ 13,134	$ 17,631
Investments	4	94,755	84,919
Accrued investment income		407	342
Premiums receivable		13,765	13,165
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	5	49,501	41,708
Unearned premiums	5	6,116	7,423
Deferred policy acquisition costs	6	9,007	8,995
Deferred income taxes		39	657
Property and equipment	7	1,962	1,982
Intangible assets	8	377	95
		$ 189,063	$ 176,917
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	9	$ 4,951	$ 3,642
Due to reinsurers		6,425	8,236
Premium tax liabilities		1,752	5,054
Income taxes payable		1,905	-
Deferred income tax liabilities		-	280
Unearned reinsurance commissions		2,095	2,693
Provisions for unpaid claims and adjustment expenses	5	78,041	70,926
Unearned premiums	5	39,592	39,989
		134,761	130,820
Members' surplus and reserves:			
Reserves	11	500	500
Accumulated other comprehensive income		9,311	8,411
Unappropriated members' surplus		44,491	37,186
		54,302	46,097
		$ 189,063	$ 176,917

See accompanying notes to financial statements.

Approved on behalf of the Board:

Michael Bird

Director

W. J. Adams

Director

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020, with comparative information for 2019

	Notes	2020	2019
Premiums written:			
Gross premiums written	12	$ 152,664	$ 127,323
Reinsurance premiums ceded		(90,857)	(70,462)
Net premiums written		61,807	56,861
Change in unearned premiums		46	(6,168)
Net premiums earned		61,853	50,693
Commission income		25,636	19,435
Service fees		270	185
Membership fees		20	19
		87,779	70,332
Claims and expenses incurred:			
Claims and adjustment expenses		28,916	30,003
Commissions		39,113	29,255
Salaries and benefits	12	6,933	5,181
Administration	10	2,444	4,131
Premium taxes	10	2,307	5,675
		79,713	74,245
Net underwriting income		8,066	(3,913)
Net investment income	13	2,107	1,786
Other expenses		(600)	(1)
Income (loss) before income taxes		9,573	(2,128)
Income tax expense (recovery):	14		
Current		2,724	100
Deferred		(456)	(248)
		2,268	(148)
Net income (loss)		7,305	(1,980)
Other comprehensive income:			
Net unrealized gains on available-for-sale assets, net of tax of $137 (2019 - $518)		900	3,391
Total comprehensive income for the year		$ 8,205	$ 1,411

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020, with comparative information for 2019

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2018	$ 500	$ 5,020	$ 39,166	$ 44,686
Loss for the year	-	-	(1,980)	(1,980)
Net unrealized gains on available-for-sales assets	-	3,391	-	3,391
Balance, December 31, 2019	500	8,411	37,186	46,097
Net income	-	-	7,305	7,305
Net unrealized gains on available-for-sales assets	-	900	-	900
Balance, December 31, 2020	$ 500	$ 9,311	$ 44,491	$ 54,302

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Cash provided by (used in):		
Operations:		
Net income (loss)	$ 7,305	$ (1,980)
Adjustments for:		
Depreciation and amortization expense	294	291
Deferred tax expense	(456)	(248)
Interest and dividend income	(2,169)	(1,999)
Current tax expense	2,724	100
Loss (gain) on sale of property and equipment	32	(1)
Realized gains on available-for-sale investments	(228)	(58)
	7,502	(3,895)
Changes in non-cash operating working capital:		
Premiums receivable	(600)	(1,332)
Deferred acquisition costs	(13)	(1,660)
Reinsurers' share of unpaid claims and adjustment expenses	(7,793)	(10,132)
Reinsurers' share of unearned premium	1,307	(2,413)
Provision for unpaid claims and adjustment expenses	7,115	15,818
Unearned premiums	(396)	8,350
Unearned reinsurance commission	(598)	899
Due to reinsurers	(1,811)	1,461
Amounts payable and accrued liabilities	1,321	2,618
Premium tax liabilities	(3,302)	3,986
	2,732	13,700
Interest received	1,994	1,917
Taxes paid	513	470
Taxes refunded	(701)	(700)
	4,538	15,387
Investments:		
Purchase of investments	(21,292)	(21,686)
Proceeds on sale of investments	12,859	13,948
Purchase of property and equipment	(207)	(155)
Disposal of property and equipment	-	1
Purchase of intangible assets	(381)	(13)
	(9,021)	(7,905)
Financing:		
Drawdown from loan facility for executive's vehicle	(14)	(14)
Increase (decrease) in cash and cash equivalents	(4,497)	7,468
Cash and cash equivalents, beginning of year	17,631	10,163
Cash and cash equivalents, end of year	$ 13,134	$ 17,631
Cash and cash equivalents comprised of:		
Cash	$ 9,325	$ 13,882
Cash equivalents	3,809	3,749
	$ 13,134	$ 17,631

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

1. General information:

The Mutual Fire Insurance Company of British Columbia (the "Company") was incorporated without share capital on July 18, 1902 under the Mutual Fire Insurance Companies Act of British Columbia as a mutual insurance company that is domiciled in Canada. It is licensed to write property and casualty insurance in British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario and is subject to the Insurance Act and the Financial Institutions Act of British Columbia, the Insurance Act of Alberta, the Saskatchewan Insurance Act, the Insurance Act of Manitoba, and the Insurance Act of Ontario.

The registered office of the Company is located at 9366 - 200A Street, Langley, British Columbia, V1M 4B3.

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Directors on February 18, 2021.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis, except available-for-sale investments which are measured at fair value.

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas of significant estimation in these financial statements are in respect to the provision for unpaid claims and adjustment expenses and the valuation of private investments. Further information over these estimates are included in notes 5 and 17, respectively.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies:

These accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and demand deposits with original maturities of three months or less.

(b) Financial instruments:

(*i*) Financial assets:

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss ("FVTPL"), if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVPTL, if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributed transaction costs are recognized in profit or loss as incurred. Financial assets at FVPTL are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not designate any financial assets at FVTPL.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Held-to-maturity financial assets:

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments, not close to their maturity, would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity financial assets consist of investments in debt securities.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables consist of cash and cash equivalents, accrued investment income and premiums receivable.

Available-for-sale financial assets:

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within accumulated comprehensive income in members' surplus. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings.

Available-for-sale financial assets consist of investments in equity securities, and units in pooled and mutual funds.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*ii*) Financial liabilities:

The Company initially recognizes financial liabilities on the date that they are originated. All other financial liabilities, including liabilities designated at fair value through profit or loss, are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's other financial liabilities consist of amounts payable and accrued liabilities, due to reinsurers and line of credit.

(c) Property and equipment:

(*i*) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software, that is integral to the functionality of the related equipment, is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in profit or loss.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(c) Property and equipment (continued):

(*ii*) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in net earnings using the declining balance method over the estimated useful lives of each part of items of property and equipment, depending on which method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Buildings and building components	Declining balance	4% to 20%
Furniture, fittings and computer equipment	Declining balance	20%
Vehicles	Declining balance	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Intangible assets:

(*i*) Computer software licences:

Computer software licenses, acquired by the Company, that are not considered integral to the related computer hardware and that have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(*ii*) Amortization:

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of five years, from the date that the asset is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(e) Leases:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration – *i.e.*, the customer has rights to:

- obtain substantially all of the economic benefits from using the asset; and
- direct the use of the asset.

The Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, which comprises the amount of lease liability, any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company generally uses its incremental borrowing rate as the discount rate.

Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment (see note 3(c)). In addition, the carrying amount of the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured to reflect any lease modifications or reassessments.

The Company presents its right-of-use assets in "other property and equipment" and lease liabilities in "lease liability" in the statement of financial position.

Short-term leases and leases of low-value assets:

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12-months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts:

(*i*) Classification of insurance contracts:

Contracts which the Company accepts significant insurance risk from another party (the "policyholder") by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the "insured event") adversely affects the policyholder or other beneficiaries are classified as insurance contracts. Insurance risk arises when the Company agrees to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. Insurance risk is significant, if and only if, an insured event could cause the Company to pay significant additional benefits. The contracts issued are short-term casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage ("public liability").

Property insurance contracts mainly compensate the Company's customers for damages suffered to their property or for the value of property loss through fire, windstorm, earthquake, etc.

(*ii*) Liabilities and related assets under liability adequacy test:

At every statement of financial position date, the net liability recognized for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made, and the Company recognizes the deficiency profit or loss for the year. All contracts are subject to the liability adequacy test.

(*iii*) Unearned premium provision:

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using daily pro rata method, adjusted if necessary, to reflect any variation in the incidence of risk during the period covered by the contract.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts (continued):

(*iv*) Provision for claims and adjustment expenses:

The provision for claims and adjustment expenses is the reserve for payment of claims and adjustment expenses arising from insurance contracts. The provision for claims incurred and adjustment expenses consists of reserves for reported claims and reserves for claims incurred but not yet reported ("IBNR") losses. In addition, reserves are set up for adjustment expenses, which includes the estimated legal and other expenses expected to be incurred to finalize the settlement of losses. The provision for claims incurred and adjustment expenses are discounted and include a provision for adverse deviations.

Claims and adjustment expenses incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims IBNR losses, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Adjustments to claim provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(*v*) Reinsurance:

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transferal of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognized in the same year as the related claim.

Reinsurance premiums for ceded reinsurance are recognized as an expense over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded insurance premiums is included in reinsurance assets.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(f) Recognition and measurement of insurance contracts (continued):

(v) Reinsurance (continued):

The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are recorded within due from reinsurers on the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment is recorded in the statement of comprehensive income.

Reinsurance assets and liabilities are derecognized when the contract rights are extinguished or expire when the contract is transferred to another party.

(vi) Deferred policy acquisition costs ("DPAC"):

DPAC are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of comprehensive income. DPAC are also considered in the liability adequacy test for each reporting period.

Provision is made for unexpired risks arising where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the date of the statement of financial position exceeds the unearned premium provision in relation to such policies after the deduction of any DPAC. In calculating this provision, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment from the assets backing such liabilities, are used. Any deficiency is immediately charged to earnings initially by writing off DPAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpected risk provision). Any DPAC written off cannot subsequently be reinstated.

(vii) Subrogation and salvage recoveries:

In certain circumstances, the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. The Company recognizes and discloses all identifiable and measurable amounts it expects to recover, in the future, from past loss events, as an asset on the statement of financial position.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(g) Reserves:

Reserves are made as required by the regulatory authorities in Canada. Increases or decreases during the year are charged to a separate category of members' surplus and reserves as the reserves are not considered as part of the members' unappropriated surplus by the British Columbia Financial Services Authority.

(h) Revenue:

(*i*) Premiums from insurance contracts:

Gross written premiums comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries. Premiums written include adjustments to premiums written in previous years.

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of premiums received is recognized as revenue proportionately over the period of coverage. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of indemnity received.

(*ii*) Commission income and service fees:

Commission income and service fees comprise fees from insurance contracts. The Company’s performance obligation is to provide services to its members and customers. The transaction price for performance obligations is determined as a percentage of premium written. Fees are recognized as performance obligations are satisfied over time.

(*iii*) Membership fees:

Membership fees comprise fees from membership agreements. The Company’s performance obligation is to provide services to its members. The transaction price for performance obligations is determined as a fixed fee per fiscal period per member. Fees are recognized as performance obligations are satisfied when services are rendered.

(*iv*) Investment income:

Investment income is recognized on an accrual basis with dividend income recognized on the ex-dividend date.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(i) Income tax:

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in net earnings except to the extent that it relates to items recognized directly in other comprehensive income.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax assets or liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets or liabilities are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that affects neither, accounting nor taxable profit or loss.

Deferred income tax assets or liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets or liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

Deferred tax assets or liabilities are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Foreign exchange:

The financial statements of the Company are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into functional currency using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as income and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the statement of comprehensive income.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(k) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective and have not been early adopted for the year ended December 31, 2020 in preparing these financial statements:

(*i*) IFRS 9 - *Financial Instruments*:

IFRS 9 represents a comprehensive project to replace IAS 39 and deals with classification and measurement of financial assets based on the business model in which they are held and the characteristics of their cash flows. The effective date for this standard was for fiscal periods commencing January 1, 2018; however, an IFRS 9 implementation deferral is available to qualifying insurance entities until the earlier of the mandatory effective date of the new insurance contracts standard (IFRS 17) or January 1, 2023. The Company has determined that it qualifies for the deferral and has deferred IFRS 9 implementation to 2021. The Company is evaluating the impact of this standard.

(*ii*) IFRS 17 - *Insurance Contracts:*

IFRS 17 changes the basis for measuring insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2023. IFRS 17 will impact the classification and measurement of insurance liabilities and premiums. The Company is evaluating the impact of this standard.

4. Investments:

		2020		2019
Available-for-sale financial assets	$	45,315	$	41,480
Held-to-maturity investments		49,440		43,439
	$	94,755	$	84,919

At December 31, 2020, certain investments with a carrying amount of $3,000 (2019 - $3,000) are held as security for the bank line of credit (note 15).

5. Insurance contract provision and reinsurance assets:

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

5. Insurance contract provision and reinsurance assets (continued):

(a) Analysis of movements in insurance contract provisions is as follows:

2020	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 70,926	$ 41,708	$ 29,218
Effect of discounting and provision for adverse deviation, January 1	2,695	1,169	1,526
Undiscounted provision at January 1	68,231	40,539	27,692
Estimate of ultimate claims incurred for current accident year	74,435	45,190	29,245
Payment on current accident year claims	(34,643)	(19,795)	(14,848)
Payment on prior accident year claims	(32,705)	(17,958)	(14,747)
Undiscounted provision before change in prior accident year ultimates	75,318	47,976	27,342
Increase in estimate of ultimate claims incurred for prior year accident years	(70)	267	(337)
Undiscounted provision, December 31	75,248	48,243	27,005
Effect of discounting and provision for adverse deviation, December 31	2,793	1,258	1,535
Provision for unpaid claims and adjustment expenses, December 31	$ 78,041	$ 49,501	$ 28,540

2019	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 55,108	$ 31,576	$ 23,532
Effect of discounting and provision for adverse deviation, January 1	(1,936)	(781)	(1,155)
Undiscounted provision at January 1	53,172	30,795	22,377
Estimate of ultimate claims incurred for current accident year	66,112	35,440	30,672
Payment on current accident year claims	(24,283)	(7,560)	(16,723)
Payment on prior accident year claims	(29,609)	(18,153)	(11,456)
Undiscounted provision before change in prior accident year ultimates	65,392	40,522	24,870
Increase in estimate of ultimate claims incurred for prior year accident years	2,839	17	2,822
Undiscounted provision, December 31	68,231	40,539	27,692
Effect of discounting and provision for adverse deviation, December 31	2,695	1,169	1,526
Provision for unpaid claims and adjustment expenses, December 31	$ 70,926	$ 41,708	$ 29,218

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

5. Insurance contract provision and reinsurance assets (continued):

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2020 and 2019:

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 57,672	$ 35,216	$ 22,456	$ 54,615	$ 30,774	$ 23,841
Claims incurred but not reported	20,369	14,285	6,084	16,311	10,934	5,377
Outstanding claims provision	78,041	49,501	28,540	70,926	41,708	29,218
Unearned premiums	39,592	6,116	33,476	39,989	7,423	32,566
Total insurance provisions	$ 117,633	$ 55,617	$ 62,016	$ 110,915	$ 49,131	$ 61,784

(c) The following is a summary of the provision for unpaid claims and adjustment expense:

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 57,672	$ 35,216	$ 22,456	$ 54,615	$ 30,774	$ 23,841
Undiscounted provision for incurred but not reported (“IBNR”) claims	16,890	13,027	3,863	13,011	9,765	3,246
Undiscounted unallocated loss adjustment expenses	686	-	686	605	-	605
	75,248	48,243	27,005	68,231	40,539	27,692
Effect of discounting	(2,860)	(1,972)	(889)	(2,030)	(1,340)	(690)
Provision for adverse deviation	5,653	3,230	2,424	4,725	2,509	2,216
Provision for unpaid claims and adjustment expense	$ 78,041	$ 49,501	$ 28,540	$ 70,926	$ 41,708	$ 29,218

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

5. Insurance contract provision and reinsurance assets (continued):

(d) Analysis of net unearned premium provisions is as follows:

	2020	2019
Provision for net unearned premiums, January 1	$ 32,566	$ 26,629
Net premiums written	61,807	56,861
Portfolio transfer	956	(231)
Less net premiums earned	(61,853)	(50,693)
Provision for net unearned premiums, December 31	$ 33,476	$ 32,566

The portfolio transfer is the result of ceding a portion of our unearned premiums under a net quota share treaty. Since the premiums have already been written, this represents retroactive coverage and reclassifies a portion of unearned premiums to the reinsurer.

(e) Assumptions on claims development:

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the class of business, the historical pattern of payments, the amount of data available and any other pertinent factors.

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as, internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The method for deriving sensitivity information and significant assumptions did not change from the previous period.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

5. Insurance contract provision and reinsurance assets (continued):

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses is 2.31% (2019 - 2.01%). A 1.00% change in the discount factor would change the net provision by $425 (2019 - $377).

(g) Development claims table:

The following tables show the estimates of cumulative incurred claims net of reinsurance, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provision's adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

(EXPRESSED IN THOUSANDS OF DOLLARS)

5. Insurance contract provision and reinsurance assets (continued):

(g) Development claims table (continued):

Net insurance contract outstanding claims provision for 2020:

Accident year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
At end of accident year	$ 15,054	$ 22,024	$ 21,635	$ 29,572	$ 27,032	$ 25,581	$ 24,265	$ 28,618	$ 30,672	$ 29,245	$
One year later	14,407	21,148	21,450	30,073	26,920	25,289	25,363	28,711	30,342		
Two years later	13,760	21,708	21,092	29,324	26,440	24,614	25,111	28,612			
Three years later	13,798	22,285	21,009	28,739	26,032	24,053	25,214				
Four years later	13,556	22,177	20,718	28,501	25,965	23,964					
Five years later	13,432	21,980	20,444	28,285	25,807						
Six years later	13,387	22,110	20,404	28,244							
Seven years later	13,344	21,989	20,366								
Eight years later	13,344	21,989									
Nine years later	13,585										
Estimate of cumulative claims incurred	13,585	21,989	20,366	28,244	25,807	23,964	25,214	28,612	30,342	29,245	247,368
Cumulative payments to date	13,383	21,630	20,124	28,184	25,241	23,216	23,650	26,278	24,627	14,848	221,181
Net undiscounted outstanding insurance claims provision at December 31, 2020	$ 202	$ 359	$ 242	$ 60	$ 566	$ 748	$ 1,564	$ 2,334	$ 5,715	$ 14,397	$ 26,187
Net undiscounted outstanding insurance claims provision with respect to prior accident years											$ 131
Total net undiscounted outstanding insurance claims provision at December 31, 2019											$ 26,318
Undiscounted unallocated loss adjustment expenses											687
Effect of discounting											(889)
Provision for adverse deviation											2,424
Total net discounted outstanding insurance claims provision, December 31, 2020											$ 28,540

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

5. Insurance contract provision and reinsurance assets (continued):

(h) Expected loss ratios:

The following table sets forth the expected loss ratios experienced by the Company:

	Expected loss ratio	
	2020	2019
Property	64.00%	64.00%
Casualty	80.00%	80.00%
Blended expected loss ratio	64.85%	64.89%

6. Deferred policy acquisition costs:

An analysis of the movements in deferred acquisition costs are as follows:

At December 31, 2018	$ 7,335
Expenses deferred	31,152
Recognized in net earnings	29,492
At December 31, 2019	8,995
Expenses deferred	38,876
Recognized in net earnings	38,864
At December 31, 2020	$ 9,007

7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2018	$ 2,675	$ 233	$ 506	$ 129	$ 3,543
Additions	70	42	43	-	155
Disposals	-	-	(110)	(33)	(143)
Balance, December 31, 2019	2,745	275	439	96	3,555
Additions	10	-	146	51	207
Disposals	-	(206)	(88)	-	(294)
Balance, December 31, 2020	$ 2755	$ 69	$ 497	$ 147	$ 3,468

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

7. Property and equipment (continued):

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2018	$ 981	$ 165	$ 304	$ 63	$ 1,513
Depreciation for the year	73	21	87	22	203
Disposals	-	-	(110)	(33)	(143)
Balance, December 31, 2019	1,054	186	281	52	1,573
Depreciation for the year	69	16	89	21	195
Disposals	-	(174)	(88)	-	(262)
Balance, December 31, 2020	$ 1,123	$ 28	$ 282	$ 73	$ 1,506
Carrying amounts:					
At December 31, 2019	$ 1,691	$ 89	$ 158	$ 44	$ 1,982
At December 31, 2020	1,632	41	215	74	1,962

8. Intangible assets:

	Computer software licenses
Cost:	
Balance, December 31, 2018	$ 461
Additions	13
Disposal	(26)
Balance, December 31, 2019	448
Additions	381
Disposal	(219)
Balance, December 31, 2020	$ 610

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

8. Intangible assets (continued):

		Computer software licenses
Amortization:		
Balance, December 31, 2018	$	291
Amortization for the year		88
Disposal		(26)
Balance, December 31, 2019		353
Amortization for the year		99
Disposal		(219)
Balance, December 31, 2020	$	233
Carrying amounts:		
At December 31, 2019	$	95
At December 31, 2020		377

9. Amounts payable and accrued liabilities:

		2020		2019
Agents, brokers and intermediaries	$	2,310	$	1,306
Other amounts payable and accrued expenses		2,641		2,336
	$	4,951	$	3,642

10. Premium tax:

2019 premium tax expense and payable includes $3,581 in premium taxes. In addition, cumulative interest of $1,782 was included in administration expenses and amounts payable and accrued liabilities. This is in connection with a dispute with the Ministry of Finance over premium taxes payable for the years 2012 and 2013. The Company is pursuing this matter in court against the Ministry of Finance.

11. Reserves:

Pursuant to the guidelines set by the British Columbia Financial Services Authority, the Company has set aside an earthquake premium reserve of $500 (2019 - $500).

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

12. Related parties:

(a) Key management personnel compensation:

Key management personnel of the Company include all directors, executives, and senior management.

In addition to their salaries, the Company also provides non-cash benefits to certain employees and contributes to a registered retirement savings plan of eligible staff.

	2020	2019
Salaries and benefits	$ 1,210	$ 1,001
Registered savings plan contributions	70	66
	$ 1,280	$ 1,067

(b) Key management personnel and director transactions:

The aggregate value of transactions relating to key management personnel and directors over which they have control or significant influence were as follows:

	2020	2019
Management insurance premiums	$ 9	$ 8
Directors insurance premiums	57	69
	$ 66	$ 77

13. Net investment income:

	2020	2019
Recognized in net earnings:		
Interest income on held-to-maturity investments	$ 1,170	$ 1,214
Dividend income on available-for-sale investments	999	785
Net realized gain on investments	228	58
Investment management fees	(290)	(271)
Net investment income	$ 2,107	$ 1,786

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

14. Income taxes:

Total tax expense (recovery) consists of the following:

		2020		2019
Current tax	$	2,724	$	100
Deferred tax		(456)		(248)
Total tax expense (recovery)	$	2,268	$	(148)

The following is a reconciliation of the Company's income tax expense at its statutory tax rate of 26.45% (2019 - 27.0%) to its effective tax rate.

Reconciliation of effective tax rate:

		2020		2019
Net income (loss) before income tax	$	9,573	$	(2,128)
Income tax at combined federal and provincial statutory income tax rate 26.45% (2019 - 27.00%)	$	2,532	$	(575)
Non-taxable income and non-deductible expenses		61		590
Other		(325)		(163)
	$	2,268	$	(148)

15. Line of credit:

The Company maintains a line of credit agreement with a third-party lender for up to $3,000 (2019 - $3,000). Nil was drawn on the line of credit as at December 31, 2020 (2019 - nil).

16. Financial and insurance risk management:

(a) Overview:

The Company has exposure to the following risks arising from its insurance operations and from its use of financial instruments:

- insurance risk;
- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk; and
- other price risk.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(a) Overview (continued):

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company's primary long-term risk is that the Company's assets will fall short of its future liabilities (including claims of insured parties). The main objective of financial risk management is to maintain assets, primarily through a diversified portfolio of investments to ensure sufficient liquidity and value to meet the obligations when they fall due.

(b) Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(c) Insurance risk:

(*i*) Terms and conditions of insurance contracts:

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below.

The commercial segment underwrites the risks of enterprises from small businesses to large corporations. The personal segment provides insurance to the general public in their personal capacities.

(A) Property:

Property coverage provides indemnity for loss of or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. The fire classes also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*i*) Terms and conditions of insurance contracts (continued):

(B) Accident:

Accident coverage provide indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party property or accidental death or injury to a third party caused by the insured.

(C) Personal accident:

Personal accident coverage provides compensation arising out of the permanent or temporary total disability of the insured or possibly the employees of a business. Such disability is restricted to certain accidents and does not provide the wider coverage available from the life insurance industry.

(*ii*) Insurance risk and policies for mitigating insurance risk:

The primary activity of the Company relates to the assumption of the risk of loss from events involving persons or organizations. Such risks may relate to property, accident, personal accident and other perils that may arise from an insurable event. As such the Company is exposed to the uncertainty surrounding the timing and severity of claims under insurance contracts.

The principal risk is that the frequency and severity of claims is greater than expected and that the Company does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, management of reinsurance and monitoring of emerging issues. These actions are described below:

(A) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of $5,000 (2019 - $5,000).

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*ii*) Insurance risk and policies for mitigating insurance risk (continued):

(A) Underwriting strategy (continued):

Adherence to the underwriting authorities is measured through a series of exception reports that are monitored on a regular basis covering line size, territory, class and industry. In addition, management meets regularly to review underwriting information including premium income and loss ratios.

(B) Reinsurance strategy:

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company enters into a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Company on any one risk to less than $500 (2019 - $500).

The Company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders. To mitigate this risk, the reinsurance business is transacted in accordance with regulation by the Office of the Superintendent of Financial Institutions Canada and the Insurance Companies Act of Canada. All reinsurance arrangements are approved by the Board of Directors.

(C) Concentrations of insurance risk and policies mitigating concentrations:

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's resources. The Company monitors the concentration risk by geographical segment and class of business.

(*iii*) Exposure relating to catastrophe events:

The Company sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The Company uses a number of modeling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programs and the net exposure of the Company.

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of $1,000 (2019 - $1,000).

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*iii*) Exposure relating to catastrophe events (continued):

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $200,000 (2019 - $110,000).

Reinsurance treaties have been subscribed to by a number of reinsurance companies on the open market through the Company's broker, Willis Re. The reinsurance, however, does not relieve the Company of its primary obligation to policyholders. If any reinsurers are unable to meet their obligations under the related agreements, the Company would be liable to its policyholders for unrecoverable amounts. To minimize the possibility of a reinsurer being unable to meet their obligations, the Company has only used reinsurers that are rated by the AMBEST rating agency at A- or higher.

The Company's objectives, policies and processes for managing liquidity, credit, interest rate and insurance risk and the methods used to measure insurance risk have not changed materially from the prior year.

(*iv*) Other risks and policies mitigating these risks:

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Fraud detection is primarily managed through vigilant monitoring activities of experienced claims adjustors.

(d) Credit risk:

Credit risk is the risk of loss if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from reinsurers, insurance brokers, policyholders and investment securities.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each reinsurer, insurance broker and policyholder. The Company regularly evaluates the financial strength of its reinsurers to ensure that the reinsurers have the capacity to fulfill their obligations.

Credit risk for insurance brokers and policyholders is managed through continual review of receivables and active collection of overdue amounts.

Credit risk for investments is managed by investing primarily in liquid securities and primarily with counterparties that have a credit rating of at least BBB from Standard & Poor's and Baa from Moody's. Management actively monitors credit ratings and given that the Company primarily has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The carrying amount of financial assets as at December 31, 2020 and 2019, best represents the maximum exposure to credit risk for each respective year.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(d) Credit risk (continued):

As at December 31, 2020 and 2019, the Company's credit risk exposure for equity and debt securities within the investment portfolio, grouped by credit risk rating of Standard & Poor's, was as follows:

2020	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 2,626	$ 17,840	$ 4,608	$ 5,689	$ 12,106	$ 42,869
Short-term investments	-	3,365	-	1,007	2,199	6,571
Equities	-	-	232	170	44,913	45,315
	$ 2,626	$ 21,205	$ 4,840	$ 6,866	$ 59,218	$ 94,755

2019	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 2,571	$ 19,058	$ 1,591	$ 5,395	$ 8,443	$ 37,058
Short-term investments	1,364	167	2,300	-	2,550	6,381
Equities	38	76	179	75	41,112	41,480
	$ 3,973	$ 19,301	$ 4,070	$ 5,470	$ 52,105	$ 84,919

The aging of premiums receivable at the reporting date was:

	2020	2019
Not past due	$ 13,437	$ 12,917
Past due (>90 days outstanding)	328	248
	$ 13,765	$ 13,165

As at December 31, 2020 and 2019, the Company did not have any impaired receivables, held-to-maturity investments or available-for-sale financial assets.

(e) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations as they come due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors its cash flow requirements and optimizes its cash return on investments. Typically, the Company ensures that it has sufficient cash on demand to meet expected expenses for a period of 60-days; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(e) Liquidity risk (continued):

In addition, the Company maintains a line of credit agreement with its lender to provide additional cash resources to the Company to primarily manage the timing of payment of claims and payment of premiums by our insured.

As at December 31, 2020 and 2019, the majority of the Company's financial liabilities were due within one year.

(f) Currency risk:

Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk is limited to its investment portfolio, which invests in U.S. equity securities. The amount of US equity securities as at December 31, 2020 was $7,145 (2019 - $6,625). The Company manages currency risk by monitoring US dollar exposure in its investment portfolio at targeted levels.

A strengthening or weakening of the Canadian dollar of 5% against the U.S. dollar at December 31, 2020 would have increased or decreased net earnings and members' surplus by the $357 (2019 - $331) assuming all other variables remain constant.

(g) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of interest-bearing financial instruments, such as bonds, will fluctuate due to changes in the levels of market interest rates. At the reporting date, all of the Company's interest-bearing financial instruments and loans had fixed rate interest terms. Additionally, the Company intends to, and has the ability to hold these instruments to maturity. Therefore, the Company is not exposed to significant interest rate risk.

(h) Other price risk:

Other price risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in market conditions, other than those changes arising from interest rates or foreign currencies. The Company is exposed to other price risk primarily through its available-for-sale equity securities. Management of the Company monitors the mix of debt and equity securities in its investment portfolio. Material investments within the portfolio are managed on an individual basis and all transactions are monitored for compliance with the Company's approved investment policy. The primary goal of the Company's investment strategy is to optimize investment returns within its risk parameters. Management is assisted by external advisers in this regard.

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the U.S. For such investments classified as available-for-sale, a 5% change in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus and reserves by approximately $1,748 (2019 - $1,611).

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

16. Financial and insurance risk management (continued):

(h) Other price risk (continued):

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation continues and remains dynamic. As a result of the COVID-19 outbreak, global financial markets have expected significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility.

17. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 45,315	$ 45,315	$ 41,480	$ 41,480
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	13,134	13,134	17,631	17,631
Held-to-maturity investments	49,440	50,691	43,439	43,341
Accrued investment income	407	407	342	342
Premiums receivable	13,765	13,765	13,165	13,165
Amounts payable and accrued liabilities	(4,951)	(4,951)	(3,642)	(3,642)
Due to reinsurers	(6,425)	(6,425)	(8,236)	(8,236)
	$ 110,685	$ 111,936	$ 104,179	$ 104,081

(b) Valuation models:

Observable prices and model inputs are usually available in the market for listed equity securities, and for pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Available-for-sale investments that are traded in a public market are valued based on closing market quotations. Private available-for-sale investments are valued based on the redemption values or capitalization models. Held-to-maturity investments are valued for disclosure purposes based on discounted cash-flow models.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

17. Fair values of financial instruments (continued):

(c) Fair value hierarchy:

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

The three levels of the fair value hierarchy are:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (*i.e.*, as prices) or indirectly (*i.e.*, derived from prices); and

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(*i*) Financial instruments measured at fair value:

The following table illustrates the classification within the fair value hierarchy of the financial instruments measured at fair value by the Company:

2020	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 34,965	$ -	$ 10,350	$ 45,315

2019	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 32,230	$ -	$ 9,250	$ 41,480

For the years ended December 31, 2020 and 2019, there were no significant transfers between the three levels of the hierarchy.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

17. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

(*i*) Financial instruments measured at fair value (continued):

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

2020	Investments
Balance, beginning of the year	$ 9,250
Purchases	1,111
Unrealized gain (losses)	(11)
Balance, end of year	$ 10,350

2019	Investments
Balance, beginning of the year	$ 6,250
Purchases	3,000
Unrealized gains	-
Balance, end of year	$ 9,250

(*ii*) Financial instruments measured at amortized cost:

The Company's cash and cash equivalents, accrued investment income, premiums receivable, amounts payable and accrued liabilities and due to reinsurers are classified as Level 2 in the fair value hierarchy because, while settlement amounts or prices are available, there is no active market for these instruments.

Held-to-maturity investments are classified as Level 2 in the fair value hierarchy as their valuation is based on observable inputs utilized in fair value modeling.

(d) Significant unobservable inputs used in measuring fair value:

The table below sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

2020

Description	Fair value	Valuation technique	Unobservable input	Amount/ rate	Sensitivity to change in significant unobservable input
Investments	$ 1,500	Redemption value	Redemption value	$ 1,500	The estimated fair value would increase if redemption value increased
Investments	$ 8,850	Capitalization models	Capitalization rate	5.00% 7.00%	The estimated fair value would increase if the capitalization rate decreased

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2020

17. Fair values of financial instruments (continued):

(d) Significant unobservable inputs used in measuring fair value (continued):

2019

Description	Fair value	Valuation technique	Unobservable input	Amount/ rate	Sensitivity to change in significant unobservable input
Investments	$ 1,500	Redemption value	Redemption value	$ 1,500	The estimated fair value would increase if redemption value increased
Investments	$ 7,750	Capitalization models	Capitalization rate	4.30% 6.00%	The estimated fair value would increase if the capitalization rate decreased

Redemption value represents the amount that the Company will receive on disposal of the investment. Capitalization models employ a capitalization rate, which is used to determine the fair value of a property based on that property's net operating income. If the redemption value was to increase or decrease by 10% or the capitalization rate were to increase or decrease by 1%, this would result in increase or decrease the investment fair value by $(806) or $3,759 (2019 - $(2,802) or $4,840).

18. Capital management and statutory requirements:

The Company's objectives when managing capital, consisting of members' surplus and reserves, are to comply with the insurance capital requirements required by the Company's regulator, the British Columbia Financial Services Authority ("BCFSA"); safeguard the Company's ability to continue as a going concern; and provide an adequate return on capital by pricing insurance and investment contracts commensurately with the level of risk.

The Company's regulator, BCFSA, sets and monitors capital requirements for the Company's operations. The Company is required to maintain a level of sufficient capital to achieve a target of 150% of a minimum capital test ("MCT"). As at December 31, 2020 and 2019, the Company was in compliance with these requirements.

THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

Embracing Change to PROTECT You

Financial Strength Rating
A M BEST
A- Excellent