THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

120th ANNIVERSARY

2022
ANNUAL REPORT

TRUST AND PROTECTION FOR A SUSTAINABLE TOMORROW

COMPANY INFORMATION

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

ACTUARY

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

AUDITORS

KPMG
777 Dunsmuir Street
Vancouver, BC   V7Y 1K3
Canada

THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

CONTENTS

OUR STORY

ABOUT US

Founded in 1902, Mutual Fire Insurance (MFI) was the first mutual insurance company headquartered in the province of British Columbia. The foundation of our company was built on the hard work and dedication of 44 local farmers and business owners in the Fraser Valley who wanted fire insurance at a reasonable cost. Today, we provide solutions for farm, commercial, and home insurance needs from British Columbia to Ontario with the support of our broker partners.

Mutual Fire Insurance is a stable and profitable mutual insurance company with a unique dual policyholder structure. Policyholders have the option of becoming a member. Members enjoy the benefits of free Residential Equipment Breakdown coverage on qualifying homes, rights to vote on resolutions that affect the company, and the opportunity for a premium refund if so declared by our Board of Directors.

We take pride in providing peace of mind solutions and support in the communities we insure.

OUR MISSION, VISION, AND PURPOSE

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

MISSION
Custom solutions with unparalleled sevice

PURPOSE
Trust and protection for a sustainable tomorrow

VISION
Embracing Change to PROTECT You

OUR VALUES

COMMUNITY

Promote and support philanthropy and volunteerism.

EMPOWERMENT

Inspiring success.

HONOUR

Trust, through personal and professional integrity.

MUTUALITY

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

PASSION

We believe in what we do.

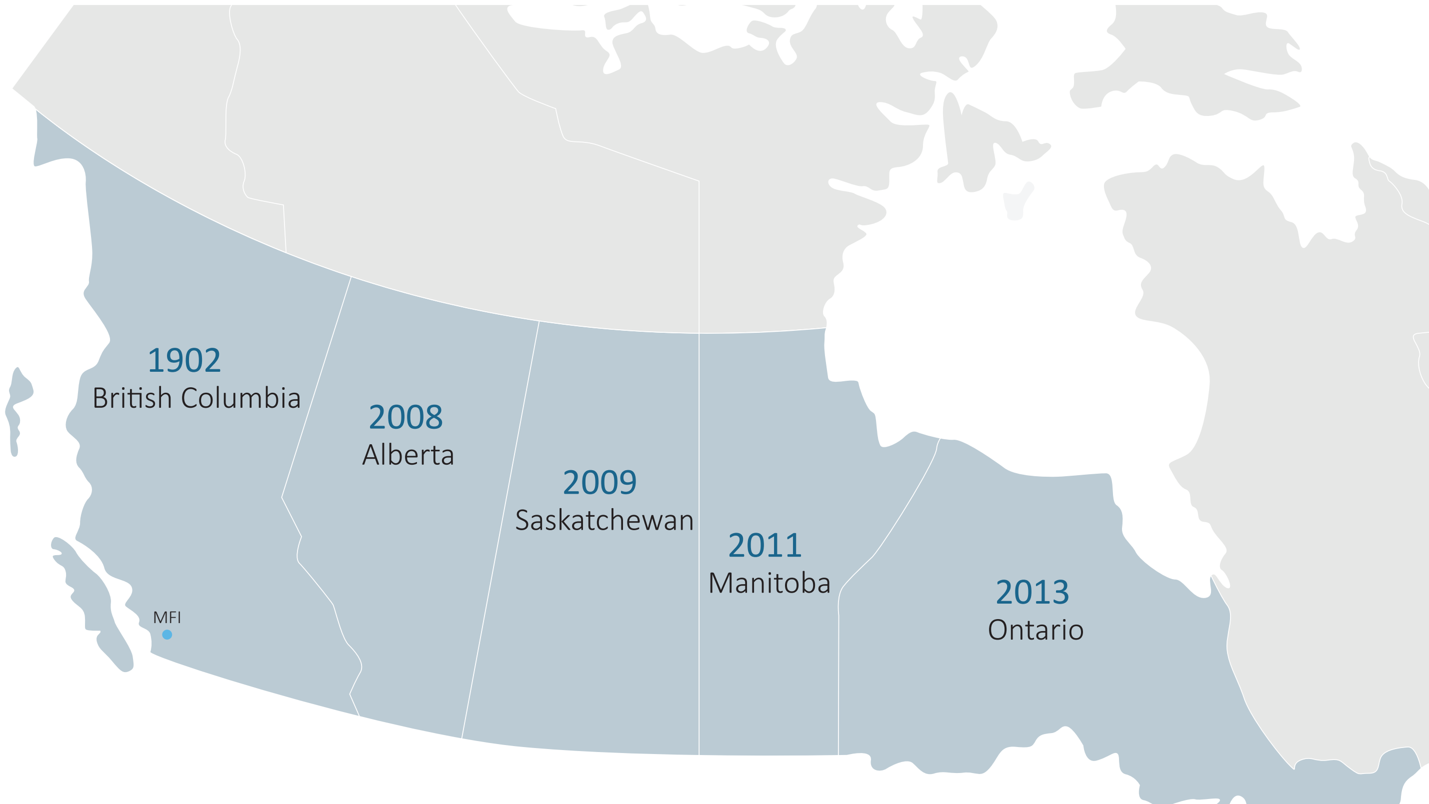
AM BEST RATING

At the end of 2022, the independent rating agency AM Best reaffirmed the financial strength of The Mutual Fire Insurance Company of British Columbia with an A- (Excellent) rating for the 11th consecutive year.

This recognition provides confidence for our members and key partners as we drive our strategy forward. Together we stand firmly behind our Values, placing policyholders first in a partner service approach to doing business. From the underwriting floor to the claims team to the leadership team, you will find helpful, approachable people who have a passion for insurance.

OUR PRODUCT EXPANSION

Mutual Fire Insurance has protected farm, home and business owners since 1902. We work hard to provide you with competitive prices and prompt and fair claims service.



1902	Mutual Fire Insurance is established as the first mutual company headquartered in British Columbia.
1990s	Homeowners coverage is offered through Mutual Fire Insurance.
2007	Mutual Fire Insurance launches Commercial Insurance.
2013	Enters into an exclusive agreement with Square One Insurance.
2019	Mutual Fire Insurance Introduces an industry leading Farm Product-Farm**PROTECT**™
2020	A newly redesigned Homeowners product is launched in BC.
2022	A new commercial subsidiary, Four Points Insurance Company Ltd. is launched across five (5) provinces.

PERFORMANCE AT A GLANCE

A MESSAGE FROM MIKE BOSE
CHAIR OF THE BOARD

It is my pleasure to present the 2022 Annual Chair Report on behalf of the board and management of the Mutual Fire Insurance Company of British Columbia(MFI).

2022 was filled with both successes and challenges for our company. Although 2022 brought with it the highs and lows of temperature and weather, compared to 2021, climate-related claims were reduced overall. Mutual Fire was able to record another excellent year through the diligence of each team member, risk management practices, and commitment to partner and policyholder experience. Throughout 2022, the industry experienced significant climate-related events, imposing great stress on the capacity of insurers and reinsurers. As challenging as the year was, Mutual Fire has been able to meet these challenges under the guidance of our experienced management team and undoubtedly through the hard work of our staff.

With the successful launch of our subsidiary, Four Points Insurance, and through meeting our strategic goals, we have many things to celebrate. Mutual Fire is becoming the insurance company of choice and was once again named as a workplace of choice in the insurance industry. With a passionate team and engaged workforce, we continue to look to a bright future full of opportunity, even during hardening insurance markets. As economic challenges persisted in the world economy, Mutual Fire remained financially stable and maintained our surplus to acceptable levels. We thank the portfolio managers of Raymond James, BMO, and Anthem properties for their expertise and guidance.

As Mutual Fire grows and evolves, we regularly engage with the BCFSA team, and they walk alongside us with guidance as we continue to grow in British Columbia. Meeting all the regulatory and reporting changes has been one of the year's most significant challenges. BCFSA and Mutual Fire's leadership teams have done an excellent job meeting these new challenges.

In the midst of the successful year, Mutual Fire Insurance proudly celebrated our 120th anniversary. To commemorate this milestone, we made a $120,000.00 donation to the Guru Nanak Free Kitchen Society. The society shares our passionate commitment to enhancing the community and we were honoured to share this contribution with them. In addition to the donation to the society, we were able to extend our hand to a mutual partner and fellow Canadians on the east coast as they experienced the wrath of Hurricane Fiona. As other insurance companies came to our aid in November 2021 during the Sumas floods, we were able to aid PEI Mutual in their time of need. This is truly Mutuality demonstrated at its best.

The climate catastrophes faced by the industry bring renewed resolution to our commitment to having the right policies in place to support the ESG environment, social, and corporate governance policies in place. Many thanks to Monica Niles, and the two committees in place at Mutual Fire for leading the way and for your commitment in working with our international partners while representing Mutual Fire.

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 $350,000. We are proud that our members remain at the forefront of how we operate.

As always, I would like to close by thanking management for their passionate leadership, the staff for their incredible work, and our board for their commitment and engagement. Thank you to our vendors, partners, and brokers for your support. Most importantly, our policyholders for choosing Mutual Fire Insurance as your insurer of choice.

Together we embody what mutuality is all about.

MIKE BOSE
on behalf of the Board of Directors
February 2023

A MESSAGE FROM DARIN LORD NESSEL
PRESIDENT AND CEO

Mutual Fire Insurance did not encounter one catastrophic event in 2022, resulting in a relatively benign year, a welcomed outcome following the tumultuous climate-related catastrophic events of 2021. Although some large-scale insured events occurred across Canada, Mutual Fire did not underwrite significant amounts of business in those affected regions.

Notwithstanding that we avoided the aforementioned catastrophic events, there were still several challenges that we faced and continue to work through. And, as any leader knows, every challenge comes with it an opportunity. The most pressing issue facing the industry today is talent acquisition and retention. When it comes to talent acquisition, more than ever we need to look within our organization for succession planning. At Mutual Fire, we have a breadth of knowledge to share with staff who want to advance their career, providing mentorship and educational opportunities to continue to have a long and rewarding career with us.

This challenge is closely followed by climate-related catastrophic events and the ongoing hard market. Climate risk can be mitigated to some extent through pricing, product design and, most importantly, accumulation management. As for the hard market, we carefully consider our members and the impact of ongoing rate increases. As a mutual, we look to increase rates only to the extent we need to cover increased costs.

Further, we have not been untouched by the economic recession, inflation, and the effect of rising interest rates on claims. Economic recession often provides increased investment returns as interest rates rise, and rising claims costs create an opportunity for our team to ensure we are continuing to close claims quickly and fairly to reduce time spent and overall expenditures on each loss.

Several other challenges we are currently navigating our way through include market mergers and acquisitions, the ongoing pandemic, cyber risks, and excessive regulation. Additionally, we are feeling the impact of increased costs of reinsurance at a time when market capacity has been reduced, and availability is thin overall. Innovation has had its own set of challenges as we increasingly rely on external partners. This can be incredibly difficult as we are limited by the extent of their resources. Most of these risks to our company are common in many other industries. However, each risk in its own unique way, brings about opportunities when our company remains creative in our thinking.

These unique challenges and opportunities happened on the heels of an incredibly successful year for Mutual Fire. We furthered our innovation strategy, added to members' surplus, formed a subsidiary company for our commercial products - Four Points Insurance Company Ltd., and remained profitable in all three lines of business. Additionally, our work on the environmental, social, and corporate governance (ESG), front has been identified as leading amongst mutuals, both in Canada and elsewhere. We have endorsed the United Nations Sustainable Development Goals (SDGs) with a unique focus on a select few of these SDGs to provide a lasting impact where we are most passionate and impactful as an organization. Efforts are already well underway at Mutual Fire, which have us at the forefront as an early adapter of the new SDG calculator designed by Swiss Re, a tool for measuring our sustainability impact. Along with this, our investing and business practices are determined with thoughtful consideration of our environmental, social, and governance impact using our ESG practices and policies.

I want to thank our members and policyholders once again for placing your ongoing trust and support in Mutual Fire. To our broker partners for continuing to find value in placing your clients needs with Mutual Fire, and to our vendor partners for helping us meet our common mutual goals of unifying relationships and celebrating our successes. I remain incredibly proud of our staff and management, for their ongoing support and commitment to our members. And to our board of directors, for their leadership and direction.

In closing, I would like to say it is my honour to lead this organization and am continuously committed to its ongoing success.

DARIN LORD NESSEL
President and CEO
February 2023

FINANCE REPORT

JASON CHRISTOPHERSON CPA, CGA,BAccS, ARe

CHIEF FINANCIAL OFFICER

"Our only security is our ability to change.", a quote by John Lilly, reflects well upon Mutual Fire Insurance as we consistently seek ways to improve and adapt. And 2022 brought with it such opportunities. As we emerged from the catastrophic ridden year of 2021, 2022 brought with it a different set of challenges which we embraced wholeheartedly . Climate change, inflation, market trends, investment conditions, over-regulation, and reinsurance did not stop Mutual Fire from having another successful year.

On a consolidated basis, gross written premiums continued to grow, from $180 million in 2021 to $220 million in 2022, a growth of 22%. Net premiums grew from $70 million in 2021 to $87 million in 2022, a growth of 24%. These results came from strong performances in our farm business and MGA written commercial business. Net underwriting income finished the year at $8.237 million, down approximately $5.8 million from 2021. However, results are only slightly off of the prior year when the $5.3 million one-time court-awarded premium tax returned to Mutual Fire in 2021 is considered.

Mutual Fire's net loss ratio was 49.93% compared to 47.81% in 2021. Limited catastrophe activity in Mutual Fire's written territories decreased reinsurance recoveries in 2022, revealing a loss ratio reflective of the quality of the business Mutual Fire writes. Consistently lower loss ratios over the last number of years have helped the company build a surplus and provide a strong capital base to weather current volatilities.

Our conservative approach to investments and our practice of holding bonds to maturity insulated Mutual Fire from some of the dizzying swings in the investment market this year. However, it did not make us immune to it. While we still managed to produce an investment yield of 2.73%, and net investment income as a percentage of net premiums earned of 4.76%, this was certainly not the strongest investment year of the preceding five. In fact, Mutual Fire lost significant value in our available for sale assets. Accumulated other comprehensive income was at a high in 2021 of $14.14 million, and dropped to $8.33 million in 2022, an overall decline of $5.81 million. Investment results were supported by our solid investments in real estate and relatively low duration of fixed-income investments.

The decline in the investment market applied downward pressure on our available regulatory capital. While our net income after taxes was $10.412 million, available regulatory capital only grew $4.27 million, from $70.62 million to $74.89 million. With our available capital only growing 6%, and our required capital to meet regulatory obligations growing 10%, we are experiencing downward pressure on our capital requirements. Early indications of capital improvements as we enter 2023 are projected to alleviate these pressures.

Reinsurance continues to be the best tool for Mutual Fire to join with strong domestic and global partners to transfer and spread risk. The relationship that Mutual Fire has with our reinsurance partners has been a crucial component of the foundation which supports our success. We were well aware that our reinsurance structure was one of the best in the market. However, as the market is global, we are not insulated from outside factors. During the second half of 2022, inflation became the main concern for reinsurers. This inflationary pressure, in addition to catastrophic events outside Mutual Fire's markets, set the stage for a hardened market overnight. Looking forward, 2023 will see increased retentions and increased rates driving costs upwards which will inevitably flow to the primary market.

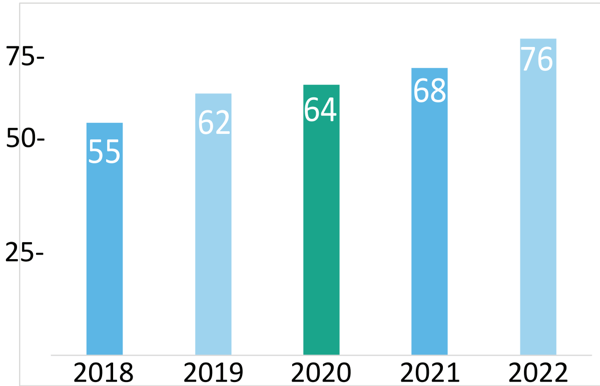
Despite such challenges, we have profound opportunities to move forward with continuous purpose at Mutual Fire. Our commitment to embrace change will lead us as we work with our partners, and guide members and policyholders through the hard market. We vow to continue to adjust claims fairly and quickly. And of course, we remain ever committed to protect our members and policyholders.. Perseverance will continue to be what allows us to deliver on our promise to Embrace change to PROTECT You.

JASON CHRISTOPHERSON
Chief Financial Officer
February 2023

2022 IN REVIEW

COMPANY PROFILE

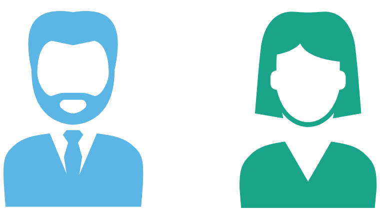
OUR TEAM IN NUMBERS



WHAT WE DO

Administration	3
Business Development	6
Claims	9
Executive Team	7
Finance	5
Information Technology	10
Underwriting	36

EMPLOYEE GENDER



19 57

75% OF OUR TEAM IS FEMALE!

AVERAGE LENGTH OF SERVICE

STAFF EXECUTIVE

OUR TEAM BY AGE

4	9	21	20	17	5
18-24	25-30	31-40	41-50	51-60	61+

2022 AWARDS & ACHIEVEMENTS

At Mutual Fire Insurance, we know that happy, satisfied, and fulfilled employees are the heart of our company. We pride ourselves on creating an environment that encourages our staff to thrive so they have the tools to serve our broker network and policyholders more effectively.

In 2022, we expanded our benefits package to include a Wellness Spending Account, continued with our popular hybrid work model, and brought connection to the workplace through quarterly Townhalls and barbeques, staff events, and the efforts of our social committee.

These awards reflect our commitment to our employees, as well as their commitment to our broker partners and insureds.

- HRD Best Places to Work in Canada 2022
- HRD 5-Star Diversity & Inclusion 2022
- IBC P&C Insurer of the Year 2022
- IBC Top Insurance Employers 2022
- Canada's Top 100 Employers- 2022- Finalist

PARTNERSHIPS IN THE COMMUNITY

Corporate giving and volunteering are part of the fabric of Mutual Fire Insurance. Our staff members receive 15 hours of paid volunteer time to support a charity they are passionate about. We encourage them to share their experiences and inspire others to discover ways to give back. Over the years, we have partnered with brokers to donate to local charities like Food Banks and fundraisers to increase health awareness and disease prevention.

GURU NANAK'S FREE KITCHEN SOCIETY

This year, in honour of our 120th Anniversary, Mutual Fire Insurance made a $120,000 donation to Guru Nanak's Free Kitchen.

This charitable organization is committed to feeding those in need, providing hot meals to the hungry on the downtown east side every weekend. They also support local shelters all over the lower mainland, provide emergency relief, and are working towards opening a permanent location downtown where they can offer meals seven days a week, along with counselling, health clinics, and meditation facilities.

MFI is very proud to partner with this organization and support all of the good work that they do for our communities!

Darin Lord Nessel and Mike Bose presenting the $120,000 cheque to Paul Hundle and Tej Sumbal of Guru Nanak's Free Kitchen.

SPONSORSHIPS & DONATIONS

Every year, Mutual Fire Insurance donates over $250,000 to charitable initiatives across Canada and abroad. We focus our charitable capacity on helping people and elect to partner with organizations that share the same vision.

2022 Notable Mentions:

United Way, Prince Edward Island, PEI - $50,000

Ann Davis Transition Society, BC - $10,000

Homes for Heroes Foundation, AB- $10,000

Cowichan District Hospital Foundation, BC- $5,000

Manitoba Farmer Wellness Program, MB- $5,000

Cloverdale Community Kitchen, BC- $5,724

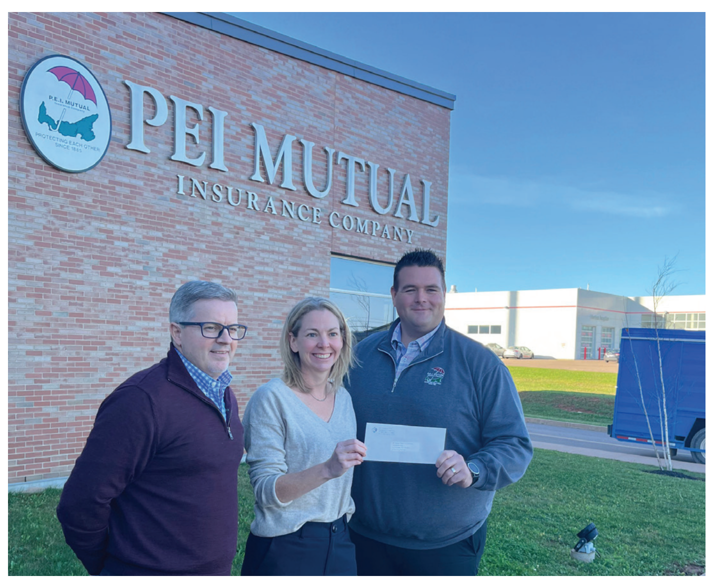
Borden Care Home, SK- $2,000

Victoria Hospital, SK- $2,000

Cancer Patient Services, ON - $2,000

And so many more!

Plus, 1050 hours of staff volunteer time spent in our communities!



Pictured above is United Way, PEI receiving our cheque from PEI Mutual, President and CEO, Craig Noonan.

BROKER OF THE YEAR AWARDS

Mutual Fire Insurance is proud to work with our broker partners. As part of our commitment to community initiatives, we grant awards each year to the top performing brokers in three (3) categories: **Broker of the Year British Columbia, Broker of the Year Prairies and Broker of the Year Managing General Agent (MGA).**

There are three (3) main criteria for determining the winners of this award:

1. The broker must continue to increase volumes.
2. An excellent loss ratio must be attained.
3. The broker must be knowledgeable, professional and maintain an overall ease of doing business.

Each winner is gifted a $5,000 donation to their charity of choice.

Congratulations! **to our 2022 winning broker partners!**

HUB INTERNATIONAL LTD.
Broker of the Year - British Columbia

This year's 2022 British Columbia 'Broker of the Year' award goes to HUB International Limited, who provide services across North America. The charity they have selected to receive the $5,000 donation that goes with this award is The Nature Force, an action-oriented climate resilience initiative. This organization prioritizes investments in climate change adaptation and mitigation to protect our communities. Congratulations to the HUB International Limited team!

DRAYDEN INSURANCE LTD.
Broker of the Year - Prairies

The Prairie 'Broker of the Year' award for 2022 goes to Drayden Insurance Ltd., located in Edmonton, AB. Drayden has selected the Ben Stelter Fund as the recipient of the $5000 donation that goes with this award. The Ben Stelter Fund, as a branch of the Stollery Children's Hospital Foundation, is dedicated to helping children fighting Glioblastoma and other cancers. Congratulations to the team at Drayden Insurance Ltd!

CANSURE UNDERWRITING LTD.
Broker of the Year - Managing General Agent (MGA)

Our MGA 'Broker of the Year' award for 2022 goes to Cansure, a company that was established in Vancouver, BC, and now operates all over Canada. They have also chosen Nature Force as the recipient of the $5,000 charitable donation that goes with this award. To help counteract the effects of global warming, Nature Force focuses on conserving wetlands and related natural habitats to achieve effects including climate regulation (carbon capture and storage), water purification, regulation of water flows, erosion prevention, waste and nutrient filtration, biodiversity and wildlife habitat, pollination, biological control and food. Congratulations to the Cansure team!

OUR LEADERSHIP TEAM

2022 BOARD OF DIRECTORS

Mike Bose
Chair of the Board

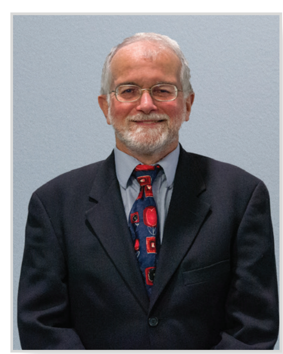
Sam Wind, CIP
Vice Chair

W.J (Bill) Adams, CPA, CA
Treasurer

Steve Czeck
Director

Ken Huttema
Director

David Pruim, CPA, CMA
Director



Michael Kendler
Director

2022 DIRECTOR COMMITTEES

	MEMBERS	RESPONSIBILITY
AUDIT COMMITTEE	❖ Bill Adams (Chair) ❖ Dave Prium ❖ Ken Huttema	Assists the Board in fulfilling its oversight responsibilities with respect to corporate accounting procedures and fiducial responsibility.
CONDUCT REVIEW COMMITTEE	❖ Michael Kendler (Chair) ❖ Sam Wind ❖ Ken Huttema	Assists the Board in fulfilling its oversight responsibilities with respect to corporate governance, conduct, and board nominations.
DONATIONS COMMITTEE	❖ Steve Czeck (Chair) ❖ Clare Stewart (Executive) ❖ Pam Louttit (Executive) ❖ Christine Young (Executive)	Reviews and approves the donations and sponsorships along with the overall donation/sponsorship strategy.
ENTERPRISE RISK MANAGEMENT COMMITTEE	❖ Dave Prium (Chair) ❖ Steve Czeck ❖ Ken Huttema	Assists the Board in fulfilling its oversight responsibilities with respect to the identification and management of corporate risks through an Enterprise Risk Management (ERM) framework.
INVESTMENT COMMITTEE	❖ Sam Wind (Chair) ❖ Michael Kendler ❖ Dave Prium	Assists the Board in fulfilling its oversight responsibilities with respect to corporate investments.
IT STEERING COMMITTEE	❖ Steve Czeck (Chair) ❖ Sam Wind ❖ Bill Adams ❖ Mary Martin	Assists the Board through articulating the strategic direction for Enterprise Information Technology Systems, Security, and related services.

OUR EXECUTIVE TEAM

Darin Lord Nessel
President and CEO

Clare Stewart, CIP
Chief Operations Officer

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

Pete Smith
Chief Information Officer

Nirmal Binnag, CIP
Vice President,
Underwriting

Pamala Louttit, CIP
Vice President,
Claims

Christine Young, CIP
Vice President,
Business Development

OUR PATH AHEAD

FOUR POINTS INSURANCE COMPANY LTD.

Four Points Insurance was formed in 2022 to support small businesses through the many adjustments they must face now, and in the future.

Much like the long-standing heritage of our parent company, Mutual Fire Insurance, Four Points Insurance respects and values a stable, forward-thinking approach to writing commercial insurance while participating philanthropically in our communities. Built with a passion for customer service and risk management, Four Points Insurance will offer business owners a suite of commercial insurance solutions for businesses in the following industries:

- Business and Professional Services
- Contractors
- Hospitality
- Manufacturing and Processing
- Realty
- Retail

OUR CULTURE

An important piece of the Four Points Strategic plan was to create our Vision, Mission, and Values. These inspiring statements clearly communicate the direction and values of Four Points Insurance, ensuring everyone is working towards common goals and objectives, thus providing a road-map to the future.

VISION

Inspire trust. Deliver satisfaction.

MISSION

Providing an invaluable insurance experience, every time.

VALUES

Accountability - Owning our impact

Passion - We believe in what we do

Collaboration - We build and maintain strong relationships

Stability - Providing a solid foundation through our ethics, knowledge, and fairness

AM BEST RATING

Four Points Insurance has been awarded an AM Best rating of A- (Excellent).

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Environmental, Social, and Governance, also referred to as (ESG) are pillars which will form an important piece of Mutual Fire Insurance and Four Points Insurance. From choosing investment partners, to the risk management approach of our underwriters, to ordering supplies for our office, sustainability factors will be considered in every aspect of our business.

ESG AND PURPOSE COMMITTEES

Mutual Fire Insurance understands the importance of managing the risks that affect our future sustainability. We also believe people are at the heart of our business and take pride in our outstanding work. Our ESG and Purpose Committees were established with the goal of embedding sustainability and responsible business practices, contributing to a positive impact in the communities we insure. Sustainability is the undertaking of activities that demonstrate forward-looking social, environmental, and ethical responsibility which is essential to our long-term success. Sustainable leadership is a business opportunity, a risk mitigant, and an essential aspect of our vision statement – Embracing Change to Protect You.

Mutual Fire Insurance is dedicated to integrating ESG factors through our operations and we focus on matters that are meaningful to our members, policyholders, employees, and key stakeholders. We aim to lead by example and seek to drive change by focusing on key areas in each segment. To help deliver long-term value and clarity on our position, the ESG Committee created a comprehensive ESG policy that outlines environmental, social health, and governance focus areas and commitments. As a mutual company, we recognize the need to go beyond our role of offering a product or service and develop programs that have a social and environmental impact. The first task of our purpose committee was to create Mutual Fire Insurance's Purpose Statement – "Trust and protection for a sustainable tomorrow." This statement articulates a clear, authentic, and long-term purpose – something that is true today, and that will guide the organization into the future.

In our efforts to embrace our purpose statement, the committee also reviewed the 17 United Nations Sustainable Development Goals and identified four that we will be working towards, encompassing a range of issues including world hunger, mental and physical health, and sustainable consumption. We look forward to continuing our ESG and purpose journey, expanding the reach of these committees, implementing new policies and practices, and establishing effective reporting metrics.

FINANCIAL STATEMENTS

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 and CEO

JASON CHRISTOPHERSON
Chief Financial Officer

Langley, British Columbia
February 22, 2023

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, 2022 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.

BARB ADDIE
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 16, 2023

PO Box 10426 777 Dunsmuir Street
Vancouver, BC V7Y 1K3 Canada
Telephone: 604.691.3000 | Fax: 604.691.3031

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

Opinion

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

- the consolidated statement of financial position as at December 31, 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in members’ surplus and reserves for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated 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 consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***“Auditor's 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.

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditor's 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 auditor's report thereon, included in the annual report as at the date of this auditor's 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 auditor's report.

We have nothing to report in this regard.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause 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 22, 2023

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of dollars)

AND INDEPENDENT AUDITOR'S REPORT THEREON

YEAR ENDED DECEMBER 31, 2022

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Consolidated Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Assets			
Cash and cash equivalents		$ 29,872	$ 34,997
Investments	4	121,238	105,563
Accrued investment income		769	539
Premiums receivable		21,807	17,878
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	5	88,672	96,362
Unearned premiums	5	2,639	3,792
Deferred policy acquisition costs	6	11,828	10,333
Deferred income taxes		385	208
Income taxes receivable		2,373	-
Property and equipment	7	1,748	1,799
Intangible assets	8	355	407
		$ 281,686	$ 271,878
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	9	$ 5,400	$ 5,466
Due to reinsurers		15,080	16,565
Premium tax liabilities		2,882	1,934
Income taxes payable		99	3,118
Unearned reinsurance commissions		229	941
Provisions for unpaid claims and adjustment expenses	5	132,543	128,126
Unearned premiums	5	49,822	44,699
		206,055	200,849
Members' surplus and reserves:			
Reserves	10	750	500
Accumulated other comprehensive income		8,334	14,144
Unappropriated members' surplus		66,547	56,385
		75,631	71,029
		$ 281,686	$ 271,878

See accompanying notes to financial statements.

Approved of behalf of the Board:

Director

Director

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Consolidated Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	Notes	2022	2021
Premiums written:			
Gross premiums written	11	$ 220,720	$ 180,691
Reinsurance premiums ceded		(133,591)	(110,515)
Net premiums written		87,129	70,176
Change in unearned premiums		(4,192)	(4,621)
Net premiums earned		82,937	65,555
Commission income		38,722	33,165
Service fees		379	326
Membership fees		26	21
		122,064	99,067
Claims and expenses incurred (recovered):			
Claims and adjustment expenses		41,411	31,340
Commissions		56,300	45,234
Salaries and benefits	11	8,476	7,883
Administration	12	3,905	1,334
Premium taxes	12	3,735	(786)
		113,827	85,005
Net underwriting income		8,237	14,062
Net investment income	13	3,948	4,392
Other expenses		(349)	(1,000)
Income before income taxes		11,836	17,454
Income tax expense (recovery):	14		
Current		1,601	5,729
Deferred		(177)	(169)
		1,424	5,560
Net income		10,412	11,894
Other comprehensive income:			
Items that may be reclassified to net income where conditions are met:			
Net unrealized (loss) gains on available-for-sale assets		(5,810)	4,833
Total comprehensive income for the year		$ 4,602	$ 16,727

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Consolidated Statement of Changes in Members' Surplus and Reserves
(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2020	$ 500	$ 9,311	$ 44,491	$ 54,302
Net income	-	-	11,894	11,894
Net unrealized gains on available-for-sales assets	-	4,833	-	4,833
Balance, December 31, 2021	500	14,144	56,385	71,029
Net income	-	-	10,412	10,412
Net unrealized loss on available-for-sales assets	-	(5,810)	-	(5,810)
Increase in reserve	250	-	(250)	-
Balance, December 31, 2022	$ 750	$ 8,334	$ 66,547	$ 75,631

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Consolidated Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Cash provided by (used in):		
Operations:		
Net income	$ 10,412	$ 11,894
Adjustments for:		
Depreciation and amortization expense	247	317
Deferred tax recovery	(177)	(169)
Donation of stocks	-	400
Interest and dividend income	(3,122)	(2,557)
Current tax expense	1,601	5,729
Loss on sale of property and equipment	-	1
Realized gains on available-for-sale investments	(1,169)	(2,189)
	7,792	13,426
Changes in non-cash operating working capital:		
Premium's receivable	(3,928)	(4,114)
Deferred acquisition costs	(1,495)	(1,326)
Reinsurers' share of unpaid claims and adjustment expenses	7,690	(46,861)
Reinsurers' share of unearned premium	1,153	2,324
Provision for unpaid claims and adjustment expenses	4,417	50,085
Unearned premiums	5,123	5,107
Unearned reinsurance commission	(712)	(1,153)
Due to reinsurers	(1,485)	10,140
Amounts payable and accrued liabilities	(54)	530
Premium tax liabilities	948	181
	19,449	28,339
Interest received	2,940	2,404
Taxes paid	(6,405)	(4,545)
	15,984	26,198
Investments:		
Purchase of investments	(38,988)	(17,573)
Proceeds on sale of investments	18,034	13,436
Purchase of property and equipment	(82)	(36)
Disposal of property and equipment	-	8
Purchase of intangible assets	(61)	(156)
	(21,097)	(4,321)
Financing:		
Repayment of loan facility for executive's vehicle	(12)	(14)
Increase (decrease) in cash and cash equivalents	(5,125)	21,863
Cash and cash equivalents, beginning of year	34,997	13,134
Cash and cash equivalents, end of year	$ 29,872	$ 34,997
Cash and cash equivalents comprised of:		
Cash	$ 20,792	$ 26,249
Cash equivalents	9,080	8,748
	$ 29,872	$ 34,997

See accompanying notes to financial statements.

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, Ontario, and Quebec 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, the Insurance Act of Ontario, and the Act Respecting Insurance in Quebec.

The Company has a wholly-owned subsidiary, Four Points Insurance Company Ltd., which has received authorization to underwrite property and casualty insurance in British Columbia, Ontario, Alberta, Saskatchewan, and Manitoba.

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 consolidated 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 16, 2023.

(b) Basis of measurement:

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

(d) Use of estimates and judgments:

The preparation of these consolidated 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 consolidated 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 16, respectively.

3. Significant accounting policies:

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

(a) Basis of consolidation:

Subsidiary undertakings are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases. The subsidiary which is consolidated in these consolidated financial statements is Four Points Insurance Company Limited, which is wholly-owned by the Company.

(b) Cash and cash equivalents:

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

(c) 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 consolidated 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.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*i*) Financial assets (continued):

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.

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 premiums receivable, and investment in promissory note.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(*i*) Financial assets (continued):

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 income.

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

(*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.

(d) 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.

3. Significant accounting policies (continued):

(d) Property and equipment (continued):

(*i*) Recognition and measurement (continued):

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.

(*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 income 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.

(e) 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 income 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.

3. Significant accounting policies (continued):

(f) 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(d). 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.

3. Significant accounting policies (continued):

(g) 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.

3. Significant accounting policies (continued):

(g) 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.

3. Significant accounting policies (continued):

(g) 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 net income 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.

3. Significant accounting policies (continued):

(h) 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.

(i) Income tax:

Income tax expense comprises current and deferred income tax. Current income tax and deferred income tax are recognized in net income 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.

3. Significant accounting policies (continued):

(k) 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.

3. Significant accounting policies (continued):

(l) 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, 2022 in preparing these financial statements:

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

IFRS 9 impacts the classification and measurement of financial assets and financial liabilities based on the business model in which they are held and the characteristics of their cash flows. The effective date for the adoption of IFRS 9 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 January 1, 2023 as the Company's activities and liabilities are predominantly insurance based. The Company has assessed these standards and is expecting a change in the classification and measurement of its investments. The Company is in the process of quantifying the impact.

(*ii*) IFRS 17 - Insurance Contracts:

In May 2017, the IASB issued IFRS 17 to establish a global standard which provides guidance on the recognition, measurement, presentation and disclosure of insurance contracts. Amendments to IFRS 17 were issued in June 2020. IFRS 17 replaces existing accounting under IFRS 4. IFRS 17 is effective beginning on January 1, 2023 with a transition date of January 1, 2022 and will be applied retrospectively.

While the Company continues to finalize its application of this standard, its assessment of the implications of this standard, including consideration of any regulatory requirements, are as follows:

- Scope: IFRS 17 introduces scope exemptions for specific types of contracts. The Company does not expect significant change in the scope of insurance contracts between IFRS 4 and IFRS 17.
- Level of aggregation: IFRS 17 requires groups of contracts to be aggregated and measured based on contracts subject to similar risks and managed together, profitability, and contracts issued not more than one year apart. The Company determines contracts subject to similar risks and managed together. The Company will cohort its new business using annual cohorts. When an insurance contract is written, it will be assigned a profitability group based on the expected profitability on the date of initial recognition. The level of aggregation requirements does not permit the offsetting of gains and losses between groups of insurance contracts.

3. Significant accounting policies (continued):

(l) New standards and interpretations not yet adopted (continued):

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

- Measurement models: Insurance contract liabilities for each group of insurance contracts represent the sum of the liability for incurred claims and liability for remaining coverage. The Company expects that all of its liabilities will be measured using the Premium allocation approach (PAA). When measuring liabilities for remaining coverage, the PAA is similar to the Company's previous accounting treatment for short-duration contracts and therefore the Company does not expect a significant impact to measurement. The Company primarily issues insurance contracts with a coverage period of 12 months or less, which automatically qualify for the Premium allocation approach (PAA). For these types of contracts, the Company will expense insurance acquisition cash flows as they are incurred. For insurance contracts with greater than 12 months of coverage, the Company has established a methodology for assessing whether the measurement of the liability for remaining coverage differs significantly than the measurement under the General Measurement Model (GMM) to determine whether they qualify for the PAA. The PAA does not have the concept of a contractual service margin and therefore, upon transition, the insurance contract liabilities and reinsurance held assets will be recorded on a fully retrospective basis.

  - When measuring the liabilities for incurred claims, IFRS 17 requires:

    - Estimates of future of future cash flows to be discounted to reflect the time value of money and financial risk related to those cash flows, unless the Company expects claims to be paid in one year or less from the date it was incurred. The methodology for determining the discount rate is not prescribed, therefore discount rates will be based on a risk-free rate plus an illiquidity premium reflective of the cash flow characteristics of the respective insurance contract.

    - An explicit risk adjustment for non-financial risk which replaces the risk margin under IFRS 4. The IFRS 4 risk margin reflects the inherent uncertainty in the net discounted claim liabilities estimates, whereas the IFRS 17 risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty that arises from non-financial risk. IFRS 4 required a risk margin for financial risks (i.e. investment risk) which is not permitted by IFRS 17.

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(l) New standards and interpretations not yet adopted (continued):

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

- Onerous contracts: IFRS 17 requires the identification of groups of onerous contracts when facts and circumstances indicate a loss for PAA contracts. When onerous contracts are identified, the Company is required to recognize a loss immediately in the statement of profit or loss along with an increase in the insurance contract liability known as a “loss component” to appropriately reflect the timing of losses. The amount of loss from onerous contracts written in a year is a required disclosure. The Company is finalizing its evaluation of onerous contracts and has established a mechanism for identifying onerous contracts beyond the transition date.
- Reinsurance contracts held: The Company will apply the PAA to its reinsurance contracts held which is similar to how they are measured under IFRS 4. When measuring the asset for incurred claims will include any risk of non-performance of the reinsurer.
- Presentation and disclosure: IFRS 17 introduces changes to the way in which the company will present and disclose financial results. Insurance contract liabilities presented in the consolidated balance sheets will consist of premiums receivable, unearned premiums, onerous loss component (if applicable), discounted and risk adjusted claim liabilities, and other related liabilities. Reinsurance contract assets will be separately presented in the consolidated balance sheets and will include amounts expected to be recovered from reinsurers and an allocation of the reinsurance premiums paid. The reclassification of amounts on the consolidated balance sheets are expected to result in a reduction in consolidated assets and liabilities of the Company. The statement of financial performance will no longer include premiums written, instead it will include an insurance service result comprising insurance revenue and insurance service expenses. Insurance finance income or expense will be presented within investment result. There will be significant insurance contract roll-forward schedules, discount rates as well as some changes to the claims development table to reconcile to the liabilities for incurred claims.

4. Investments:

	2022	2021
Available-for-sale financial assets	$ 54,592	$ 52,027
Held-to-maturity investments	64,146	51,036
Promissory note	2,500	2,500
	$ 121,238	$ 105,563

(Expressed in thousands of dollars)

4. Investments (continued):

On July 21, 2021, the Company provided an unsecured loan to Anthem Acquisition Ltd for $2,500 in exchange of a promissory note carrying an interest calculated on the daily balance at the rate of 10% per annum, with a maturity of May 31, 2023.

At December 31, 2022, certain investments with a carrying amount of $5,000 (2021 - $5,000) are held as security for the bank line of credit (note 16).

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.

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

2022	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 128,126	$ 96,362	$ 31,764
Effect of discounting and provision for adverse deviation, January 1	4,485	2,387	2,098
Undiscounted provision at January 1	123,641	93,975	29,666
Estimate of ultimate claims incurred for current accident year	109,903	66,827	43,076
Payment on current accident year claims	(35,704)	(19,716)	(15,988)
Payment on prior accident year claims	(62,886)	(49,517)	(13,369)
Undiscounted provision before change in prior accident year ultimates	134,954	91,569	43,385
Change in estimate of ultimate claims incurred for prior year accident years	(6,635)	(4,813)	(1,822)
Undiscounted provision, December 31	128,319	86,756	41,563
Effect of discounting and provision for adverse deviation, December 31	4,224	1,916	2,308
Provision for unpaid claims and adjustment expenses, December 31	$ 132,543	$ 88,672	$ 43,871

(Expressed in thousands of dollars)

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

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

2021	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 78,041	$ 49,501	$ 28,540
Effect of discounting and provision for adverse deviation, January 1	2,793	1,258	1,535
Undiscounted provision at January 1	75,248	48,243	27,005
Estimate of ultimate claims incurred for current accident year	118,640	87,214	31,426
Payment on current accident year claims	(38,497)	(22,200)	(16,297)
Payment on prior accident year claims	(29,646)	(18,121)	(11,525)
Undiscounted provision before change in prior accident year ultimates	125,745	95,136	30,609
Change in estimate of ultimate claims incurred for prior year accident years	(2,104)	(1,161)	(943)
Undiscounted provision, December 31	123,641	93,975	29,666
Effect of discounting and provision for adverse deviation, December 31	4,485	2,387	2,098
Provision for unpaid claims and adjustment expenses, December 31	$ 128,126	$ 96,362	$ 31,764

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2022 and 2021:

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 100,251	$ 65,701	$ 34,550	$ 100,125	$ 76,267	$ 23,858
Claims incurred but not reported	32,292	22,971	9,321	28,001	20,095	7,906
Outstanding claims provision	132,543	88,672	43,871	128,126	96,362	31,764
Unearned premiums	49,822	2,639	47,183	44,699	3,792	40,907
Total insurance provisions	$ 182,365	$ 91,311	$ 91,054	$ 172,825	$ 100,154	$ 72,671

(Expressed in thousands of dollars)

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

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

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 100,251	$ 65,701	$ 34,550	$ 100,125	$ 76,267	$ 23,858
Undiscounted provision for incurred but not reported ("IBNR") claims	27,007	21,055	5,952	22,638	17,708	4,930
Undiscounted unallocated loss adjustment expenses	1,061	-	1,061	878	-	878
	128,319	86,756	41,563	123,641	93,975	29,666
Effect of discounting	(4,438)	(3,192)	(1,246)	(3,995)	(2,967)	(1,028)
Provision for adverse deviation	8,662	5,108	3,554	8,480	5,354	3,126
Provision for unpaid claims and adjustment expense	$ 132,543	$ 88,672	$ 43,871	$ 128,126	$ 96,362	$ 31,764

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

	2022	2021
Provision for net unearned premiums, January 1	$ 40,907	$ 33,476
Net premiums written	87,129	70,176
Portfolio transfer	2,084	2,810
Less net premiums earned	(82,937)	(65,555)
Provision for net unearned premiums, December 31	$ 47,183	$ 40,907

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.

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

(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.

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses is 2.39% (2021 - 2.34%). A 1.00% change in the discount factor would change the net provision by $575 (2021 - $490).

(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 2022:

Accident year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
At end of accident year	$ 21,635	$ 29,572	$ 27,032	$ 25,581	$ 24,265	$ 28,618	$ 30,672	$ 29,245	$ 31,426	$ 43,076	
One year later	21,450	30,073	26,920	25,289	25,363	28,711	30,342	28,944	31,178		
Two years later	21,092	29,324	26,440	24,614	25,111	28,612	30,039	28,261			
Three years later	21,009	28,739	26,032	24,053	25,214	28,685	29,522				
Four years later	20,718	28,501	25,965	23,964	25,377	28,445					
Five years later	20,444	28,285	25,807	23,849	25,265						
Six years later	20,404	28,244	25,363	23,838							
Seven years later	20,366	28,175	25,301								
Eight years later	20,378	27,998									
Nine years later	20,462										
Estimate of cumulative claims incurred	20,462	27,998	25,301	23,838	25,265	28,445	29,522	28,261	31,178	43,076	283,346
Cumulative payments to date	20,138	27,990	25,151	23,358	24,312	27,377	26,942	24,969	26,753	15,989	242,979
Net undiscounted outstanding insurance claims provision at December 31, 2022	$ 324	$ 8	$ 150	$ 480	$ 953	$ 1,068	$ 2,580	$ 3,292	$ 4,425	$ 27,087	$ 40,367
Net undiscounted outstanding insurance claims provision with respect to prior accident years											$ 135
Total net undiscounted outstanding insurance claims provision at December 31, 2022											$ 40,502
Undiscounted unallocated loss adjustment expenses											1,061
Effect of discounting											(1,246)
Provision for adverse deviation											3,554
Total net discounted outstanding insurance claims provision, December 31, 2022											$ 43,871

(Expressed in thousands of dollars)

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	
	2022	2021
Property	59.79%	62.00%
Casualty	80.00%	80.00%
Blended expected loss ratio	60.99%	63.13%

6. Deferred policy acquisition costs:

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

At December 31, 2020	$ 9,007
Expenses deferred	46,982
Recognized in net income	45,656
At December 31, 2021	10,333
Expenses deferred	58,581
Recognized in net income	57,086
At December 31, 2022	$ 11,828

7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2020	$ 2,755	$ 69	$ 497	$ 147	$ 3,468
Additions	9	6	21	-	36
Disposals	-	-	309	40	349
Balance, December 31, 2021	2,764	75	209	107	3,155
Additions	-	-	82	-	82
Disposals	-	-	-	-	-
Balance, December 31, 2022	$ 2,764	$ 75	$ 291	$ 107	$ 3,237

(Expressed in thousands of dollars)

7. Property and equipment (continued):

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2020	$ 1,123	$ 28	$ 282	$ 73	$ 1,506
Depreciation for the year	65	9	97	20	191
Disposals	-	-	309	32	341
Balance, December 31, 2021	$ 1,188	$ 37	$ 70	$ 61	$ 1,356
Depreciation for the year	62	7	50	14	133
Disposals	-	-	-	-	-
Balance, December 31, 2022	$ 1,250	$ 44	$ 120	$ 75	$ 1,489
Carrying amounts:					
At December 31, 2021	$ 1,576	$ 38	$ 139	$ 46	$ 1,799
At December 31, 2022	1,514	31	171	32	1,748

8. Intangible assets:

	Computer software licenses
Cost:	
Balance, December 31, 2020	$ 610
Additions	156
Disposal	(229)
Balance, December 31, 2021	537
Additions	61
Disposal	-
Balance, December 31, 2022	$ 598

(Expressed in thousands of dollars)

8. Intangible assets (continued):

		Computer software licenses
Amortization:		
Balance, December 31, 2020	$	233
Amortization for the year		126
Disposal		(229)
Balance, December 31, 2021		130
Amortization for the year		113
Disposal		-
Balance, December 31, 2022	$	243
Carrying amounts:		
At December 31, 2021	$	407
At December 31, 2022		355

9. Amounts payable and accrued liabilities:

		2022		2021
Agents, brokers and intermediaries	$	3,000	$	2,350
Other amounts payable and accrued expenses		2,401		3,116
	$	5,401	$	5,466

10. Reserves:

Pursuant to the guidelines set by the British Columbia Financial Services Authority, the Company has set aside an earthquake premium reserve of $750 (2021 - $500).

(Expressed in thousands of dollars)

11. 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.

	2022	2021
Salaries and benefits	$ 2,328	$ 1,815
Registered savings plan contributions	88	80
	$ 2,416	$ 1,895

(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:

	2022	2021
Management insurance premiums	$ 12	$ 13
Directors insurance premiums	61	63
	$ 73	$ 76

12. Premium taxes:

During 2021 the Company received a premium tax refund of $3,581 and related interest of $1,714 in connection with a dispute with the Ministry of Finance over premium taxes payable for the years 2012 and 2013. These amounts have been recognized as a reduction to premium tax expense and administration expense, respectively, in 2021. The matter was fully resolved as at December 31, 2021.

(Expressed in thousands of dollars)

13. Net investment income:

	2022	2021
Recognized in net income:		
Interest income on held-to-maturity investments	$ 1,698	$ 1,218
Dividend income on available-for-sale investments	1,424	1,338
Net realized gain on investments	1,169	2,189
Investment management fees	(343)	(353)
Net investment income	$ 3,948	$ 4,392

14. Income taxes:

Total tax expense (recovery) consists of the following:

	2022	2021
Current tax	$ 1,601	$ 5,729
Deferred tax	(177)	(169)
Total tax expense	$ 1,424	$ 5,560

The following is a reconciliation of the Company's income tax expense at its statutory tax rate of 25.82% (2022 - 26.32%) to its effective tax rate.

Reconciliation of effective tax rate:

	2022	2021
Net income (loss) before income tax	$ 11,836	$ 17,454
Income tax at combined federal and provincial statutory income tax rate 25.82% (2021 - 26.32%)	$ 3,057	$ 4,593
Non-taxable income and non-deductible expenses	(1,733)	1,039
Other	100	(72)
	$ 1,424	$ 5,560

15. Line of credit:

The Company maintains a line of credit agreement with a third-party lender for up to $5,000 (2021 - $5,000). Nil was drawn on the line of credit as at December 31, 2022 (2021 - 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.

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.

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*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.

(B) Accident:

Accident coverage provides 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.

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

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's 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 (2021 - $5,000).

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 $750 (2021 - $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.

16. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

(*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 $1,500 (2021 - $1,000).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $170,000 (2021 - $200,000).

Reinsurance treaties have been subscribed to by a number of reinsurance companies on the open market through the Company's broker, Gallagher 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.

(Expressed in thousands of dollars)

16. Financial and insurance risk management (continued):

(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, 2022 and 2021, best represents the maximum exposure to credit risk for each respective year.

As at December 31, 2022 and 2021, 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:

2022	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 7,467	$ 20,470	$ 6,146	$ 7,664	$ 11,453	$ 53,200
Short-term investments	-	3,198	498	-	9,750	13,446
Equities	-	-	237	71	54,284	54,592
	$ 7,467	$ 23,668	$ 6,881	$ 7,735	$ 75,487	$ 121,238

2021	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 2,028	$ 12,769	$ 4,974	$ 6,467	$ 18,310	$ 44,548
Short-term investments	1,053	5,835	142	1,458	500	8,988
Equities	-	-	319	90	51,618	52,027
	$ 3,081	$ 18,604	$ 5,435	$ 8,015	$ 70,428	$ 105,563

(Expressed in thousands of dollars)

16. Financial and insurance risk management (continued):

(d) Credit risk (continued):

The aging of premiums receivable at the reporting date was:

	2022	2021
Not past due	$ 21,738	$ 17,878
Past due (>90 days outstanding)	69	-
	$ 21,807	$ 17,878

As at December 31, 2022 and 2021, the Company did not have any impaired receivables, held-to-maturity investments.

(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.

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, 2022 and 2021, 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, 2022 was $14,750 (2021 - $12,139). 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, 2022 would have increased or decreased net income and members' surplus by the $737 (2021 - $607) assuming all other variables remain constant.

(Expressed in thousands of dollars)

16. Financial and insurance risk management (continued):

(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 $2,070 (2021 - $2,071).

17. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 54,592	$ 54,592	$ 52,027	$ 52,027
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	29,872	29,872	34,997	34,997
Held-to-maturity investments	64,146	61,396	51,036	50,923
Accrued investment income	769	769	539	539
Premiums receivable	21,807	21,807	17,878	17,878
Promissory note	2,500	2,500	2,500	2,500
Amounts payable and accrued liabilities	(5,400)	(5,400)	(5,469)	(5,469)
Due to reinsurers	(15,080)	(15,080)	(16,525)	(16,525)
	$ 153,206	$ 150,456	$ 136,983	$ 136,870

17. Fair values of financial instruments (continued):

(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.

(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:

2022	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 41,392	$	$ 13,200	$ 54,592

2021	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 41,427	$ -	$ 10,600	$ 52,027

(Expressed in thousands of dollars)

17. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

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

For the years ended December 31, 2022 and 2021, there were no significant transfers between the three levels of the hierarchy.

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.

2022	Investments
Balance, beginning of the year	$ 10,600
Purchases	2,000
Unrealized gain	600
Balance, end of year	$ 13,200

2021	Investments
Balance, beginning of the year	$ 10,350
Purchases	-
Unrealized gain	250
Balance, end of year	$ 10,600

(*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.

(Expressed in thousands of dollars)

17. Fair values of financial instruments (continued):

(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.

2022

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	$ 11,700	Capitalization models	Capitalization rate	5.00%-7.00%	The estimated fair value would increase if the capitalization rate decreased

2021

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	$ 9,100	Capitalization models	Capitalization rate	5.00%-7.00%	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 $(716) or $5,830 (2021 - $(910) or $3,949).

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, 2022 and 2021, the Company was in compliance with these requirements.

THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

Embracing Change to PROTECT You

Financial Strength Rating
AM BEST
A- Excellent

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