MUTUAL FIRE
INSURANCE

2018 ANNUAL REPORT

COMPANY INFORMATION

HEAD OFFICE

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

Phone:	**604.881.1250**
Toll-Free:	**866.417.2272**
Email:	**info@mutualfirebc.com**

AUDITORS

KPMG
777 Dunsmuir Street
Vancouver, BC   V7Y 1K3

ACTUARY

Baron Actuaries
#205 Laird Drive
Toronto, ON   M4G 3W4

CONTENTS

VISION, MISSION & VALUES

CORE VALUES

Passion- We believe in what we do.

Honour- We respect our commitment to you by encouraging mutual trust through personal and professional integrity.

Empowerment- We empower talented people to embrace change by encouraging and rewarding creativity.

Community- We promote and support philanthropy and volunteerism.

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

VISION

Embracing Change to PROTECT You

MISSION

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

CHAIRMAN'S REPORT

TAKO VAN POPTA
CHAIRMAN OF THE BOARD

The Board of Directors is pleased to present the 117th Annual Report for the year ending December 31, 2018.

• Premiums Written	$96,444,000
• Investment Income	$2,578,000
• Underwriting Loss	($3,029,000)
• Net After Tax Loss	($923,000)
• Earned Surplus	$39,165,000

In 2018, our premiums increased by 12.38% and our policy count increased by 16%. Both positive results, this growth was derived from our decision to underwrite more commercial business as we finalized the withdrawal of our homeowner line of business in the prairie provinces due to unsustainable losses as a result of several catastrophic events in the prairies.

Our investment portfolio finished the year with an overall yield of 3.22%. Our assets helped offset the underwriting losses for 2018; however, our final combined ratio for the year was 107.67% – an increase of eight percentage points over the previous year. Although the Company had extremely low severity of losses, we experienced an increase in the frequency of losses. The first quarter losses in 2018 were significant, in particular January and March, and proved extremely difficult to recover from.

Gross loss ratios in Alberta remained at 59%, British Columbia returned to respectable norms of 56%, Manitoba was 76%, Saskatchewan 65%, and Ontario 3%. The overall gross loss ratio for all provinces was a strong 58%.

The financial strength of the Company remains solid, with an MCT number of 303.37%. This is our Minimum Capital Test ratio which is a requirement of the Financial Institutions Commission (FICOM) and used to evaluate the financial position of all companies in the property and casualty industry. The financial strength of our Company is further measured by A.M. Best Ratings Services who have rated Mutual Fire Insurance A- (Excellent).

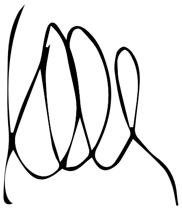
With the Company in a stable financial position, the Board of Directors can concentrate on achieving our three-year (2017-2019) strategic plan to return Mutual Fire Insurance to profitability through expense control, maintaining effective underwriting discipline, and creating a brand new farm product, FarmPROTECT.

The Board recognizes the countless risks and challenges facing our organization such as the growing threat of climate change, the increased risk of cyber attacks and data breaches, and the changing landscape of the property and casualty industry. Together, we remain focused and aware of each of them through our disciplined Enterprise Risk Management structure.

Looking forward to 2019, the Board of Directors and management team will work together on a new strategic plan placing emphasis on production and service delivery capabilities, marketing and sales initiatives, and risk management.

The Board wishes to thank the management and staff for their continued dedication and efforts throughout the year. The Board also thanks our broker partners for their dedication to The Mutual Fire Insurance Company of British Columbia and support which enables us to achieve mutual success.

Respectfully,



Tako van Popta
on behalf of the Board of Directors

A MESSAGE FROM

DARIN LORD NESSEL
PRESIDENT & CHIEF EXECUTIVE OFFICER

The second year of our strategic plan saw continued progress on Company initiatives in anticipation of completing the three strategies determined at the onset of the plan. All of our goals in 2018 were accomplished leaving only the most critical 25% of the plan remaining for 2019. I am extremely proud to say we have exceeded our key targets for the strategic plan to date by holding our focus in three key areas: talent, technology and brand experience. We expect Mutual Fire Insurance to be perfectly positioned by the end of 2019 to move the Company forward into the next decade as a relevant competitor in the Canadian property and casualty landscape.

The Company continued to attract, as well as retain strong talent. Throughout the year we empowered our staff to attend educational seminars and internal training sessions. Additionally, several team members moved interdepartmentally, both strengthening our organization and enriching their careers. Our Company as a whole benefits from having competent, educated staff cross-trained in various roles.

This year, we saw improvements to our information technology capabilities as we dove into business intelligence and data analytics for the Company. This work will ensure Mutual Fire Insurance is able to accurately analyze our current business and forecast for our future. Our IT department shone at the forefront of the organization in 2018 as they were largely accountable for the development and roll-out of our electronic document delivery (eDocs) paperless platform, building and testing our new insurance products, and helping develop our e-signature capabilities. We will continue to seek solutions for how to best leverage technology to meet the needs of our partners.

Mutual Fire Insurance continued our journey to broaden brand experience for our partners through focused marketing initiatives while achieving steady growth in our membership base. Our staff maintain a high level of service to our broker partners and insureds by living our Core Values and creating a client experience unique to the Company.

The Company once again presented a significant improvement in our gross loss ratio – an improvement for four consecutive years. This improvement was in large part due to the low severity of incurred losses. We reported just two losses in 2018 as catastrophic events to our reinsurance treaty with both considered low severity events. Those were the wildfires affecting Burns Lake in August and the December 20 windstorm event largely affecting the south coast of British Columbia. Our continued improvement in gross loss ratio speaks volumes to the strength of our underwriting teams and our overall level of risk acceptance. It has always been a well-known fact for mutual insurance companies that both underwriting income and investment income are the life blood of a mutual insurer. Therefore, with continued volatility in the investment markets, it is imperative that we are able to maintain our current underwriting trend towards lower gross loss ratios.

I would be remiss if I did not acknowledge the continued effects of climate change and the resulting catastrophic events. Large weather events continued to play a major role in the lives of our insureds and insureds worldwide while at the same time impacting the industry earnings of all companies. We will continue our diligent work of pricing and underwriting risk appropriately to mitigate impact to the Company.

In closing, I would like to express my sincere gratitude to our staff and management for their continued efforts to embrace change and ensure The Mutual Fire Insurance Company of British Columbia becomes the mutual insurer of choice. As always, thank you to our dedicated Board of Directors for their continued guidance and leadership.

Darin Lord Nessel, CIP, ARe
President & Chief Executive Officer

FINANCE REPORT

JASON CHRISTOPHERSON
CHIEF FINANCIAL OFFICER

Mutual Fire Insurance completed the year with an underwriting loss of $3,029,000 and a net loss after taxes of $923,000. Simultaneously, we saw a positive decline in our gross loss ratio from 69% in 2017 to 58% in 2018; the lowest in four years.

2018 was marked by volatility in the investment markets especially in the month of December. Despite this, the Company saw respectable net investment returns of $2,578,000, up over last year's results of $2,288,000 This was the result of continued discipline in our investment approach and ensuring investments are restricted to high rated bonds as well as stocks with a proven track record of success. Our direct investment in two commercial properties resulted in exceptional returns in 2018. Combined, these investments have grown $1,750,000 over our initial investment of $3,000,000. Other comprehensive income decreased by $616,000 from 2017.

Reinsurance plays a key role for Mutual Fire Insurance. It allows us to transfer risk to other parties and reduces the likelihood of paying a large loss resulting from an insurance claim. The Company uses this risk transfer mechanism to protect against large individual losses and large catastrophic events. In 2018, we experienced an increase in attritional losses, meaning losses other than large events. These attritional losses resulted in little to no recovery from reinsurers and impacted our financial position for the year. The Company must incur the cost of obtaining reinsurance but in 2018, this cost significantly exceeded the recoveries we received. We experienced just two catastrophic losses partially covered by reinsurance totalling $2,178,853 – significantly lower than 2017 catastrophic losses of $12,644,708.

The Company is subject to the regulatory capital requirements as defined by the Financial Institutions Commission (FICOM). Our Minimum Capital Test (MCT) is 303.37%, compared to 328.78% last year. The Company's MCT is still significantly above the minimum requirement of 150% as prescribed by FICOM. See Note 20 for more information about capital management. The Company's financial strength enables us to fulfill our promise of protecting the assets of our policyholders and key partners.

Mutual Fire Insurance continues to strive to be the mutual insurer of choice. Our mutual and business model is built around the needs of our partners by providing quality innovative insurance that our clients need. We are committed to agency distribution channels and are proud to work with our extensive broker partner network. Further, Mutual Fire Insurance has created a new farm product called FarmPROTECT that debuted in early 2019. FarmPROTECT will set a new standard by adding clarity and certainty for our clients when they need us the most; it will also position Mutual Fire Insurance for growth.

We remain a strong and vibrant mutual focused on promoting our core values by being passionate in what we do, respecting our commitment to personal and professional integrity, and empowering talented people, while remaining committed to the values of community and mutuality.

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

COMPANY PROFILE

HEAD COUNT

DECEMBER 2016
54

DECEMBER 2017
58

DECEMBER 2018
55

EMPLOYEE GENDER

40 WOMEN
73% OF OUR POPULATION

15 MEN
27% OF OUR POPULATION

DISTANCE TRAVELLED TO WORK

17.9 KM

SHORTEST COMMUTE - 1.5 KM

LONGEST COMMUTE - 73.2 KM

	ALL EMPLOYEES:	MANAGEMENT GROUP:
EMPLOYEES BY AGE GROUP	**43.2 YEARS**	**48.7 YEARS**
AVERAGE YEARS OF SERVICE	**6 YEARS**	**11 YEARS**

AVERAGE AGE WOMEN
42.8 YEARS

AVERAGE AGE MEN
44.1 YEARS

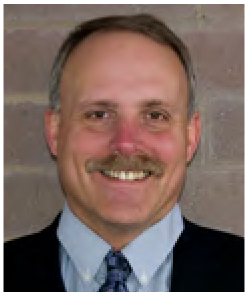
EMPLOYEES BY AGE GROUP

21-30 YEARS	31-40 YEARS	41-50 YEARS	51+ YEARS
12	12	11	20

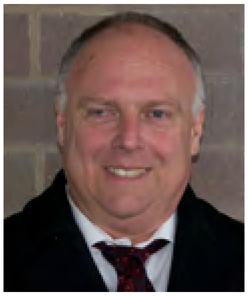
BOARD OF DIRECTORS

Tako van Popta
Chairman

Jake Bredenhof
Vice Chairman



W.J. (Bill) Adams, C.A.
Treasurer



Mike Bose
Director

Dave Pruim
Director

Sam Wind, CIP
Director

Ken Huttema
Director

AUDIT COMMITTEE
Bill Adams (Chair)
Tako van Popta, Dave Pruim, Ken Huttema

CONDUCT REVIEW COMMITTEE
Sam Wind (Chair)
Bill Adams, Jake Bredenhof

INVESTMENT COMMITTEE
Mike Bose (Chair)
Jake Bredenhof

ENTERPRISE RISK MANAGEMENT COMMITTEE
Tako van Popta (Chair)
Bill Adams, Mike Bose, Ken Huttema, Dave Pruim, Jake Bredenhof, Sam Wind

IT STEERING COMMITTEE
Tako van Popta (Chair)
Bill Adams, Mike Bose, Dave Pruim,
Jake Bredenhof, Sam Wind, Ken Huttema

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 Columba 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, CIP, ARe
President & Chief Executive Officer

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

- the statement of financial position as at December 31, 2018
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in members' surplus and reserves for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its 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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 21, 2019

REPORT OF THE ACTUARY

Baron Insurance Services Inc.
Actuaries & Consultants

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 recoverables of The Mutual Fire Insurance Company of British Columbia for its statement of financial position at December 31, 2018 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 recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 21, 2019

Barb Addie
Fellow, Canadian Institute of Actuaries

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

FINANCIAL STATEMENTS

(Expressed in thousands of dollars)

Year ended December 31, 2018

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION
(EXPRESSED IN THOUSANDS OF DOLLARS)

December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Assets			
Cash and cash equivalents		$ 10,163	$ 6,004
Investments	5	73,214	73,046
Accrued investment income		260	189
Premiums receivable		11,833	8,939
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	6	31,576	35,246
Unearned premiums	6	5,010	6,693
Deferred policy acquisition costs	7	7,335	6,434
Current tax assets		527	1,096
Property and equipment	8	2,030	1,930
Intangible assets	9	170	234
		$ 142,118	$ 139,811
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	10	$ 1,038	$ 1,372
Due to reinsurers		6,775	6,514
Premium tax liabilities		1,068	867
Deferred income tax liabilities		10	117
Unearned reinsurance commissions		1,794	2,472
Provisions for unpaid claims and adjustment expenses	6	55,108	53,836
Unearned premiums	6	31,639	28,408
		97,432	93,586
Members' surplus and reserves:			
Reserves	11	500	500
Accumulated other comprehensive income		5,020	5,636
Unappropriated members' surplus		39,166	40,089
		44,686	46,225
Commitments	12		
Contingencies	13		
		$ 142,118	$ 139,811

See accompanying notes to financial statements.

Approved on behalf of the Board:

Chairman

W. J. Adams

Treasurer

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2018, with comparative information for 2017

	Notes	2018	2017
Premiums written:			
Gross premiums written	14	$ 96,444	$ 85,816
Reinsurance premiums ceded		(52,250)	(48,847)
Net premiums written		44,194	36,969
Change in unearned premiums		(2,616)	1,137
Net premiums earned		41,578	38,106
Commission income		13,704	13,936
Service fees		143	112
Membership fees		17	15
		55,442	52,169
Claims and expenses incurred:			
Claims and adjustment expenses		28,149	22,361
Commissions		22,232	20,866
Salaries and benefits	14	4,368	4,878
Administration		2,503	2,306
Premium taxes		1,219	1,261
		58,471	51,672
Net underwriting income (loss)		(3,029)	497
Net investment income	15	2,578	2,288
Other expenses		-	(107)
Income (loss) before income taxes		(451)	2,678
Income tax expense:	16		
Current		485	258
Deferred		(13)	12
		472	270
Net income (loss)		(923)	2,408
Other comprehensive income:			
Net unrealized gains (losses) on available-for-sale assets, net of tax of $(94) (2017 - $182)		(616)	1,196
Total comprehensive income (loss) for the year		$ (1,539)	$ 3,604

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF CHANGES IN MEMBERS' SURPLUS AND RESERVES (EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2018, with comparative information for 2017

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2016	$ 500	$ 4,440	$ 37,681	$ 42,621
Net income	-	-	2,408	2,408
Net unrealized gains on available for sales assets	-	1,196	-	1,196
Balance, December 31, 2017	500	5,636	40,089	46,225
Net loss	-	-	(923)	(923)
Net unrealized losses on available for sales assets	-	(616)	-	(616)
Balance, December 31, 2018	$ 500	$ 5,020	$ 39,166	$ 44,686

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2018, with comparative information for 2017

		2018		2017
Cash provided by (used in):				
Operations:				
Net income (loss)	$	(923)	$	2,408
Adjustments for:				
Depreciation and amortization expense		279		279
Deferred tax expense		(13)		12
Interest and dividend income		(2,046)		(1,887)
Premium tax expense		-		1,261
Current tax expense		485		258
Realized gains on available-for-sale investments		(807)		(658)
		(3,025)		1,673
Changes in non-cash operating working capital:				
Premiums receivable		(2,894)		2,779
Due from reinsurers		-		1,755
Deferred acquisition costs		(901)		334
Reinsurers' share of unpaid claims and adjustment expenses		3,670		1,655
Reinsurers' share of unearned premium		1,683		983
Provision for unpaid claims and adjustment expenses		1,272		(3,217)
Unearned premiums		3,231		(1,802)
Unearned reinsurance commission		(678)		(487)
Due to reinsurers		261		2,015
Amounts payable and accrued liabilities		(361)		(405)
Premium tax liabilities		201		(76)
Deferred income tax liabilities		(107)		-
		2,352		5,207
Interest received		2,065		1,794
Income tax refund		556		-
Taxes paid		(476)		(2,576)
		4,497		4,425
Investments:				
Purchase of investments		(11,388)		(15,551)
Proceeds on sale of investments		11,316		12,929
Purchase of property and equipment		(303)		(66)
Disposal of property and equipment		38		-
Purchase of intangible assets		(25)		(40)
		(362)		(2,728)
Financing:				
Drawdown from loan facility for executive's vehicle		24		-
Increase in cash and cash equivalents		4,159		1,697
Cash and cash equivalents, beginning of year		6,004		4,307
Cash and cash equivalents, end of year	$	10,163	$	6,004
Cash and cash equivalents comprised of:				
Cash	$	7,396	$	3,013
Cash equivalents		2,767		2,991
	$	10,163	$	6,004

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2018

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1. General information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Board of Directors on February 21, 2019.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

The areas of significant estimation in these financial statements are in respect to the provision for unpaid claims and adjustment expenses and the valuation of private investments. Further information over these estimates are included in notes 6 and 19, respectively.

3. Significant accounting policies:

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

(a) Cash and cash equivalents:

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

(b) Financial instruments:

(*i*) Financial assets:

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

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

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

Financial assets at fair value through profit or loss:

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

The Company does not designate any financial assets at FVTPL.

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3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Held-to-maturity financial assets:

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

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

Loans and receivables:

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

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

Available-for-sale financial assets:

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

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

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*ii*) Financial liabilities:

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

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

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

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

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

(c) Property and equipment:

(*i*) Recognition and measurement:

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

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

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

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

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

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3. Significant accounting policies (continued):

(c) Property and equipment (continued):

(*ii*) Depreciation:

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

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

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

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

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

(d) Intangible assets:

(*i*) Computer software licences:

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

(*ii*) Amortization:

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

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

3. Significant accounting policies (continued):

(e) Leased assets:

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased assets are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the leased assets are accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases which are not recognized in the Company's statement of financial position. Lease payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Contingent lease payments are accounted for in the period in which they are incurred.

(f) Recognition and measurement of insurance contracts:

(*i*) Classification of insurance contracts:

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

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

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

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

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

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3. Significant accounting policies (continued):

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

(*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.

(*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.

3. Significant accounting policies (continued):

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

(*v*) Reinsurance (continued):

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

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

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

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

(*vi*) Deferred policy acquisition costs (“DPAC”):

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

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

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3. Significant accounting policies (continued):

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

(*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 a separate asset on the statement of financial position.

(g) Reserves:

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

(h) Revenue:

(*i*) Premiums from insurance contracts:

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

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

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

(*ii*) Commission income and service fees:

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

(*iii*) Membership fees:

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

(*iv*) Investment income:

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

(i) Income tax:

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

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

Deferred income tax assets or liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets or liabilities are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that affects neither, accounting nor taxable profit or loss. Deferred income tax assets or liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets or liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

Deferred tax assets or liabilities are is 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.

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3. Significant accounting policies (continued):

(j) 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, 2018 in preparing these financial statements:

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

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

(*ii*) IFRS 16 - *Leases:*

IFRS 16 introduces a new lease accounting model. The standard applies a single model for all leases entered into by an entity. For all leases an entity will record a right of use asset on its balance sheet and will reflect a corresponding obligation for the related future lease payments. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company believes that this standard is not expected to have a significant impact on the financial statements due to limited leasing activities.

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

IFRS 17 changes the basis for measuring insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2021. IFRS 17 will impact the classification and measurement of insurance liabilities and premiums. The Company is evaluating the impact of this standard.

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4. Change in accounting policy:

The Company has adopted IFRS 15 *Revenue from contracts with customers* with a date of initial application of January 1, 2018. The requirements of IFRS 15 represent a change from IAS 18 Revenue.

The Company has applied IFRS 15 using the cumulative effect method. However, on adoption of IFRS 15, the Company's did not recognize any changes in revenue recognition and accordingly, no transition adjustments were required.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. The framework specifies that revenue should be recognized when (or as) an entity transfers goods or services to a customer measured at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that depicts the entity's performance, or at a point in time, when control of the goods is transferred or performance of services is rendered to the customers.

The Company provides services as contracted under agreements. The transaction price for performance obligations are determined as a fixed fee per fiscal period per member for membership fees, and as a percentage of premium written for commission income and service fees. Revenue is recognized as performance obligations are satisfied over time or when services are rendered.

5. Investments:

		2018		2017
Available-for-sale financial assets	$	33,420	$	32,417
Held-to-maturity investments		39,794		40,629
	$	73,214	$	73,046

At December 31, 2018, certain investments with a carrying amount of $3,000 (2017 - $3,000) are held as security for the bank line of credit (note 17).

6. 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.

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

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

2018	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 53,836	$ 35,246	$ 18,590
Effect of discounting and provision for adverse deviation, January 1	(1,867)	(783)	(1,084)
Undiscounted provision at January 1	51,969	34,463	17,506
Estimate of ultimate claims incurred for current accident year	54,342	25,724	28,618
Payment on current accident year claims	(22,920)	(9,529)	(13,391)
Payment on prior accident year claims	(28,313)	(18,507)	(9,806)
Undiscounted provision before change in prior accident year ultimates	55,078	32,151	22,927
Increase in estimate of ultimate claims incurred for prior year accident years	(1,906)	(1,356)	(550)
Undiscounted provision, December 31	53,172	30,795	22,377
Effect of discounting and provision for adverse deviation, December 31	1,936	781	1,155
Provision for unpaid claims and adjustment expenses, December 31	$ 55,108	$ 31,576	$ 23,532

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Year ended December 31, 2018

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

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

2017	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 57,053	$ 36,901	$ 20,152
Effect of discounting and provision for adverse deviation, January 1	(1,791)	(685)	(1,106)
Undiscounted provision at January 1	55,262	36,216	19,046
Estimate of ultimate claims incurred for current accident year	59,690	35,224	24,466
Payment on current accident year claims	(29,054)	(13,321)	(15,733)
Payment on prior accident year claims	(28,616)	(20,427)	(8,189)
Undiscounted provision before change in prior accident year ultimates	57,282	37,692	19,590
Increase in estimate of ultimate claims incurred for prior year accident years	(5,313)	(3,229)	(2,084)
Undiscounted provision, December 31	51,969	34,463	17,506
Effect of discounting and provision for adverse deviation, December 31	1,867	783	1,084
Provision for unpaid claims and adjustment expenses, December 31	$ 53,836	$ 35,246	$ 18,590

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2018 and 2017:

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 41,918	$ 23,079	$ 18,839	$ 42,368	$ 28,422	$ 13,946
Claims incurred but not reported	13,190	8,497	4,693	11,468	6,824	4,644
Outstanding claims provision	55,108	31,576	23,532	53,836	35,246	18,590
Unearned premiums	31,639	5,010	26,629	28,408	6,693	21,715
Total insurance provisions	$ 86,747	$ 36,586	$ 50,161	$ 82,244	$ 41,393	$ 40,305

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

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

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 41,918	$ 23,079	$ 18,839	$ 42,368	$ 28,422	$ 13,946
Undiscounted provision for incurred but not reported ("IBNR") claims	10,778	7,718	3,060	9,146	6,040	3,106
Undiscounted unallocated loss adjustment expenses	476	-	476	455	-	455
	53,172	30,797	22,375	51,969	34,462	17,507
Effect of discounting	(1,572)	(999)	(573)	(1,583)	(1,043)	(540)
Provision for adverse deviation	3,508	1,778	1,730	3,450	1,827	1,623
Provision for unpaid claims and adjustment expense	$ 55,108	$ 31,576	$ 23,532	$ 53,836	$ 35,246	$ 18,590

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

	2018	2017
Provision for net unearned premiums, January 1	$ 21,715	$ 22,535
Net premiums written	44,194	36,969
Portfolio transfer	2,298	317
Less net premiums earned	(41,578)	(38,106)
Provision for net unearned premiums, December 31	$ 26,629	$ 21,715

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.

6. 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 2.21% (2017 - 2.15%). A 1.00% change in the discount factor would change the net provision by $282 (2017 - $276).

(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 provisions 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.

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

(g) Development claims table (continued):

Net insurance contract outstanding claims provision for 2018:

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
At end of accident year	$ 10,206	$ 9,326	$ 15,054	$ 22,024	$ 21,635	$ 29,572	$ 27,032	$ 25,581	$ 24,265	$ 28,618	$
One year later	9,757	9,300	14,407	21,148	21,450	30,073	26,920	25,289	25,363		
Two years later	10,245	9,610	13,760	21,708	21,092	29,324	26,440	24,614			
Three years later	10,187	9,229	13,798	22,285	21,009	28,739	26,032				
Four years later	10,168	9,059	13,556	22,177	20,718	28,501					
Five years later	10,225	9,118	13,432	21,980	20,444						
Six years later	9,998	9,095	13,387	22,110							
Seven years later	10,014	9,085	13,344								
Eight years later	9,977	9,049									
Nine years later	9,975										
Estimate of cumulative claims incurred	9,975	9,049	13,344	22,110	20,444	28,501	26,032	24,614	25,363	28,618	208,050
Cumulative payments to date	9,965	8,987	13,342	20,950	20,080	28,263	24,918	23,151	23,175	13,391	186,222
Net undiscounted outstanding insurance claims provision at December 31, 2018	$ 10	$ 62	$ 2	$ 1,160	$ 364	$ 238	$ 1,114	$ 1,463	$ 2,188	$ 15,227	$ 21,828
Net undiscounted outstanding insurance claims provision with respect to prior accident years											$ 71
Total net undiscounted outstanding insurance claims provision at December 31, 2017											$ 21,899
Undiscounted unallocated loss adjustment expenses											476
Effect of discounting											(573)
Provision for adverse deviation											1,730
Total net discounted outstanding insurance claims provision, December 31, 2018											$ 23,532

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6. 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	
	2018	2017
Property	64.00%	62.00%
Casualty	80.00%	80.00%
Blended expected loss ratio	64.84%	62.97%

7. Deferred policy acquisition costs:

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

At December 31, 2016	$ 6,769
Expenses deferred	20,237
Recognized in net earnings	20,572
At December 31, 2017	6,434
Expenses deferred	23,047
Recognized in net earnings	22,146
At December 31, 2018	$ 7,335

8. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2016	$ 2,473	$ 207	$ 469	$ 111	$ 3,260
Additions	-	-	66	-	66
Disposals	-	(1)	(47)	-	(48)
Balance, December 31, 2017	2,473	206	488	111	3,278
Additions	202	27	18	56	303
Disposals	-	-	-	(38)	(38)
Balance, December 31, 2018	$ 2,675	$ 233	$ 506	$ 129	$ 3,543

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8. Property and equipment (continued):

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2016	$ 878	$ 135	$ 145	$ 48	$ 1,206
Depreciation for the year	51	14	105	19	189
Disposals	-	(1)	(46)	-	(47)
Balance, December 31, 2017	929	148	204	67	1,348
Depreciation for the year	52	17	100	21	190
Disposals	-	-	-	(25)	(25)
Balance, December 31, 2018	$ 981	$ 165	$ 304	$ 63	$ 1,513
Carrying amounts:					
At December 31, 2017	$ 1,544	$ 58	$ 284	$ 44	$ 1,930
At December 31, 2018	1,694	68	202	66	2,030

9. Intangible assets:

	Computer software licenses
Cost:	
Balance, December 31, 2016	$ 412
Acquisitions	40
Disposal	(16)
Balance, December 31, 2017	436
Acquisitions	25
Disposal	-
Balance at December 31, 2018	$ 461

(EXPRESSED IN THOUSANDS OF DOLLARS)

9. Intangible assets (continued):

		Computer software licenses
Amortization:		
Balance, December 31, 2016	$	128
Amortization for the year		89
Disposal		(15)
Balance, December 31, 2017		202
Amortization for the year		89
Disposal		-
Balance, December 31, 2018	$	291
Carrying amounts:		
At December 31, 2017	$	234
At December 31, 2018		170

10. Amounts payable and accrued liabilities:

		2018		2017
Agents, brokers and intermediaries	$	800	$	1,000
Other amounts payable and accrued expenses		238		372
	$	1,038	$	1,372

11. Reserves:

Pursuant to the guidelines set by the Superintendent of Financial Institutions of British Columbia, the Company has set aside an earthquake premium reserve of $500 (2017 - $500).

12. Commitments:

The Company is committed to operating leases for office equipment. The future minimum lease payments under these non-cancelable leases are as follows:

		2018		2017
Less than 1 year	$	31	$	31
Between 1 and 5 years		11		42
Greater than 5 years		-		-

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13. Contingencies:

The Company is currently in discussions with the Ministry of Finance - Province of British Columbia in connection with a taxation matter. Should the Ministry of Finance interpret the matter differently from the Company, the amount due may be between $4,500 and $5,000. While the matter is under review, the Ministry has agreed to an irrevocable standby letter of credit of $2,300 as partial security and a lien on the offices of the Company at 9366 - 200A Street, Langley, British Columbia. As at the date of these financial statements, the outcome of this matter is undeterminable. Accordingly, the Company has not recognized any amount related to this contingency in the financial statements for the years ended December 31, 2018 and 2017.

14. 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.

Key management personnel compensation comprised:

	2018	2017
Salaries and benefits	$ 820	$ 819
Registered savings plan contributions	59	58
	$ 879	$ 877

(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:

	2018	2017
Management insurance premiums	$ 6	$ 6
Directors insurance premiums	66	70
	$ 72	$ 76

The Company entered into a vehicle purchase agreement in 2018 for an executive. The net amount financed for the transaction was $24 (2017 - nil).

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15. Net investment income:

		2018		2017
Recognized in net earnings:				
Interest income on held-to-maturity investments	$	1,070	$	1,036
Dividend income on available-for-sale investments		975		851
Net realized gain on investments		807		658
Investment management fees		(274)		(257)
Net investment income	$	2,578	$	2,288

16. Income taxes:

Total tax expense consists of the following:

		2018		2017
Current tax	$	485	$	258
Deferred tax		(13)		12
Total tax expense	$	472	$	270

The following is a reconciliation of the Company's income tax expense at its statutory tax rate of 26.3% (2017 – 26.3%) to its effective tax rate.

Reconciliation of effective tax rate:

		2018		2017
Net earnings before income tax	$	(451)	$	2,678
Income tax at combined federal and provincial statutory income tax rate 26.3% (2017 - 26.3%)	$	(119)	$	703
Non-deductible expenses		-		6
Non-taxable dividend income		-		(190)
Non-taxable farming income		-		(220)
Write-off of income tax related receivable		604		-
Other		(13)		(29)
	$	472	$	270

17. Line of credit:

The Company maintains a line of credit agreement with a third-party lender for up to $3,000 (2017 - $3,000). Nil was drawn on the line of credit as at December 31, 2018 (2017 - nil).

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Year ended December 31, 2018

18. 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.

18. Financial and insurance risk management (continued):

(c) Insurance risk:

(i) Terms and conditions of insurance contracts:

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

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

(A) Property:

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

(B) Accident:

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

(C) Personal accident:

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

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

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

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

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Year ended December 31, 2018

18. 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 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 (2017 - $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 $495 (2017 - $485).

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.

18. 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 $625 (2017 - $485).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $90,000 (2017 - $100,000).

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

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

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

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

(d) Credit risk:

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

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

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Year ended December 31, 2018

18. Financial and insurance risk management (continued):

(d) Credit risk (continued):

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, 2018 and 2017, best represents the maximum exposure to credit risk for each respective year.

As at December, 2018 and 2017, 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:

2018	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 3,584	$ 14,470	$ 3,748	$ 3,335	$ 4,849	$ 29,986
Short-term investments	2,601	2,501	500	501	3,705	9,808
Equities	50	-	292	75	33,003	33,942
	$ 6,235	$ 16,971	$ 4,540	$ 3,911	$ 41,557	$ 73,214

2017	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 6,203	$ 15,981	$ 3,183	$ 3,637	$ 4,350	$ 33,354
Short-term investments	-	4,072	150	1,451	1,602	7,275
Equities	49	-	281	50	32,037	32,417
	$ 6,252	$ 20,053	$ 3,614	$ 5,138	$ 37,989	$ 73,046

The aging of premiums receivable at the reporting date was:

	2018	2017
Not past due	$ 11,317	$ 8,477
Past due (>90 days outstanding)	516	462
	$ 11,833	$ 8,939

As at December 31, 2018 and 2017, the Company did not have any impaired receivables, held-to-maturity investments or available-for-sale financial assets.

18. Financial and insurance risk management (continued):

(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, 2018 and 2017, 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 Canadian and U.S. equity securities. The amount of US equity securities as at December 31, 2018 was $8,747 (2017 - $6,405). 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, 2018 would have increased or decreased net earnings and members' surplus by the $437 (2017 - $320) assuming all other variables remain constant.

(g) Interest rate risk:

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

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18. Financial and insurance risk management (continued):

(h) Other price risk:

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

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the U.S. For such investments classified as available-for-sale, a 5% change in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus and reserves by approximately $1,698 (2017 - $1,371).

19. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 33,420	$ 33,420	$ 32,417	$ 32,417
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	10,163	10,163	6,004	6,004
Held-to-maturity investments	39,794	39,485	40,629	40,640
Accrued investment income	260	260	189	189
Premiums receivable	11,833	11,833	8,939	8,939
Amounts payable and accrued liabilities	(1,038)	(1,038)	(1,372)	(1,372)
Due to reinsurers	(6,775)	(6,775)	(6,514)	(6,514)
	$ 87,657	$ 87,348	$ 80,303	$ 80,303

(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.

(EXPRESSED IN THOUSANDS OF DOLLARS)

19. Fair values of financial instruments (continued):

(b) Valuation models (continued):

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:

2018	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 27,170	$ -	$ 6,250	$ 33,420

2017	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 27,417	$ -	$ 5,000	$ 32,417

For the years ended December 31, 2018 and 2017, there were no significant transfers between the three levels of the hierarchy.

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19. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

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

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

2018	Investments
Balance, beginning of the year	$ 5,000
Purchases	-
Unrealized gains	1,250
Balance, end of year	$ 6,250

2017	Investments
Balance, beginning of the year	$ 2,500
Purchases	2,000
Unrealized gains	500
Balance, end of year	$ 5,000

(*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)

19. 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.

2018

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 enterprise value increased
Investments	$ 4,750	Capitalization models	Capitalization rate	6.25% - 6.99%	The estimated fair value would decrease if the capitalization rate increased

2017

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 enterprise value increased
Investments	$ 3,500	Capitalization models	Capitalization rate	6%	The estimated fair value would decrease if the capitalization rate increased

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 $(1,287) or $1,834 (2017 - $(380) or $600).

20. 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, Financial Institutions Commission of British Columbia ("FICOM"); 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, FICOM, 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, 2018 and 2017, the Company was in compliance with these requirements.

MUTUAL FIRE
INSURANCE

Financial Strength Rating
AM BEST
A- Excellent