



MUTUAL FIRE
INSURANCE



COMPANY INFORMATION



MUTUAL FIRE
INSURANCE

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AUDITORS

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Vancouver, BC V7Y 1K3

ACTUARY

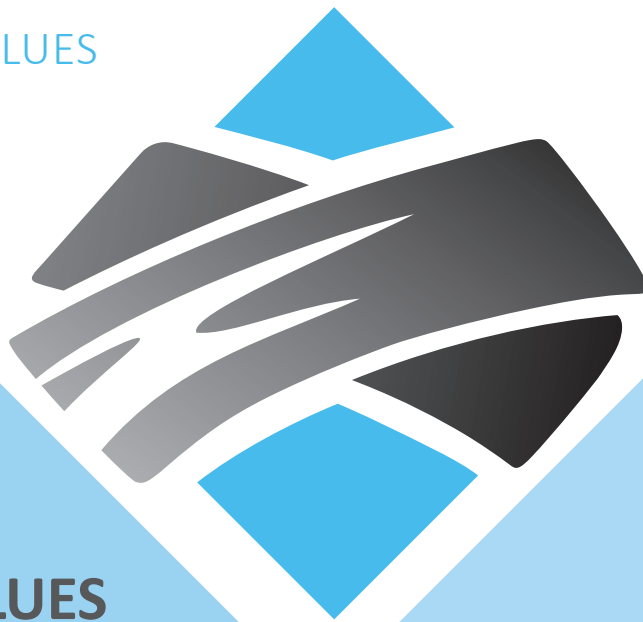
Baron Insurance Services Inc.
206 Laird Drive
Toronto, ON M4G 3W4



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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.

A MESSAGE FROM
DON HOOGE
CHAIRMAN OF THE BOARD



For the second consecutive year, I am proud to announce the company delivered on our many strategic initiatives. In today's competitive business environment, with the onset of new technologies and the effects of climate change, delivering an underwriting income can be extremely challenging. Regardless, Mutual Fire Insurance produced an underwriting income this year, and the Board has declared a refund of premiums to our qualifying member policyholders. We achieved this through our commitment to solid underwriting, prompt claims handling, and improved operational efficiencies in all departments.

This past year, we continued withdrawing personal lines products from the prairie provinces while repositioning our book of business in British Columbia, to achieve an increase in gross written premiums of 2.6%. Our withdrawal from the prairies will be complete at the end of February 2018. By reallocating business and slowing the overall growth of the company, we sustained our positive results. Our strength as a company continues to be recognized by A.M. Best, the oldest provider of ratings with an insurance industry focus, and we maintain a strong rating of A- (Excellent).

The company endured one major catastrophic event in 2017, the British Columbia wildfires, which destroyed more than 12,000 square kilometers of forest between Ashcroft and Quesnel. The wildfires cost insurers more than \$127 million; Mutual Fire Insurance and our reinsurance partners posted reserves in excess of \$15 million for more than 600 claims reported.

As the majority of interface fires were extinguished in late August, we visited our broker partners throughout the Cariboo and northern British Columbia. From these visits, it was clear the company had performed at an incredibly high level serving our policyholders at a time when they

needed support the most. The event gave us the ability to demonstrate to our policyholders and our broker partners what insuring with a mutual is all about. It's our focus on people, not profits, that continues to set us apart from the competition.

We know our broker partners want the best possible attention to detail when a catastrophe takes place; they want clear communication and professionalism; and above all, they want empathy for their situation and that of their clients. Mutual Fire Insurance went above and beyond, and on behalf of the Board of Directors, I want to sincerely thank the staff and management for their hard work managing this event, it was truly a team effort. From disaster and difficulty comes opportunity. Catastrophic events, when handled properly, build strong broker relationships and trust.

I want to take this opportunity to thank the Board of Directors for their leadership and governance, and our management and staff for their remarkable efforts throughout this challenging year. I also want to express our gratitude to all our partners for their support of Mutual Fire Insurance.

A handwritten signature in black ink, appearing to read 'D Hooge', written in a cursive style.

Don Hooge
Chairman of the Board



A MESSAGE FROM

DARIN LORD NESSEL, CIP, ARe PRESIDENT & CHIEF EXECUTIVE OFFICER

Mutual Fire Insurance entered 2017 with a well-defined three-year strategic plan to support and improve the internal effectiveness of our organization. The plan has provided Mutual Fire Insurance with opportunities to transform our operations and build a better customer experience – a living representation of our Vision to embrace change, and our Mission to create innovative solutions and respond with unparalleled service.

We focused on three key areas – talent, technology, and brand experience – to continue moving forward and to ensure the relevance of our organization in the Canadian property and casualty industry.

It is imperative for our company to attract and retain strong and passionate employees. Through purposeful training and support, our employees increased their technical knowledge and experience. We have also welcomed new staff in several departments expanding the talents of our teams. Significantly, we developed a new team centred on building business intelligence and analyzing data.

We continued to embrace, invest, and concentrate our attention on building wider insurance solutions in 2017. Through technology and additional business intelligence, we designed customized platforms for our key partners such as the broker experience report and a new premium analysis report. Technology and data are remarkable, and we continue to seek IT solutions that allow us to meet the needs of our key partners.

Brand experience plays an important role for the company, strengthening the organization as we progress with the strategic plan. Through consistent and focused marketing and communications initiatives, we enhanced the service levels to our broker partners and insureds, and grew our membership base exponentially in the last quarter of 2017.

I would be remiss if I did not acknowledge the British Columbia wildfires. Beginning in early July and burning through the remainder of the summer, the wildfires were one of many severe weather related catastrophic events affecting the industry in 2017. At the onset of the event, the Claims team actioned our well-defined catastrophe plan

by proactively contacting insureds and providing them with emergency evacuation funds through Interac e-Transfer and wire transfer.

More than 600 claims were reported as a result of the wildfires. Our determination to support insureds efficiently, despite an incredible influx of claims, cultivated confidence and trust showing that Mutual Fire Insurance has their best interests at heart. We are proud of all staff at Mutual Fire Insurance who helped handle claims during the wildfire events; their perseverance and focus ensured our success.

At home and abroad, fires, floods, and hurricanes presented insurers and insureds with many challenges. All indications point to climate change as a growing threat to property and casualty insurers; it serves as a reminder that the future of climate change will undoubtedly bring us increasing water, wind, hail, and wildfire events.

As we reflect upon last year, we gain a tremendous amount of insight on the strength of The Mutual Fire Insurance Company of British Columbia. Our staff and management are more talented, skilled and engaged than ever before.

We look ahead to 2018 and the initiatives established by Mutual Fire Insurance are unfolding exactly as planned. Our long-awaited farm product will be delivered to broker partners and insureds with a complementary marketing plan and training program. We have improved many coverages for insureds and will introduce new coverages to support the future of farming. We also plan to introduce a new overland water product, cyber coverage, and roll out eDocs for our broker partners.

I wish to thank our board for their leadership, our management for their professionalism, and our staff for their knowledge and passion; your efforts bring us closer to our goal of becoming the mutual insurer of choice.

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

FINANCIAL REPORT
JASON CHRISTOPHERSON
CPA, CGA, BAccS, ARe
CHIEF FINANCIAL OFFICER



Mutual Fire Insurance experienced a healthy year, enjoying steady growth while remaining in a strong financial position. Our commitment to be a strong and stable mutual insurance company guides the financial decisions we make – ensuring our members and policyholders are a priority. To support this, our company's three-year strategic plan provides a clear roadmap to success through the continuous development of internal effectiveness while providing unparalleled partner service. Additionally, our staff wholly subscribe to our Core Values of Passion, Empowerment, Mutuality, Honour, and Community which strengthens our journey to become the mutual insurer of choice.

While the company continues to feel pressure on our profit margins as insurance rates remain soft and competition in the property and casualty market remains strong, we finished the year with an underwriting income of \$497,000. Though the profit represents a decrease compared to 2016, it is commendable considering the impact that the British Columbia wildfires had on Mutual Fire Insurance this past year.

Throughout 2017, we continued to work within an everchanging investment environment to maximize our yield while minimizing risk. While we saw our investment income decline to \$2.288 million from \$2.925 million in 2016 due to a decrease in realized market gains, it is almost completely offset by our net unrealized market gains of \$1.196 million this year compared to a net result of \$545,000 a year ago.

In 2017, Mutual Fire Insurance posted a return of 8.5% on its equity portfolio as the S&P TSX Composite saw an increase of 6%. We continue to invest in quality companies with strong and growing dividends which once again proves the value of investing in the equity markets. The overall yield on our investment portfolio decreased to 3.06%, which is a decline from 4.16% in the previous year as a result of the low interest rate environment which continues to have a negative effect on our interest income and claims liabilities.

Mutual Fire Insurance expects interest rates to inch upward in 2018 which will place downward pressure on our bond portfolio. The outlook for the equity markets during 2018, while expecting to remain positive, will continue to see volatility throughout the year.

The company is subject to the regulatory capital requirements as defined by the Financial Institutions Commission (FICOM) including a Minimum Capital Test (MCT). For 2017, Mutual Fire Insurance posted an MCT of 328.78%, which is an increase from last year's ratio of 315.43%. The company's MCT is significantly higher than the minimum requirements.

Our loss ratio continued its downward trend with a 2% improvement over 2016 and a further 8% improvement over 2015. We look to continue this trend of reduced frequency of claims as we remain diligent in managing our underwriting portfolio growth through data-driven rating of products and execution of strong underwriting fundamentals, while controlling expenses.

The company's investment and underwriting income resulted in a net profit before taxes of \$2.678 million. Our financial strength continues to enable us to fulfill our promise of protecting the assets of our policyholders. We remain committed to our mission and strengthen our resolve to be the mutual insurer of choice. Looking ahead, our financial plan is focused on continuing to generate a healthy surplus as we work towards our strategic goals. Mutual Fire Insurance will strive to balance innovation and forward thinking in our industry, while maintaining financial security moving forward.

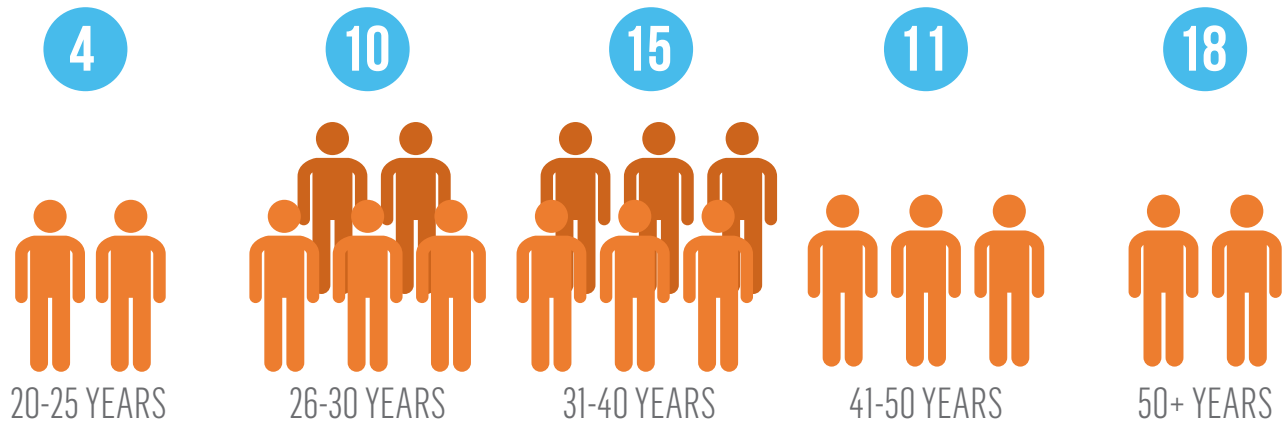
A stylized, handwritten signature in black ink, appearing to read 'J. Christopherson'.

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

COMPANY PROFILE

2017 IN REVIEW

EMPLOYEES BY AGE GROUP



HEAD COUNT

DECEMBER 2016 - **59**DECEMBER 2017 - **58**AVERAGE EMPLOYEE
COMMUTE TO OFFICE

19.1 KM
LONGEST COMMUTE - 73.2 KM
SHORTEST COMMUTE - 1.0 KM

EMPLOYEE DEMOGRAPHICS


FEMALES 42.2 YRS AVERAGE AGE
71% OF OUR POPULATION

MALES 40.8 YRS AVERAGE AGE
29% OF OUR POPULATION
AVERAGE YEARS
OF SERVICE
ALL
5
AVERAGE YEARS
OF SERVICE
MANAGEMENT GROUP
9

BOARD OF DIRECTORS



Don Hooge
Chairman



Jake Bredenhof
Vice Chairman



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



Mike Bose
Director



Sam Wind, CIP
Director



John Pruim
Director



Tako van Popta
Director



Dan Robinson
Director

AUDIT COMMITTEE

Bill Adams (Chair)
Jake Bredenhof, Tako van Popta

CONDUCT REVIEW COMMITTEE

Sam Wind (Chair)
Mike Bose, Tako van Popta, Dan Robinson, John Pruim

INVESTMENT COMMITTEE

Mike Bose (Chair)
Sam Wind, Dan Robinson

ENTERPRISE RISK MANAGEMENT COMMITTEE

Don Hooge (Chair)
Bill Adams, Mike Bose, John Pruim, Tako van Popta,
Dan Robinson, Jake Bredenhof, Sam Wind

IT STEERING COMMITTEE

Don Hooge (Chair)
Bill Adams, Mike Bose, John Pruim,
Tako van Popta, Dan Robinson, Jake Bredenhof, Sam Wind

MANAGEMENT'S STATEMENT

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

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

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

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

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



Darin Lord Nessel, 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

We have audited the accompanying financial statements of The Mutual Fire Insurance Company of British Columbia, which comprise the statement of financial position as at December 31, 2017, the statements of comprehensive income, changes in members' surplus and reserves, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Mutual Fire Insurance Company of British Columbia as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The signature of KPMG LLP is written in a stylized, cursive script. The letters 'KPMG' are large and bold, followed by 'LLP' in a smaller, similar script. A long, horizontal, slightly wavy line extends from the bottom of the signature.

Chartered Professional Accountants

February 22, 2018
Vancouver, Canada

ACTUARY'S REPORT

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, 2017 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.

February 22, 2018
Toronto, Ontario



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, 2017

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
STATEMENT OF FINANCIAL POSITION
 (EXPRESSED IN THOUSANDS OF DOLLARS)

December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Assets			
Cash and cash equivalents		\$ 6,004	\$ 4,307
Investments	4	73,046	68,222
Accrued investment income		189	200
Premiums receivable		8,939	11,719
Due from reinsurers		-	1,755
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	5	35,246	36,901
Unearned premiums	5	6,693	7,675
Deferred policy acquisition costs	6	6,434	6,769
Taxes receivable		1,096	-
Deferred income tax asset		-	78
Property and equipment	7	1,930	2,054
Intangible assets	8	234	284
		\$ 139,811	\$ 139,964

**Liabilities and Members' Surplus
and Reserves**

Amounts payable and accrued liabilities	9	\$ 1,372	\$ 1,779
Due to reinsurers		6,514	4,498
Taxes payable		867	844
Deferred income tax liability		117	-
Unearned reinsurance commissions		2,472	2,959
Provisions for unpaid claims and adjustment expenses	5	53,836	57,053
Unearned premiums	5	28,408	30,210
		93,586	97,343
Members' surplus and reserves:			
Reserves	10	500	500
Accumulated other comprehensive income		5,636	4,440
Unappropriated members' surplus		40,089	37,681
		46,225	42,621
Commitments	11		
Contingencies	12		
		\$ 139,811	\$ 139,964

See accompanying notes to financial statements.

Approved on behalf of the Board:


Chairman


Treasurer

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
STATEMENT OF COMPREHENSIVE INCOME
 (EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017, with comparative information for 2016

	Notes	2017	2016
Premiums written:			
Gross premiums written	13	\$ 85,816	\$ 83,634
Reinsurance premiums ceded		(48,847)	(44,375)
Net premiums written		36,969	39,259
Change in unearned premiums		1,137	1,110
Net premiums earned		38,106	40,369
Commission income		13,936	12,913
Service fees		112	150
Membership fees		15	14
		52,169	53,446
Claims and expenses incurred:			
Claims and adjustment expenses		22,361	24,530
Commissions		20,866	19,736
Salaries and benefits	13	4,878	4,467
Administration		2,306	2,464
Premium taxes		1,261	954
		51,672	52,151
Net underwriting income		497	1,295
Net investment income	14	2,288	2,925
Other expenses		(107)	(211)
Income before income taxes		2,678	4,009
Income tax expense:	15		
Current		258	304
Deferred		12	47
		270	351
Net income		2,408	3,658
Other comprehensive income:			
Net unrealized gains on available-for-sale assets, net of tax of \$182 (2016 - \$72)		1,196	545
Total comprehensive income for the year		\$ 3,604	\$ 4,203

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, 2017, with comparative information for 2016

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2015	\$ 500	\$ 3,895	\$ 34,023	\$ 38,418
Net income	-	-	3,658	3,658
Net unrealized gains on available for sales assets	-	545	-	545
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

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, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Net income	\$ 2,408	\$ 3,658
Adjustments for:		
Depreciation and amortization	279	260
Deferred income tax expense	12	47
Interest income	(1,887)	(1,965)
Premium tax expense	1,261	954
Income tax expense	258	304
Realized gains on available-for-sale investments	(658)	(1,196)
	1,673	2,062
Changes in non-cash operating working capital:		
Premiums receivable	2,779	(1,965)
Due from reinsurers	1,755	(686)
Deferred acquisition costs	334	289
Reinsurers' share of unpaid claims and adjustment expenses	1,655	(5,992)
Reinsurers' share of unearned premium	983	681
Provision for unpaid claims and adjustment expenses	(3,217)	4,326
Unearned premiums	(1,802)	(2,474)
Unearned reinsurance commission	(487)	(270)
Due to reinsurers	2,015	1,032
Amounts payable and accrued liabilities	(405)	347
Premium tax payable	(76)	178
	5,207	(2,472)
Interest received	1,794	1,828
Income taxes paid	(1,082)	(412)
Premium taxes paid	(1,494)	(941)
Income taxes received	-	2,336
	4,425	339
Investments:		
Purchase of investments	(15,551)	(11,981)
Proceeds on sale of investments	12,929	13,583
Purchase of property and equipment	(66)	(265)
Purchase of intangible assets	(40)	(152)
	(2,728)	1,185
Increase in cash and cash equivalents	1,697	1,524
Cash and cash equivalents, beginning of year	4,307	2,783
Cash and cash equivalents, end of year	\$ 6,004	\$ 4,307
Cash and cash equivalents comprised of:		
Cash	\$ 3,013	\$ 43
Cash equivalents	2,991	4,264
	\$ 6,004	\$ 4,307

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, 2017

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 Suite 201, 9366 - 200A Street, Langley, British Columbia, V1M 4B3.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements were authorized for issue by the Board of Directors on February 22, 2018.

(b) Basis of measurement:

The 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 the 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 area of significant estimation in these financial statements is in respect to the provision for unpaid claims and adjustment expenses. Further information over this estimate is included in note 5.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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 FVTPL 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 FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not designate any financial assets at FVTPL.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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, premiums receivable and due from reinsurers.

Available-for-sale financial assets:

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

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

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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 expire.

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 expenditure that is directly attributable to the acquisition of the asset.

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

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

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

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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 asset is 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 asset is 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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

3. Significant accounting policies (continued):

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

(v) Reinsurance (continued):

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

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

The 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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

3. Significant accounting policies (continued):

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

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

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

(vii) Subrogation and salvage recoveries:

In certain circumstances the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. The Company recognizes and discloses all identifiable and measurable amounts it expects to recover, in the future, from past loss events, as 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 to the above-noted reserves 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 MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

3. Significant accounting policies (continued):

(h) Revenue (continued):

(i) Premiums from insurance contracts (continued):

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) Fee and commission income:

Fee and commission income comprises fees from membership and insurance contracts. Fees are recognized as revenue over the period that the related service is provided or proportionately over the period of membership, as applicable.

(iii) 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 tax. Current tax and deferred tax are recognized in net earnings except to the extent that it relates to items recognized directly in other comprehensive income.

Current 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 tax is 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 tax is 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 tax is 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 tax assets and 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.

A deferred tax asset 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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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, 2017 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 is 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 or January 1, 2021. The Company has determined that it qualifies for the deferral and has deferred the IFRS 9 implementation to 2021.

(ii) IFRS 16 - *Leases*:

IFRS 16 *Leases* 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 *Insurance Contracts* 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 has not yet assessed the impact of these standards.

4. Investments:

	2017	2016
Available-for-sale financial assets	\$ 32,417	\$ 26,835
Held-to-maturity investments	40,629	41,387
	<u>\$ 73,046</u>	<u>\$ 68,222</u>

At December 31, 2017, certain investments with a carrying amount of \$3,000 (2016 - \$2,000) are held as security for the bank line of credit (note 16).

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
NOTES TO FINANCIAL STATEMENTS
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Year ended December 31, 2017

5. Insurance contract provision and reinsurance assets:

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

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

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

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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

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

2016	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	\$ 52,727	\$ 30,909	\$ 21,818
Effect of discounting and provision for adverse deviation, January 1	(1,452)	(424)	(1,028)
Undiscounted provision at January 1	51,275	30,485	20,790
Estimate of ultimate claims incurred for current accident year	66,946	41,365	25,581
Payment on current accident year claims	(34,740)	(18,472)	(16,268)
Payment on prior accident year claims	(27,275)	(17,349)	(9,926)
Undiscounted provision before change in prior accident year ultimates	56,206	36,029	20,177
Increase in estimate of ultimate claims incurred for prior year accident years	(943)	187	(1,130)
Undiscounted provision, December 31	55,263	36,216	19,047
Effect of discounting and provision for adverse deviation, December 31	1,790	685	1,105
Provision for unpaid claims and adjustment expenses, December 31	\$ 57,053	\$ 36,901	\$ 20,152

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2017 and 2016:

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	\$ 42,368	\$ 28,422	\$ 13,946	\$ 46,483	\$ 31,257	\$ 15,226
Claims incurred but not reported	11,468	6,824	4,644	10,570	5,644	4,926
Outstanding claims provision	53,836	35,246	18,590	57,053	36,901	20,152
Unearned premiums	28,408	6,693	21,715	30,210	7,675	22,535
Total insurance provisions	\$ 82,244	\$ 41,939	\$ 40,305	\$ 87,263	\$ 44,576	\$ 42,687

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
NOTES TO FINANCIAL STATEMENTS
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Year ended December 31, 2017

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

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

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	\$ 42,368	\$ 28,422	\$ 13,946	\$ 46,483	\$ 31,257	\$ 15,226
Undiscounted provision for incurred but not reported ("IBNR") claims	9,146	6,040	3,106	8,276	4,959	3,317
Undiscounted unallocated loss adjustment expenses	455	-	455	504	-	504
	51,969	34,462	17,507	55,263	36,216	19,047
Effect of discounting	(1,583)	(1,043)	(540)	(1,828)	(1,134)	(694)
Provision for adverse deviation	3,450	1,827	1,623	3,618	1,819	1,799
Provision for unpaid claims and adjustment expense	\$ 53,836	\$ 35,246	\$ 18,590	\$ 57,053	\$ 36,901	\$ 20,152

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

	2017	2016
Provision for net unearned premiums, January 1	\$ 22,535	\$ 24,328
Net premiums written	36,969	39,259
Portfolio transfer	317	(683)
Less net premiums earned	(38,106)	(40,369)
Provision for net unearned premiums, December 31	\$ 21,715	\$ 22,535

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.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

NOTES TO FINANCIAL STATEMENTS

(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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

(e) Assumptions on claims development:

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

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

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

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

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses is 2.15% (2016 - 2.33%). A 1.00% change in the discount factor would change the net provision by \$276 (2016 - \$326).

(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.

Year ended December 31, 2017

(g) Development claims table (continued):

[illegible]

Net undiscounted outstanding insurance claims provision at December 31, 2017	\$	10	\$	33	\$	131	\$	45	\$	1,661	\$	677	\$	535	\$	1,962	\$	3,188	\$	8,732	\$	16,974
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78

17,052
455
(540)
1,623

\$ 18,590

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Year ended December 31, 2017

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

(h) Expected loss ratios:

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

	Expected loss ratio	
	2017	2016
Property	62.00%	60.00%
Casualty	80.00%	85.00%
Blended expected loss ratio	62.97%	61.34%

6. Deferred policy acquisition costs:

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

At December 31, 2015	\$	7,058
Expenses deferred		19,180
Recognized in net earnings		19,469
At December 31, 2016		6,769
Expenses deferred		20,237
Recognized in net earnings		20,572
At December 31, 2017	\$	6,434

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Year ended December 31, 2017

7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2015	\$ 2,473	\$ 205	\$ 309	\$ 102	\$ 3,089
Additions	-	2	224	39	265
Disposals	-	-	(64)	(30)	(94)
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
	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2015	\$ 825	\$ 117	\$ 141	\$ 60	\$ 1,143
Depreciation for the year	53	18	68	14	153
Disposals	-	-	(64)	(26)	(90)
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
Carrying amounts:					
At December 31, 2016	\$ 1,595	\$ 72	\$ 324	\$ 63	\$ 2,054
At December 31, 2017	1,544	58	284	44	1,930

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Year ended December 31, 2017

8. Intangible assets:

	Computer software licenses	
Cost:		
Balance, December 31, 2015	\$	397
Acquisitions		152
Disposal		(137)
Balance, December 31, 2016		412
Acquisitions		40
Disposal		(16)
Balance at December 31, 2017	\$	436

	Computer software licenses	
Amortization:		
Balance, December 31, 2015	\$	158
Amortization for the year		107
Disposal		(137)
Balance, December 31, 2016		128
Amortization for the year		89
Disposal		(15)
Balance, December 31, 2017	\$	202
Carrying amounts:		
At December 31, 2016	\$	284
At December 31, 2017		234

9. Amounts payable and accrued liabilities:

	2017		2016	
Agents, brokers and intermediaries	\$	1,000	\$	961
Other amounts payable and accrued expenses		372		818
	\$	1,372	\$	1,779

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

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Year ended December 31, 2017

10. 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 (2016 - \$500).

11. Commitments:

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

	2017	2016
Less than 1 year	\$ 31	\$ 31
Between 1 and 5 years	42	64

12. 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 \$4.5 million and \$5 million. While the matter is under review, the Ministry has agreed to an irrevocable standby letter of credit of \$2.3 million as partial security and a lien on the offices of the Company at 9366 200A St. Langley B.C. V1M 4B3. As at the date of these financial statements, the outcome of this matter is undeterminable.

13. Related parties:

(a) Key management personnel compensation:

Key management personnel of the Company includes 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:

	2017	2016
Salaries and benefits	\$ 819	\$ 793
Registered savings plan contributions	58	54
	\$ 877	\$ 847

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Year ended December 31, 2017

13. Related parties (continued):

(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:

	2017	2016
Management insurance premiums	\$ 6	\$ 6
Directors insurance premiums	70	65
	\$ 76	\$ 71

14. Net investment income:

	2017	2016
Recognized in net earnings:		
Interest income on held-to-maturity investments	\$ 1,036	\$ 1,142
Dividend income on available-for-sale investments	851	823
Net realized gain on investments	658	1,196
Investment management fees	(257)	(236)
Net investment income	\$ 2,288	\$ 2,925

15. Income taxes:

Total income tax expense consists of the following:

	2017	2016
Current tax	\$ 258	\$ 304
Deferred tax	12	47
Total income tax expense	\$ 270	\$ 351

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15. Income taxes (continued):

Reconciliation of effective tax rate:

		2017		2016
Net earnings before income tax	\$	2,678	\$	4,009
Income tax at combined federal and provincial statutory income tax rate	26.3%	\$ 703	26.4 %	\$ 1,058
Non-deductible expenses	0.2%	6	0.2 %	6
Non-taxable dividend income	(7.1)%	(190)	(3.5)%	(140)
Non-taxable farming income	(8.2)%	(220)	(13.2)%	(529)
Other	(1.1)%	(29)	(1.1)%	(44)
	10.1%	\$ 270	8.9%	\$ 351

16. Line of credit:

The Company maintains a line of credit agreement with a third party lender for up to \$3,000 (2016 - \$2,000). Nil was drawn on the line of credit as at December 31, 2017 (2016 - nil).

17. 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.

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17. Financial and insurance risk management (continued):

(b) Risk management framework:

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

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

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

(c) Insurance risk:

(i) Terms and conditions of insurance contracts:

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

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

(A) Property:

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

(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.

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(C) Personal accident:

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

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

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

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

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

(A) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of \$5,000 (2016 - \$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.

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Year ended December 31, 2017

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(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 \$485 (2016 - \$450).

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

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

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

(iii) Exposure relating to catastrophe events:

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

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of \$485 (2016 - \$375).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of \$100,000 (2016 - \$130,000).

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(EXPRESSED IN THOUSANDS OF DOLLARS)

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

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 adjusters.

(d) Credit risk:

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

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

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

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

The carrying amount of financial assets as at December 31, 2017 and 2016, best represents the maximum exposure to credit risk for each respective year.

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17. Financial and insurance risk management (continued):

(d) Credit risk (continued):

As at December, 2017 and 2016, 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:

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

2016	AAA	AA	A	BBB	Not rated	Total
Fixed income	\$ 6,460	\$ 15,561	\$ 2,229	\$ 5,079	\$ 4,200	\$ 33,529
Short-term investments	1,550	3,557	250	501	2,000	7,858
Equities	44	-	-	206	26,585	26,835
	\$ 8,054	\$ 19,118	\$ 2,479	\$ 5,786	\$ 32,785	\$ 68,222

The aging of premiums receivable at the reporting date was:

	2017	2016
Not past due	\$ 8,477	\$ 11,353
Past due (>90 days outstanding)	462	366
	\$ 8,939	\$ 11,719

As at December 31, 2017 and 2016, the Company did not have any impaired receivables, held-to-maturity investments, or available-for-sale financial assets.

(e) Liquidity risk:

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

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NOTES TO FINANCIAL STATEMENTS

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Year ended December 31, 2017

17. Financial and insurance risk management (continued):

(e) Liquidity risk (continued):

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, 2017 and 2016, 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 was limited to its investment portfolio which invests in Canadian and US equity securities. The amount of US equity securities as at December 31, 2017 was \$6,405 (2016 - \$6,444). 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 US dollar at December 31, 2017 would have decreased or increased respectively net earnings and members' surplus by the \$320 (2016 - \$322) assuming all other variables remain constant.

(g) Interest rate risk:

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

(h) Other price risk:

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

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17. Financial and insurance risk management (continued):

(h) Other market price risk (continued):

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the US. 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 \$1,371 (2016 - \$1,216).

18. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	\$ 32,417	\$ 32,417	\$ 26,835	\$ 26,835
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	6,004	6,004	4,307	4,307
Held-to-maturity investments	40,629	40,640	41,387	42,126
Accrued investment income	189	189	200	200
Premiums receivable	8,939	8,939	11,719	11,719
Due from reinsurers	-	-	1,755	1,755
Amounts payable and accrued liabilities	(1,372)	(1,372)	(1,779)	(1,779)
Due to reinsurers	(6,514)	(6,514)	(4,498)	(4,498)
	\$ 80,292	\$ 80,303	\$ 79,926	\$ 80,665

(b) Valuation models:

Observable prices and model inputs are usually available in the market for listed equity securities, and for pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Available-for-sale investments that are traded in a public market are valued based on closing market quotations. Private available-for-sale investments are valued based on the present value of future expected cash flows. Held-to-maturity investments are valued for disclosure purposes based on discounted cash-flow models.

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18. Fair values of financial instruments (continued):

(c) Fair value hierarchy:

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

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

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

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

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

(i) Financial instruments measured at fair value:

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

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

2016		Level 1	Level 2	Level 3	Total
Available-for-sale investments	\$	24,335	\$ -	\$ 2,500	\$ 26,835

For the year ended December 31, 2017 and 2016, there were no significant transfers between the three levels of the hierarchy.

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18. 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.

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

2016	Investments
Balance, beginning of the year	\$ 2,500
Purchases	-
Balance, end of year	\$ 2,500

(ii) Financial instruments measured at amortized cost:

The Company's cash and cash equivalents, accrued investment income, premiums receivable, due from reinsurers, 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.

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18. 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.

2017					
Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Investments	\$ 5,000	Enterprise value	Enterprise value	\$ 5,000	The estimated fair value would increase if enterprise value increased
2016					
Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Investments	\$ 2,500	Enterprise value	Enterprise value	\$ 2,500	The estimated fair value would increase if enterprise value increased

Enterprise value represents the amount that market participants would pay when purchasing the company. If the enterprise value were to increase or decrease by 10%, this would result in increase or decrease the investment fair value by \$500 (2016 - \$250).

19. 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, 2017 and 2016, the Company was in compliance with these requirements.



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