MUTUAL FIRE
INSURANCE

2016 ANNUAL REPORT

COMPANY INFORMATION

MUTUAL FIRE INSURANCE

HEAD OFFICE

The Mutual Fire Insurance Company of British Columbia
201 - 9366 200A Street
Langley, BC V1M 4B3
Canada

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

AUDITORS

KPMG Enterprises
777 Dunsmuir Street
Vancouver, BC V7Y 1K3

ACTUARY

Baron Insurance Services Inc.
206 Laird Drive East
York, 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 with 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 the benefit of our members and key partners.

A MESSAGE FROM

DON HOOGE
CHAIRMAN OF THE BOARD

I am pleased to report that – through the efforts of our strong, capable, and energetic team – Mutual Fire Insurance delivered on our many initiatives for 2016 and, once again, returned to producing an underwriting income. It's through all our efforts that we remain strong and retain our A- (Excellent) rating and stable outlook from A.M. Best, the oldest and most widely recognized provider of ratings with an insurance industry focus.

Alberta experienced two significant catastrophic losses this year: The Fort McMurray wildfire in May and the severe July hail storm in Calgary. The Insurance Bureau of Canada estimated the insurance costs of Fort McMurray at a staggering $3.7 billion, the costliest disaster in Canadian history.

Mutual Fire Insurance had 37 claims with a reserve of just under $10 million. The majority of Fort McMurray claims are nearing final settlement and we hope to have our Insured's claims behind them by the anniversary of their losses. The Board of Directors are extremely proud of our claims team and wish to expressly thank each of them for their efforts in handling this difficult situation. We also thank all our key partners for their efforts in settling these losses.

Although Mutual Fire Insurance experienced significant losses in both Fort McMurray and Calgary, we still produced favourable numbers for the year. For this we thank our reinsurance partner, Willis Towers Watson as they continue to help us attain the best reinsurance program available.

On behalf of the directors at Mutual Fire Insurance, I am proud to announce that because of our strong reinsurance program, our commitment to solid underwriting fundamentals, our prompt, efficient and fair claims handling, along with improved operational efficiencies in all departments, we earned a solid income for the year. So, in the true sense of a mutual company, the Board of Directors has declared a premium refund for all member policyholders in 2016.

As an ongoing commitment to implement our strategic plan, all staff and board members are working extremely hard to adhere to our mission, vison and core values. Values of Mutuality, Community, Empowerment, Passion and Honour are all vital to the ongoing development of our team and enduring culture at Mutual Fire Insurance.

Finally, I want to thank our Board, Management, and staff for their dedication in bringing our mission and vision to life. As we begin our 115th year of business, I would also like to sincerely thank all our members and key partners for supporting our company and supporting its proud tradition.

Don Hooge
Chairman of the Board

A MESSAGE FROM

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

In 2016, Mutual Fire Insurance defined a clear plan: return to profitability with a focus on an underwriting income. I'm pleased to say this was accomplished following the guidance of our Vision – Embracing Change to PROTECT You. We continued development in underwriting fundamentals, enhanced our strong agricultural focus, expanded our risk management processes to include more frequent risk inspections, and purposely slowed the overall growth of the organization.

To slow the growth, many difficult decisions were made by the Board of Directors and Management in several key areas including underwriting, broker relations, withdrawing certain classes of business in certain jurisdictions, and placing a temporary moratorium on new commercial business.
Our success can be credited to our strong Enterprise Risk Management philosophy which provides valuable direction and our teams working hard to improve performance.

Some industry experts warn there are many threats ahead in the property and casualty industry. At Mutual Fire Insurance, we believe the environment we face as an industry presents more opportunities than threats. Reviewing our strategic plan for the next three years, we will continue to leverage technology for the purposes of strengthening underwriting, pricing, and claims. We understand that successful insurers need to utilize data to connect with their customers in a meaningful way. We will use data to make better underwriting decisions and to educate our key partners about risk and improved risk management that they can undertake.

Technology and data are remarkable, we would not be where we are without the advances we have seen within the IT industry. We continue to seek IT solutions that allow us to provide exceptional customer service and that meet the needs of our key partners. We have enhanced the skillset of our IT team to build on our product offerings, provide in-depth data review of our portfolio, and continue to look to the horizon to see what is in store for our company.

Strengthening our new IT solutions, are the staff members who strive to provide excellent customer service. The human element is irreplaceable. Insurance is built on trust and expertise – the comfort that someone is there for the Insured when they need it most. More and more consumers and businesses seek new risk transfer solutions as their needs grow ever increasingly more complex. These needs will continue to require advice from trusted intermediaries. People continue to handle complexity best and in specialized risk transfer categories such as commercial businesses and commercial farm operations, Mutual Fire Insurance will continue to collaborate closely and effectively with our expert broker partners.

It is evident that Mutual Fire Insurance has the dedicated team and strong corporate culture in place to move our company in a positive direction towards conservative growth and continued financial stability. 2017 will deliver a new website; a deliberate increase in membership; new products; and overall increased internal effectiveness, all with a focus on unparalleled services for our members and key partners. We believe in what we do and our passion will continue to achieve the objectives we have set forth.

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

FINANCIAL REPORT

JASON CHRISTOPHERSON

CPA, CGA, BAccS, ARe

CHIEF FINANCIAL OFFICER

Mutual Fire Insurance had a healthy and profitable year in 2016. The company's return to a solid financial position ultimately resulted in an underwriting profit of $1.295 million. Our commitment to slowing business growth, managing expenses and applying sound underwriting techniques successfully offset the previous two years of underwriting losses. This commitment to internal effectiveness will continue to benefit Mutual Fire Insurance and our key partners.

The first half of 2016 brought a slow and steady decline in claims frequency and severity. Even with our insured losses sustained in Canada's largest catastrophic event, the Fort McMurray wildfire, each quarter in 2016 improved over the preceding quarter. These positive results culminated in a fourth quarter loss ratio of 42%. Overall, our loss ratio for the year improved to 60.76%, nearly a 7% improvement from 2015. We are confident that our loss ratio will continue this trend as we apply continued focus to manage our risk appetite appropriately.

Maintaining an expense ratio that allows Mutual Fire Insurance to provide exceptional key partner service while committing to the fiduciary responsibilities owed to our members has always been the focus of the Executive team, Management, and Board of Directors. Mutual Fire Insurance made every effort to spend wisely in 2016 and we closed out the year with a five-year low expense ratio of 36.43%.

Arbitrarily reducing expenses today without foresight and consideration for tomorrow would only temporarily prove to be a benefit. Planning, with a focus on internal effectiveness, will continue to yield lower expense costs. In addition to these measures, we continue to invest in our future as a mutual, remembering that our people are the key to our success.

Gross premiums written in 2016 were up slightly to $83.6 million. Our net premiums saw a small decline of 2%, finishing at $40.4 million. The decline corresponds with our decision to slow business growth. With reduced claims and expense ratios, Mutual Fire Insurance ended the year with a 97% combined ratio.

We continue to work within an everchanging investment environment to maximize yield while minimizing risk. This year's investment yield was 4.16% with net investment income of $2.9 million, an improvement over the 2015 net investment income of $2.5 million and our highest yield in the past five years.

Our investment and underwriting income resulted in a net profit after taxes of $3.658 million, a significant improvement over 2015 results of $1 million. This resulted in a return on equity of 9% compared to 2.25% the previous year.

As we celebrate 2016 and look to 2017, Mutual Fire Insurance will continue to build on our traditions while continually challenge ourselves to exceed expectations. There is no substitution for hard work.

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

2016 IN REVIEW

NEW HIRES IN 2016 BY AGE GROUP

20-25 YEARS	26-30 YEARS	31-40 YEARS	41-50 YEARS	50+ YEARS
2	5	6	3	2

HEAD COUNT

DECEMBER 2015

54

DECEMBER 2016

59

AVERAGE EMPLOYEE COMMUTE TO OFFICE

19.3 KM

EMPLOYEE DEMOGRAPHICS

44 FEMALES
74% OF OUR POPULATION

15 MALES
26% OF OUR POPULATION

NEW HIRES IN 2016 BY GENDER

10 FEMALE

8 MALE

AVERAGE AGE
TOTAL EMPLOYEE GROUP

41

AVERAGE AGE
OF MANAGEMENT GROUP

47

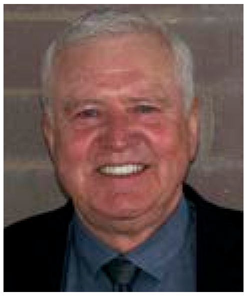
AVERAGE YEARS OF SERVICE ALL

4

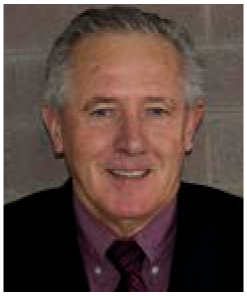
AVERAGE YEARS OF SERVICE MANAGEMENT GROUP

8

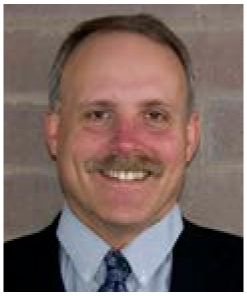
BOARD OF DIRECTORS



Don Hooge
Chairman

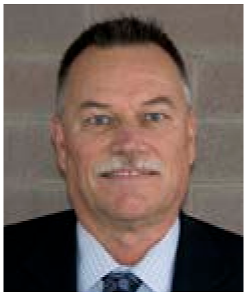


Jake Bredenhof
Vice Chairman

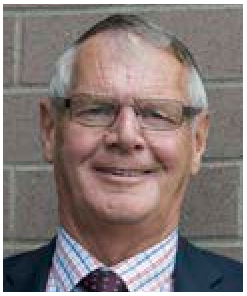


W.J. (Bill) Adams, C.A.
Treasurer

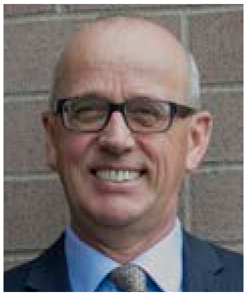
Mike Bose
Director



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

DONATIONS COMMITTEE
Mike Bose (Chair)
Jake Bredenhof, John Pruim

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

INVESTMENT COMMITTEE
Mike Bose (Chair)
Sam Wind, Dan Robinson

NOMINATING COMMITTEE
Dan Robinson, John Pruim

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	Jason Christopherson, CPA, CGA, BAccS, ARe
President & Chief Executive Officer	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, 2016, 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 16, 2017
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, 2016 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.

Barb Addie
Fellow, Canadian Institute of Actuaries

February 16, 2017
Toronto, Ontario

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

FINANCIAL STATEMENTS

(Expressed in thousands of dollars)

Year ended December 31, 2016

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

STATEMENT OF FINANCIAL POSITION
(EXPRESSED IN THOUSANDS OF DOLLARS)

December 31, 2016, with comparative information for 2015

	Notes	2016	2015
Assets			
Cash and cash equivalents		$ 4,307	$ 2,783
Investments	4	68,222	67,803
Accrued investment income		200	252
Premiums receivable		11,719	9,754
Due from reinsurers		1,755	1,069
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	5	36,901	30,909
Unearned premiums	5	7,675	8,356
Deferred policy acquisition expenses	6	6,769	7,058
Taxes receivable		-	1,568
Deferred income tax asset		78	219
Property and equipment	7	2,054	1,946
Intangible assets	8	284	239
		$ 139,964	$ 131,956
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	9	$ 1,779	$ 1,432
Due to reinsurers		4,498	3,466
Taxes payable		844	-
Unearned reinsurance commissions		2,959	3,229
Provisions for unpaid claims and adjustment expenses	5	57,053	52,727
Unearned premiums	5	30,210	32,684
		97,343	93,538
Members' surplus and reserves:			
Reserves	10	500	500
Accumulated other comprehensive income		4,440	3,895
Unappropriated members' surplus		37,681	34,023
		42,621	38,418
Commitments	11		
Contingencies	12		
		$ 139,964	$ 131,956

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, 2016, with comparative information for 2015

	Notes	2016	2015
Premiums written:			
Gross premiums written	13	$ 83,634	$ 83,181
Reinsurance premiums ceded		(44,375)	(39,890)
Net premiums written		39,259	43,291
Change in unearned premiums		1,110	(2,093)
Net premiums earned		40,369	41,198
Commission income		12,913	10,845
Service fees		150	142
Membership fees		14	21
		53,446	52,206
Claims and expenses incurred:			
Claims and adjustment expenses		24,530	27,554
Commissions		19,736	18,342
Salaries and benefits	13	4,467	4,027
Administration		2,464	1,737
Premium taxes		954	1,993
		52,151	53,653
Net underwriting income		1,295	(1,447)
Net investment income	14	2,925	2,508
Other income (expenses)		(211)	-
Income before income taxes		4,009	1,061
Income tax expense (recovery):	15		
Current		304	112
Deferred		47	(76)
		351	36
Net income		3,658	1,025
Other comprehensive income:			
Net unrealized gains on available-for-sale assets, net of tax of $72 (2015 - $10)		545	67
Total comprehensive income, for the year		$ 4,203	$ 1,092

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, 2016, with comparative information for 2015

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2014	$ 500	$ 3,828	$ 32,998	$ 37,326
Net income	-	-	1,025	1,025
Net unrealized gains on available for sales assets	-	67	-	67
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

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, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Net income	$ 3,658	$ 1,025
Adjustments for:		
Depreciation and amortization	260	247
Deferred income tax recovery	47	(76)
Interest income	(1,965)	(2,117)
Premium tax expense	954	1,993
Income tax expense	304	112
Realized gains on available-for-sale investments	(1,196)	(602)
	2,062	582
Changes in non-cash operating working capital:		
Premiums receivable	(1,965)	(1,436)
Due from reinsurers	(686)	(1,069)
Deferred acquisition costs	289	633
Reinsurers' share of unpaid claims and adjustment expenses	(5,992)	(15,818)
Reinsurers' share of unearned premium	681	(7,306)
Provision for unpaid claims and adjustment expenses	4,326	13,363
Unearned premiums	(2,474)	2,384
Unearned reinsurance commission	(270)	3,008
Due to reinsurers	1,032	963
Amounts payable and accrued liabilities	347	91
Premium tax payable	178	(1,061)
	(2,472)	(5,666)
Interest received	1,828	1,800
Income taxes paid	(412)	(1,839)
Premium taxes paid	(941)	(2,824)
Income taxes received	2,336	-
	339	(8,529)
Investments:		
Purchase of investments	(11,981)	(9,433)
Proceeds on sale of investments	13,583	9,610
Purchase of property, plant, and equipment	(265)	(253)
Purchase of intangible assets	(152)	(219)
	1,185	(295)
Increase (decrease) in cash and cash equivalents	1,524	(8,824)
Cash and cash equivalents, beginning of year	2,783	11,607
Cash and cash equivalents, end of year	$ 4,307	$ 2,783
Cash and cash equivalents comprised of:		
Cash	$ 43	$ 89
Cash equivalents	4,264	2,694
	$ 4,307	$ 2,783

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, 2016

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 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 16, 2017.

(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, 2016

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

The Company does not designate any financial assets as financial assets at FVTPL.

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.

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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.

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 they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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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.

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 incurred but not yet reported, 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.

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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.

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.

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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.

(EXPRESSED IN THOUSANDS OF DOLLARS)

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Company, with the exception of:

(*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 mandatory effective date for this standard is for fiscal periods commencing January 1, 2018; however, early adoption of the new standard is still permitted. The Company has not yet evaluated the extent of impact of this standard.

(*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 extent of the impact of adoption of the standard has not yet been determined by the Company.

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

IFRS 17 changes the basis for measuring insurance contracts. The standard is not expected to affect the Company until 2021 at the earliest. IFRS 17 - *Insurance Contracts,* will impact the classification and measurement of insurance liabilities and premiums. The Company is currently assessing the impact of these standards.

4. Investments:

	2016	2015
Available-for-sale financial assets	$ 26,835	$ 25,480
Held-to-maturity investments	41,387	42,323
	$ 68,222	$ 67,803

At December 31, 2016, certain investments with a carrying amount of $2,000, (2015 - $2,000) are held as security for the bank line of credit (note 16).

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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:

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

(EXPRESSED IN THOUSANDS OF DOLLARS)

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

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

2015	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 39,365	$ 15,091	$ 24,274
Effect of discounting and provision for adverse deviation, January 1	(1,069)	(156)	(913)
Undiscounted provision at January 1	38,296	14,935	23,361
Estimate of ultimate claims incurred for current accident year	61,863	34,831	27,032
Payment on current accident year claims	(27,988)	(12,849)	(15,139)
Payment on prior accident year claims	(24,231)	(9,430)	(14,801)
Undiscounted provision before change in prior accident year ultimates	47,940	27,487	20,453
Increase in estimate of ultimate claims incurred for prior year accident years	3,335	2,998	337
Undiscounted provision, December 31	51,275	30,485	20,790
Effect of discounting and provision for adverse deviation, December 31	1,452	424	1,028
Provision for unpaid claims and adjustment expenses, December 31	$ 52,727	$ 30,909	$ 21,818

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2016 and 2015:

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 46,483	$ 31,257	$ 15,226	$ 43,570	$ 26,350	$ 17,220
Claims incurred but not reported	10,570	5,644	4,926	9,157	4,559	4,598
Outstanding claims provision	57,053	36,901	20,152	52,727	30,909	21,818
Unearned premiums	30,210	7,675	22,535	32,684	8,356	24,328
Total insurance provisions	$ 87,263	$ 44,576	$ 42,687	$ 85,411	$ 39,265	$ 46,146

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

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

	2016			2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 46,483	$ 31,257	$ 15,226	$ 43,570	$ 26,350	$ 17,220
Undiscounted provision for incurred but not reported ("IBNR") claims	8,276	4,959	3,317	7,212	4,135	3,077
Undiscounted unallocated loss adjustment expenses	504	-	504	492	-	492
	55,263	36,216	19,047	51,274	30,485	20,789
Effect of discounting	(1,828)	(1,134)	(694)	(1,860)	(1,110)	(750)
Provision for adverse deviation	3,618	1,819	1,799	3,313	1,534	1,779
Provision for unpaid claims and adjustment expense	$ 57,053	$ 36,901	$ 20,152	$ 52,727	$ 30,909	$ 21,818

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

	2016	2015
Provision for net unearned premiums, January 1	$ 24,328	$ 29,250
Net premiums written	39,259	43,291
Portfolio transfer	(683)	(7,015)
Less net premiums earned	40,369	41,198
Provision for net unearned premiums, December 31	$ 22,535	$ 24,328

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

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

(e) Assumptions on claims development:

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

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

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

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

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses 2.33% (2015 - 2.58%). A 1.00% change in the discount factor would change the net provision by $326 (2015 - $317).

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

(g) Development claims table (continued):

Net insurance contract outstanding claims provision for 2016:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
At end of accident year	$ 5,122	$ 5,483	$ 10,206	$ 9,326	$ 15,054	$ 22,024	$ 21,635	$ 29,572	$ 27,032	$ 25,581	$
One year later	5,005	5,679	9,757	9,300	14,407	21,148	21,450	30,073	26,920		
Two years later	5,004	5,140	10,245	9,610	13,760	21,708	21,092	29,324			
Three years later	5,179	5,317	10,187	9,229	13,798	22,285	21,009				
Four years later	4,987	5,364	10,165	9,059	13,556	22,177					
Five years later	5,061	5,247	10,225	9,118	13,432						
Six years later	5,039	5,217	9,998	9,095							
Seven years later	5,022	5,192	10,014								
Eight years later	5,022	5,192									
Nine years later	5,022										
Estimate of cumulative claims incurred	5,072	5,192	10,014	9,095	13,432	22,177	21,009	29,324	26,920	25,581	167,816
Cumulative payments to date	5,016	5,182	9,935	8,949	13,338	19,953	19,932	27,904	22,824	16,268	149,301
Net undiscounted outstanding insurance claims provision at December 31, 2016	$ 56	$ 10	$ 79	$ 146	$ 94	$ 2,224	$ 1,077	$ 1,420	$ 4,096	$ 9,313	18,515
Net undiscounted outstanding insurance claims provision with respect to prior accident years											28
Total net undiscounted outstanding insurance claims provision at December 31, 2016											18,543
Undiscounted unallocated loss adjustment expenses											504
Effect of discounting											(694)
Provision for adverse deviation											1,799
Total net discounted outstanding insurance claims provision, December 31, 2016											$ 20,152

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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	
	2016	2015
Property	60.00%	55.00%
Casualty	85.00%	80.00%
Blended expected loss ratio	61.34%	56.31%

6. Deferred policy acquisition costs:

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

At December 31, 2014	$	7,692
Expenses deferred		18,284
Recognized in net earnings		18,918
At December 31, 2015		7,058
Expenses deferred		19,180
Recognized in net earnings		19,469
At December 31, 2016	$	6,769

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7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2014	$ 2,345	$ 205	$ 250	$ 80	$ 2,880
Additions	128	-	89	39	256
Disposals	-	-	(30)	(17)	(47)
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

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2014	$ 775	$ 94	$ 110	$ 61	$ 1,040
Depreciation for the year	50	23	61	12	146
Disposals	-	-	(30)	(13)	(43)
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
Carrying amounts:					
At December 31, 2015	$ 1,648	$ 88	$ 168	$ 42	$ 1,946
At December 31, 2016	1,595	72	324	63	2,054

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8. Intangible assets:

		Computer software licenses
Cost:		
Balance, December 31, 2014	$	747
Acquisitions		217
Disposal		(567)
Balance, December 31, 2015		397
Acquisitions		152
Disposal		(137)
Balance at December 31, 2016	$	412

		Computer software licenses
Amortization:		
Balance, December 31, 2014	$	624
Amortization for the year		101
Disposal		(567)
Balance, December 31, 2015		158
Amortization for the year		107
Disposal		(137)
Balance, December 31, 2016	$	128
Carrying amounts:		
At December 31, 2015	$	239
At December 31, 2016		284

9. Amounts payable and accrued liabilities:

		2016		2015
Agents, brokers and intermediaries	$	961	$	1,281
Other amounts payable and accrued expenses		818		151
	$	1,779	$	1,432

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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 (2015 - $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:

		2016		2015
Less than 1 year	$	31	$	31
Between 1 and 5 years		64		95

12. Contingencies:

The Company, like all other insurers, is subject to litigation in the normal course of business. The Company does not believe that such litigation will have a material effect on its net earnings and financial condition.

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 different than the Company the amount due may be between $5.5 million and $6.5 million. As at the date of these financial statements the outcome 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:

		2016		2015
Salaries and benefits	$	793	$	779
Registered savings plan contributions		54		49
	$	847	$	828

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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:

		2016		2015
Management insurance premiums	$	6	$	6
Directors insurance premiums		65		60
	$	71	$	66

14. Net investment income:

		2016		2015
Recognized in net earnings:				
Interest income on held-to-maturity investments	$	1142	$	1,324
Interest income on cash and cash equivalents		-		9
Dividend income on available-for-sale investments		823		784
Net realized gain on investments		1,196		602
Investment management fees		(236)		(211)
Net investment income	$	2,925	$	2,508

15. Income taxes:

Total income tax expense consists of the following:

		2016		2015
Current tax expense:				
Current year	$	304	$	112
Deferred tax recovery		47		(76)
Total income tax expense	$	351	$	36

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15. Income taxes (continued):

Reconciliation of effective tax rate:

			2016			2015
Net earnings before income tax		$	4,009		$	1,061
Income tax at combined federal and provincial statutory income tax rate	26.4%	$	1,058	26.1 %	$	277
Non-deductible expenses	0.2%		6	0.6 %		7
Non-taxable dividend income	(3.5)%		(140)	(7.1)%		(76)
Non-taxable farming income	(13.2)%		(529)	(5.8)%		(61)
Other	(1.1)%		(44)	(10.4)%		(111)
	8.9%	$	351	3.4%	$	36

16. Line of credit:

The Company maintains a line of credit agreement with a third party lender for up to $2,000 (2015 - $2,000). Nil was drawn on the line of credit as at December 31, 2016 (2015 - 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.

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 (2015 - $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.

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 $450 (2015 - $350).

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 $375 (2015 - $375).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $130,000 (2015 - $125,000).

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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 adjustors.

(d) Credit risk:

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

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

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

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

The carrying amount of financial assets as at December 31, 2016 and 2015, 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, 2016 and 2015, 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:

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

2015	AAA	AA	A	BBB	Not rated	Total
Fixed income	$ 10,477	$ 10,312	$ 4,805	$ 2,464	$ 6,100	$ 34,158
Short-term investments	-	2,055	150	-	5,960	8,165
Equities	41	-	20	415	25,004	25,480
	$ 10,518	$ 12,367	$ 4,975	$ 2,879	$ 37,064	$ 67,803

The aging of premiums receivable at the reporting date was:

	2016	2015
Not past due	$ 11,353	$ 9,670
Past due (>90 days outstanding)	366	84
	$ 11,719	$ 9,754

As at December 31, 2016 and 2015, 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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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, 2016 and 2015, 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, 2016 was $6,444 (2015 - $8,061).

A strengthening or weakening of the Canadian dollar of 5% against the US dollar at December 31, 2016 would have decreased or increased respectively net earnings and members' surplus by the $322 (2015 - $403) 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 $1,216 (2015 - $1,149).

18. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 26,835	$ 26,835	$ 25,480	$ 25,480
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	4,307	4,307	2,783	2,783
Held-to-maturity investments	41,387	42,126	42,323	43,394
Accrued investment income	200	200	252	252
Premiums receivable	11,719	11,719	9,754	9,754
Due from reinsurers	1,755	1,755	1,069	1,069
Amounts payable and accrued liabilities	(1,779)	(1,779)	(1,432)	(1,432)
Due to reinsurers	(4,498)	(4,498)	(3,466)	(3,466)
	$ 79,926	$ 80,665	$ 76,763	$ 77,834

(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 value for disclosure purposes based on the present value of future expected cash flows.

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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:

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

2015	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 22,980	$ -	$ 2,500	$ 25,480

For the year ended December 31, 2016 and 2015, there were no significant transfers between the three levels of the hierarchy.

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.

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

2015		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 processes are available, there is no active market for these instruments.

Held-to-maturity investments are classified as level 2 in the fair value hierarchy.

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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.

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

2015

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 $250 (2015 - $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, 2016 and 2015, the Company was in compliance with these requirements.