



MUTUAL FIRE INSURANCE



2019
ANNUAL
REPORT

COMPANY INFORMATION



MUTUAL FIRE INSURANCE

HEAD OFFICE

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Toronto, ON M4G 3W4



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VISION, MISSION, ASPIRATION & CORE VALUES

VISION

Embracing Change to **PROTECT** You

ASPIRATION

Become the Mutual Insurer of Choice

MISSION

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

CORE VALUES

Mutuality

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

Passion

We believe in what we do.

Empowerment

We empower talented people to embrace change.

Honour

We encourage mutual trust through personal and professional integrity.

Community

We promote and support philanthropy and volunteerism.

CHAIRMAN'S REPORT

MIKE BOSE

ACTING CHAIRMAN OF THE BOARD



It is my pleasure to present this year's report on behalf of the Board. As has been the theme of the Company's history, we again report strong but managed growth. Our written premiums are now \$127.3 million, up from \$96.4 million. Growth comes from all lines of business and in all jurisdictions we underwrite. Part of 2019's success was the entrance of FarmPROTECT™ to the market. Our new farm policy wordings have been received positively and our key partners have experienced the benefits by way of easier and faster claims settlements.

With the assistance of our investment partners, Raymond James and BMO Wealth Management, Mutual Fire Insurance continues to see positive results. The 2019 returns were at 8.57% over the entire portfolio. The Company continues to diversify our investments with the addition of real estate holdings through our partner, Anthem Properties.

In the past year, the Board welcomed two new members Steve Czeck and Yvonne Hogenes. Steve brings a wealth of Information Technology experience, while Yvonne brings strong business acumen and marketing experience. She also became our first female board member. Our previous Chair, Tako van Popta, resigned in December following his successful election to Parliament. The Board thanks him for his service to the Company and wishes him success in his future endeavours with the Government of Canada. To support our growth, the Company also created and hired two new positions: Controller and Human Resources Manager.

BC Financial Services Authority (BCFSA, formerly FICOM) completed its biannual review of Mutual Fire Insurance

this year—an exercise that is both welcomed and appreciated. The Board and Management were very pleased with the results of the review. BCFSA has always challenged us to do better, and with their recommendations, the Company will become stronger, more efficient, and sustainable.

2020 launches the beginning of our new three-year strategic plan. The plan is underway and will see improvement in farm loss ratios, ease of doing business with our broker partners, and the formation of a new commercial subsidiary

I would like to thank the Board for their engagement, guidance, and oversight this year. We challenged both ourselves and Management with ambitious goals and were rewarded by developing as a team. On behalf of the Board, we thank Management for their wisdom and leadership, staff for their hard work and dedication, and our broker partners for their support and loyalty. Thank you to both our members and policyholders for their confidence in The Mutual Fire Insurance Company of British Columbia.

Respectfully,

A handwritten signature in black ink that reads "Michael Bose". The signature is fluid and cursive, with the first name "Michael" written in a larger, more prominent script than the last name "Bose".

Mike Bose
on behalf of the Board of Directors



A MESSAGE FROM
DARIN LORD NESSEL
PRESIDENT & CEO

The third and final year of Mutual Fire Insurance's strategic plan came to a successful close in 2019. All company initiatives were met, and all three strategies completed. Supported by our four key pillars to success—people and culture, partner service, internal effectiveness, and financial—the plan was both robust and aggressive. By distributing our goals within the pillars, we effectively strengthened all aspects of the organization while also supporting the strategies.

The Company continues to mitigate climate change by minimizing wildfire exposure in adverse areas, while staying true to our Mutual roots and providing a fair and affordable product for our insureds living within those regions. Afterall, it was these rural unprotected properties that gave the Company our foundation. Increasing water events are also a result of climate change and are impacting our insureds. Through collaboration with our reinsurance broker, Willis Towers Watson, the Company now offers an effective and affordable overland water product to provide homeowner insureds with peace of mind against overland water destroying their homes.

Mutual Fire Insurance continued to adhere to its mission statement by providing innovative solutions to our members and key partners. In February and March, we launched our new farm product, FarmPROTECT™ to new and renewing insureds. FarmPROTECT™ was designed and built with our policyholders in mind every step of the way. We worked to create a product that would provide ease of claims handling by limiting grey areas that can be costly, frustrating and time consuming, thereby creating a product that would be easier to understand and deliver quicker claim settlements.

Another innovative solution was the roll-out of three unique cyber offerings attaching to our various products: CyberOne®, Data Compromise, and Home Cyber Protection. Internally, Mutual Fire Insurance enhanced our internal cyber threat training and built a strong understanding as we continue to monitor and mitigate these threats against us.

The Company took advantage of many opportunities to grow this year and while growth was significant, our gross loss ratio continued to improve. Our excellent spread of risk and mitigation strategies against such perils as windstorm, hail, wildfire and water were responsible in part, for not having any catastrophic events on our portfolio during 2019.

As a result of our strategic success, Mutual Fire Insurance remains financially stable and well positioned for 2020. The Company has focused on our next three-year strategic plan: implementing new digital platforms for ease of business; strengthening our farm portfolio as we continue to remain the benchmark of farm excellence in the insurance industry; and creating a new subsidiary company enabling us to build a stronger brand image for our commercial products.

We continue to stay abreast of all risks that may affect the company through our Enterprise Risk Management (ERM) processes. Our plans this upcoming year will include a new ERM digital platform for monitoring and mitigation of such risks. This new process will allow a more collaborative working environment between management, board, regulators, reinsurers, and rating agencies. Our ERM processes help determine where the most mitigation is required so Mutual Fire Insurance is able to mitigate exposure to these risks and maintain business continuity should an emergency occur. We continue to see both climate change (and our ability to adapt to it) and cyber risk as the top two risks facing our organization.

In closing, I want to sincerely thank the staff and management for an incredible year and as always, thank you to our dedicated Board of Directors for their continued leadership.

A handwritten signature in black ink, appearing to read 'Darin Lord Nessel'. The signature is fluid and cursive, with a large initial 'D'.

Darin Lord Nessel
President & CEO

FINANCE REPORT
JASON CHRISTOPHERSON
CHIEF FINANCIAL OFFICER



I am pleased to report that by all measures, the results of the fiscal year-end December 31, 2019 have been impressive. The underlying processes of Mutual Fire Insurance are strong and continue to pay dividends as the Company looks for ways to improve. Accountability and governance at all levels of the organization have contributed to our successes.

Mutual Fire Insurance's long-standing focus on service and market forces combined to create an environment that saw sustained growth with gross written premiums in excess of 32%. A significant portion of this growth was experienced in commercial lines, in addition to healthy growth in both residential and farm across all provinces. More importantly the Company's growth in premiums resulted from increased rate for the risks being insured, not solely from taking more risk. In time, this will translate to further reduce loss ratios and improved performance.

Underwriting results improved over 2018 from a loss of \$3.03 million to a profit of \$1.45 million in 2019. The profit is a direct result of improved attritional losses for Mutual Fire Insurance. The Company considers attritional losses to be losses that are more frequent in nature and do not exceed \$500,000. In 2018, attritional losses made up 79% of all losses experienced by Mutual Fire Insurance. This decreased to 63% of all losses in 2019. The improvement in attritional losses was offset by an increase in excess losses over \$500,000 from \$6.8 million in 2018 to \$16.8 million in 2019. However, these losses were partially offset by reinsurance recoveries. The trend of decreasing attritional losses positions Mutual Fire Insurance well for future profitability. Gross losses improved for the fifth straight year to 57.95%. In addition, Mutual Fire experienced a year of no catastrophic events. The first since 2011.

Unfortunately, the underwriting results noted above are not the results highlighted in the following audited financial statements. The audited financial statements report an underwriting loss of \$3.91 million and is the result of the affirmation of a one-time premium tax assessment from the Province of British Columbia related to an audit of the 2012 and 2013 taxation years. The assessment is \$5.36 million including taxes and accrued interest. Mutual Fire Insurance adamantly disagrees with the position taken by the province and intends to challenge the basis of the assessment. The expense ratio for 2019 is 48.94% inclusive of this tax and 38.36% otherwise. A 1.6% improvement over 2018.

Investment results were strong in 2019. The Company's investments grew from \$73.21 million in 2018 to \$84.91 million in 2019. An increase of \$11.7 million inclusive of net unrealized gains of \$3.39 million. Realized gains decreased from \$807,000 last year to \$58,000; the result of retaining strong equity investments rather than trading. In addition, Mutual Fire Insurance increased its real estate holdings in 2019 with the purchase of 16.95% of Port Place Shopping Centre in Nanaimo, B.C. We are confident this purchase and our other real estate holdings will provide solid annual returns.

The coming year is sure to be as exciting and inspiring as 2019. Mutual Fire Insurance will continue to build on the lessons we have learned, develop an environment that encourages self-improvement, and embrace technology into 2020 and beyond.

A handwritten signature in black ink, appearing to read 'Jason Christopherson', written over a light blue background.

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

COMPANY PROFILE

HEAD COUNT



DECEMBER 2018
55

DECEMBER 2019
62

EMPLOYEE GENDER



47 WOMEN
76% OF OUR POPULATION



15 MEN
24% OF OUR POPULATION

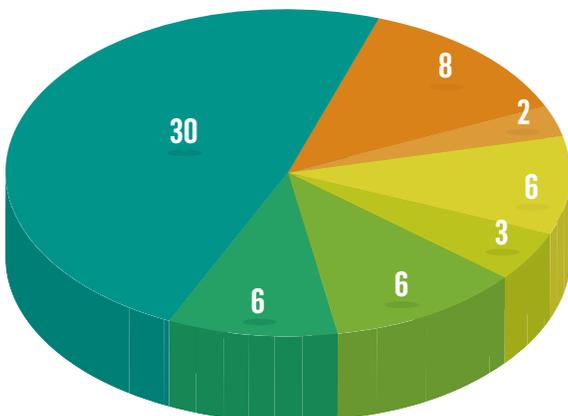
AVERAGE LENGTH OF SERVICE

ALL EMPLOYEES:
5.5 YEARS

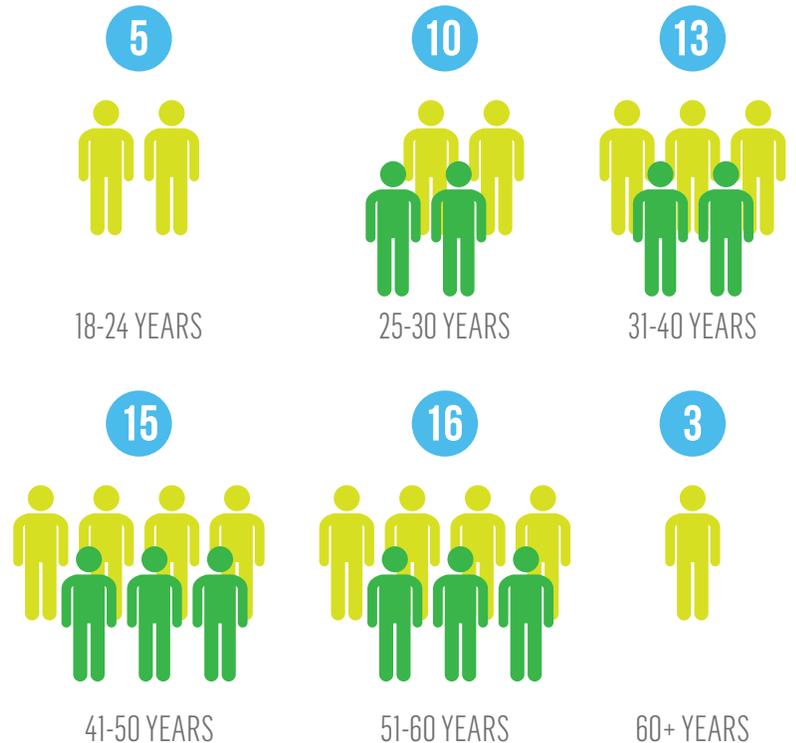
EXECUTIVE:
11.8 YEARS

EMPLOYEES BY DEPARTMENT

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



EMPLOYEES BY AGE GROUP



2019 BOARD OF DIRECTORS



Tako van Popta
Chairman



Mike Bose
Vice-Chairman



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



Steve Czeck
Director



Yvonne Hogenes
Director



Ken Huttema
Director



David Pruijm, CPA, CMA
Director



Sam Wind, CIP
Director

AUDIT COMMITTEE

Bill Adams (Chair)
Ken Huttema, Tako van Popta

CONDUCT REVIEW COMMITTEE

Sam Wind (Chair)
Mike Bose, Ken Huttema

DONATIONS COMMITTEE

Tako van Popta (Chair)
Mike Bose, Steve Czeck, Yvonne Hogenes, Ken Huttema

INVESTMENT COMMITTEE

Mike Bose (Vice-Chairman)
Yvonne Hogenes, Tako van Popta, Sam Wind

ENTERPRISE RISK MANAGEMENT COMMITTEE

Tako van Popta (Chair)
Bill Adams, Mike Bose, Steve Czeck, Yvonne Hogenes, Ken Huttema, Dave Pruijm, Sam Wind

IT STEERING COMMITTEE

Tako van Popta (Chair)
Bill Adams, Mike Bose, Steve Czeck, Yvonne Hogenes, Ken Huttema, Dave Pruijm, Sam Wind

NOMINATIONS COMMITTEE

Sam Wind (Chair), Yvonne Hogenes, Tako van Popta

MANAGEMENT'S STATEMENT

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

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

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

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

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



Darin Lord Nessel
President & CEO



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



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

- the statement of financial position as at December 31, 2019
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in members' surplus and reserves for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the annual report.

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

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

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

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

We have nothing to report in this regard.

Basis for Opinion

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

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

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

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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



Chartered Professional Accountants
Fellow, Canadian Institute of Actuaries

REPORT OF THE ACTUARY

Baron Insurance Services Inc. Actuaries & Consultants

206 Laird Drive, Suite 205, Toronto, Ontario M4G 3W4
Phone: (416) 486-0093 Fax: (416) 486-6300

DESCRIPTION OF THE ACTUARY'S ROLE

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

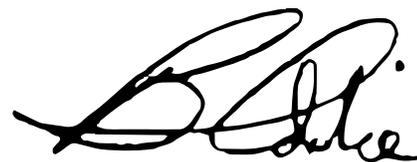
Policyholder liabilities include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unearned premiums and unpaid claims and adjustment expenses, deferred premium acquisition costs, premium deficiency and retrospective adjustments. The actuary uses the work of the external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

APPOINTED ACTUARY'S REPORT

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

I have valued the policyholder liabilities and the reinsurance recoverables of The Mutual Fire Insurance Company of British Columbia for its statement of financial position at December 31, 2019 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

Toronto, Ontario
February 20, 2020



THE MUTUAL FIRE
INSURANCE COMPANY
OF BRITISH COLUMBIA

FINANCIAL STATEMENTS
(Expressed in thousands of dollars)

AND INDEPENDENT AUDITORS' REPORT THEREON
YEAR ENDED DECEMBER 31, 2019

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

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Assets			
Cash and cash equivalents		\$ 17,631	\$ 10,163
Investments	5	84,919	73,214
Accrued investment income		342	260
Premiums receivable		13,165	11,833
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	6	41,708	31,576
Unearned premiums	6	7,423	5,010
Deferred policy acquisition costs	7	8,995	7,335
Current tax assets		657	527
Property and equipment	8	1,982	2,030
Intangible assets	9	95	170
		\$ 176,917	\$ 142,118

**Liabilities and Members' Surplus
and Reserves**

Amounts payable and accrued liabilities	10, 11, 13	\$ 3,642	\$ 1,038
Due to reinsurers		8,236	6,775
Premium tax liabilities	11	5,054	1,068
Deferred income tax liabilities		280	10
Unearned reinsurance commissions		2,693	1,794
Provisions for unpaid claims and adjustment expenses	6	70,926	55,108
Unearned premiums	6	39,989	31,639
		130,820	97,432
Members' surplus and reserves:			
Reserves	12	500	500
Accumulated other comprehensive income		8,411	5,020
Unappropriated members' surplus		37,186	39,166
		46,097	44,686
		\$ 176,917	\$ 142,118

See accompanying notes to financial statements.

Approved on behalf of the Board:



Acting Chairman



Treasurer

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

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Premiums written:			
Gross premiums written	13	\$ 127,323	\$ 96,444
Reinsurance premiums ceded		(70,462)	(52,250)
Net premiums written		56,861	44,194
Change in unearned premiums		(6,168)	(2,616)
Net premiums earned		50,693	41,578
Commission income		19,435	13,704
Service fees		185	143
Membership fees		19	17
		70,332	55,442
Claims and expenses incurred:			
Claims and adjustment expenses		30,003	28,149
Commissions		29,255	22,232
Salaries and benefits	13	5,181	4,368
Administration	11	4,131	2,503
Premium taxes	11	5,675	1,219
		74,245	58,471
Net underwriting loss		(3,913)	(3,029)
Net investment income	14	1,786	2,578
Gain on sale of property and equipment		(1)	-
Loss before income taxes		(2,128)	(451)
Income tax expense:	15		
Current		100	485
Deferred		(248)	(13)
		(148)	472
Loss for year		(1,980)	(923)
Other comprehensive income (loss):			
Net unrealized gains (losses) on available-for-sale assets, net of tax of \$518 (2018 - (\$94))		3,391	(616)
Total comprehensive income (loss) for the year		\$ 1,411	\$ (1,539)

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, 2019, with comparative information for 2018

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2017	\$ 500	\$ 5,636	\$ 40,089	\$ 46,225
Loss for the year	-	-	(923)	(923)
Net unrealized losses on available-for-sales assets	-	(616)	-	(616)
Balance, December 31, 2018	500	5,020	39,166	44,686
Loss for the year	-	-	(1,980)	(1,980)
Net unrealized gains on available-for-sales assets	-	3,391	-	3,391
Balance, December 31, 2019	\$ 500	\$ 8,411	\$ 37,186	\$ 46,097

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, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Net income (loss)	\$ (1,980)	\$ (923)
Adjustments for:		
Depreciation and amortization expense	291	279
Deferred tax expense	(248)	(13)
Interest and dividend income	(1,999)	(2,046)
Current tax expense	100	485
Gain on sale of property and equipment	(1)	-
Realized gains on available-for-sale investments	(58)	(807)
	(3,895)	(3,025)
Changes in non-cash operating working capital:		
Premiums receivable	(1,332)	(2,894)
Due from reinsurers	-	-
Deferred acquisition costs	(1,660)	(901)
Reinsurers' share of unpaid claims and adjustment expenses	(10,132)	3,670
Reinsurers' share of unearned premium	(2,413)	1,683
Provision for unpaid claims and adjustment expenses	15,818	1,272
Unearned premiums	8,350	3,231
Unearned reinsurance commission	899	(678)
Due to reinsurers	1,461	261
Amounts payable and accrued liabilities	2,618	(361)
Premium tax liabilities	3,986	201
	13,700	2,459
Interest received	1,917	2,065
Income tax refund	470	556
Taxes paid	(700)	(583)
	15,387	4,497
Investments:		
Purchase of investments	(21,686)	(11,388)
Proceeds on sale of investments	13,948	11,316
Purchase of property and equipment	(155)	(303)
Disposal of property and equipment	1	38
Purchase of intangible assets	(13)	(25)
	(7,905)	(362)
Financing:		
Drawdown from loan facility for executive's vehicle	(14)	24
Increase in cash and cash equivalents	7,468	4,159
Cash and cash equivalents, beginning of year	10,163	6,004
Cash and cash equivalents, end of year	\$ 17,631	\$ 10,163
Cash and cash equivalents comprised of:		
Cash	\$ 13,882	\$ 7,396
Cash equivalents	3,749	2,767
	\$ 17,631	\$ 10,163

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, 2019

1. General information:

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

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

2. Basis of presentation:

(a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements were authorized for issue by the Board of Directors on February 20, 2020.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

The areas of significant estimation in these financial statements are in respect to the provision for unpaid claims and adjustment expenses and the valuation of private investments. Further information over these estimates are included in notes 6 and 18, respectively.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA
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Year ended December 31, 2019

3. Significant accounting policies:

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

(a) Cash and cash equivalents:

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

(b) Financial instruments:

(i) Financial assets:

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

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

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

Financial assets at fair value through profit or loss:

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

The Company does not designate any financial assets at FVTPL.

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3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(i) Financial assets (continued):

Held-to-maturity financial assets:

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

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

Loans and receivables:

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

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

Available-for-sale financial assets:

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

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

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Year ended December 31, 2019

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(ii) Financial liabilities:

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

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

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

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

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

(c) Property and equipment:

(i) Recognition and measurement:

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

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

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

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

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

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3. Significant accounting policies (continued):

(c) Property and equipment (continued):

(ii) Depreciation:

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

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

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

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

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

(d) Intangible assets:

(i) Computer software licences:

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

(ii) Amortization:

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

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

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3. Significant accounting policies (continued):

(e) Leases:

The Company's accounting policies for leases up to December 31, 2018 were in accordance with IAS 17, *Leases* ("IAS 17"). The Company adopted IFRS 16, *Leases* ("IFRS 16") with a date of initial application from January 1, 2019.

IFRS 16 sets out a new model for lease accounting, replacing IAS 17. The new standard recognizes the initial present value of unavoidable future lease payments as right-of-use assets and lease liabilities on the statement of financial position, including those for most leases that were previously accounted for as operating leases.

Policy applicable from January 1, 2019:

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

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

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

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

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

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

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Year ended December 31, 2019

3. Significant accounting policies (continued):

(e) Leases (continued):

Policy applicable from January 1, 2019 (continued):

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

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

Policy applicable before January 1, 2019:

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

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

(f) Recognition and measurement of insurance contracts:

(i) Classification of insurance contracts:

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

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

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

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3. Significant accounting policies (continued):

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

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

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

(iii) Unearned premium provision:

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

(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.

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Year ended December 31, 2019

3. Significant accounting policies (continued):

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

(v) Reinsurance:

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

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

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

The 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.

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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 are charged to a separate category of members' surplus and reserves as the reserves are not considered as part of the members' unappropriated surplus by the British Columbia Financial Services Authority.

(h) Revenue:

(i) Premiums from insurance contracts:

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

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

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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) Commission income and service fees:

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

(iii) Membership fees:

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

(iv) Investment income:

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

(i) Income tax:

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

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

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

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3. Significant accounting policies (continued):

(i) Income tax (continued):

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

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

(j) 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, 2019 in preparing these financial statements:

(i) IFRS 9 - *Financial Instruments*:

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

(ii) IFRS 17 - *Insurance Contracts*:

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

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4. Change in accounting policy:

The Company has adopted IFRS 16, *Leases*, with a date of initial application of January 1, 2019. The requirements of IFRS 16 represent a change from IAS 17, *Leases*.

IFRS 16 was applied using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information for 2018 is not restated and remains as previously reported under IAS 17.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases. As a lessee, the Company leases office equipment. However, the implementation of IFRS 16 did not have a significant impact to the Company and no adjustments were required on the implementation of this standard.

5. Investments:

	2019	2018
Available-for-sale financial assets	\$ 41,480	\$ 33,420
Held-to-maturity investments	43,439	39,794
	\$ 84,919	\$ 73,214

At December 31, 2019, certain investments with a carrying amount of \$3,000 (2018 - \$3,000) are held as security for the bank line of credit (note 16).

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6. Insurance contract provision and reinsurance assets:

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

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

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

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

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

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

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2019 and 2018:

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	\$ 54,615	\$ 30,774	\$ 23,841	41,918	\$ 23,079	\$ 18,839
Claims incurred but not reported	16,311	10,934	5,377	13,190	8,497	4,693
Outstanding claims provision	70,926	41,708	29,218	55,108	31,576	23,532
Unearned premiums	39,989	7,423	32,566	31,639	5,010	26,629
Total insurance provisions	\$ 110,915	\$ 49,131	\$ 61,784	\$ 86,747	\$ 36,586	\$ 50,161

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

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

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	\$ 54,615	\$ 30,774	\$ 23,841	\$ 41,918	\$ 23,079	\$ 18,839
Undiscounted provision for incurred but not reported ("IBNR") claims	13,011	9,765	3,246	10,778	7,718	3,060
Undiscounted unallocated loss adjustment expenses	605	-	605	476	-	476
	68,231	40,539	27,692	53,172	30,797	22,375
Effect of discounting	(2,030)	(1,340)	(690)	(1,572)	(999)	(573)
Provision for adverse deviation	4,725	2,509	2,216	3,508	1,778	1,730
Provision for unpaid claims and adjustment expense	\$ 70,926	\$ 41,708	\$ 29,218	\$ 55,108	\$ 31,576	\$ 23,532

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

	2019	2018
Provision for net unearned premiums, January 1	\$ 26,629	\$ 21,715
Net premiums written	56,861	44,194
Portfolio transfer	(231)	2,298
Less net premiums earned	(50,693)	(41,578)
Provision for net unearned premiums, December 31	\$ 32,566	\$ 26,629

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.

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

(e) Assumptions on claims development:

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

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

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

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

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses is 2.01% (2018 - 2.21%). A 1.00% change in the discount factor would change the net provision by \$377 (2018 - \$282).

(g) Development claims table:

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

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

(h) Expected loss ratios:

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

	Expected loss ratio	
	2019	2018
Property	64.00%	64.00%
Casualty	80.00%	80.00%
Blended expected loss ratio	64.89%	64.84%

7. Deferred policy acquisition costs:

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

At December 31, 2017	\$ 6,434
Expenses deferred	23,047
Recognized in net earnings	22,146
At December 31, 2018	7,335
Expenses deferred	31,152
Recognized in net earnings	29,492
At December 31, 2019	\$ 8,995

8. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2017	\$ 2,473	\$ 206	\$ 488	\$ 111	\$ 3,278
Additions	202	27	18	56	303
Disposals	-	-	-	(38)	(38)
Balance, December 31, 2018	2,675	233	506	129	3,543
Additions	70	42	43	-	155
Disposals	-	-	(110)	(33)	(143)
Balance, December 31, 2019	\$ 2,745	\$ 275	\$ 439	\$ 96	\$ 3,555

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8. Property and equipment (continued):

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2017	\$ 929	\$ 148	\$ 204	\$ 67	\$ 1,348
Depreciation for the year	52	17	100	21	190
Disposals	-	-	-	(25)	(25)
Balance, December 31, 2018	981	165	304	63	1,513
Depreciation for the year	73	21	87	22	203
Disposals	-	-	(110)	(33)	(143)
Balance, December 31, 2019	\$ 1,054	\$ 186	\$ 281	\$ 52	\$ 1,573
Carrying amounts:					
At December 31, 2018	\$ 1,694	\$ 68	\$ 202	\$ 66	\$ 2,030
At December 31, 2019	\$ 1,691	\$ 89	\$ 158	\$ 44	\$ 1,982

9. Intangible assets:

	Computer software licenses
Cost:	
Balance, December 31, 2017	\$ 436
Acquisitions	25
Disposal	-
Balance, December 31, 2018	461
Acquisitions	13
Disposal	(26)
Balance, December 31, 2019	\$ 448

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9. Intangible assets (continued):

	Computer software licenses	
Amortization:		
Balance, December 31, 2017	\$	202
Amortization for the year		89
Disposal		-
Balance, December 31, 2018		291
Amortization for the year		88
Disposal		(26)
Balance, December 31, 2019	\$	353
Carrying amounts:		
At December 31, 2018	\$	170
At December 31, 2019		95

10. Amounts payable and accrued liabilities:

	2019	2018
Agents, brokers and intermediaries	\$ 1,306	\$ 800
Other amounts payable and accrued expenses	2,336	238
	\$ 3,642	\$ 1,038

11. Premium tax:

Included in premium tax expenses and payable, the Company has expensed \$3,581 in premium taxes. In addition, cumulative interest of \$1,782 is included in administration expenses and amounts payable and accrued liabilities. This is in connection with a dispute with the Ministry of Finance over premium taxes payable for the years 2012 and 2013. The Company intends to continue to pursue this matter with the Ministry of Finance.

12. Reserves:

Pursuant to the guidelines set by the British Columbia Financial Services Authority, the Company has set aside an earthquake premium reserve of \$500 (2018 - \$500).

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13. Related parties:

(a) Key management personnel compensation:

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

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

Key management personnel compensation comprised:

	2019	2018
Salaries and benefits	\$ 1,001	\$ 820
Registered savings plan contributions	66	59
	\$ 1,067	\$ 879

(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:

	2019	2018
Management insurance premiums	\$ 8	\$ 6
Directors insurance premiums	69	66
	\$ 77	\$ 72

The Company entered into a vehicle purchase agreement in 2018 for an executive. The net amount financed for the transaction was \$40 (2018 - \$54). The loan payable is included in amounts payable and accrued liabilities in the statement of financial position.

14. Net investment income:

	2019	2018
Recognized in net earnings:		
Interest income on held-to-maturity investments	\$ 1,214	\$ 1,070
Dividend income on available-for-sale investments	785	975
Net realized gain on investments	58	807
Investment management fees	(271)	(274)
Net investment income	\$ 1,786	\$ 2,578

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15. Income taxes:

Total tax expense (recovery) consists of the following:

	2019	2018
Current tax	\$ 100	\$ 485
Deferred tax	(248)	(13)
Total tax expense (recovery)	\$ (148)	\$ 472

The following is a reconciliation of the Company's income tax expense at its statutory tax rate of 27.0% (2018 - 26.3%) to its effective tax rate.

Reconciliation of effective tax rate:

	2019	2018
Net income (loss) before income tax	\$ (2,128)	\$ (451)
Income tax at combined federal and provincial statutory income tax rate 27.0% (2018 - 26.3%)	\$ (575)	\$ (119)
Non-taxable income and non-deductible expenses	590	604
Other	(163)	(13)
	\$ (148)	\$ 472

16. Line of credit:

The Company maintains a line of credit agreement with a third-party lender for up to \$3,000 (2018 - \$3,000). Nil was drawn on the line of credit as at December 31, 2019 (2018 - 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.

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17. Financial and insurance risk management (continued):

(a) Overview (continued):

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

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

(b) Risk management framework:

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

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

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

(c) Insurance risk:

(i) Terms and conditions of insurance contracts:

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

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

(A) Property:

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

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(B) Accident:

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

(C) Personal accident:

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

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

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

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

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

(A) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of \$5,000 (2018 - \$5,000).

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(A) Underwriting strategy (continued):

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

(B) Reinsurance strategy:

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company enters into a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Company on any one risk to less than \$500 (2018 - \$495).

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

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

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

(iii) Exposure relating to catastrophe events:

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

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of \$1,000 (2018 - \$625).

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17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of \$110,000 (2018 - \$90,000).

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

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

(iv) Other risks and policies mitigating these risks:

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Fraud detection is primarily managed through vigilant monitoring activities of experienced claims 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, 2019 and 2018, 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 31, 2019 and 2018, 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:

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

2018	AAA	AA	A	BBB	Not rated	Total
Fixed income	\$ 3,584	\$ 14,470	\$ 3,748	\$ 3,335	\$ 4,849	\$ 29,986
Short-term investments	2,601	2,501	500	501	3,705	9,808
Equities	50	-	292	75	33,003	33,420
	\$ 6,235	\$ 16,971	\$ 4,540	\$ 3,911	\$ 41,557	\$ 73,214

The aging of premiums receivable at the reporting date was:

	2019	2018
Not past due	\$ 12,917	\$ 11,317
Past due (>90 days outstanding)	248	516
	\$ 13,165	\$ 11,833

As at December 31, 2019 and 2018, the Company did not have any impaired receivables, held-to-maturity investments or available-for-sale financial assets.

(e) Liquidity risk:

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

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

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17. Financial and insurance risk management (continued):

(e) Liquidity risk (continued):

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

As at December 31, 2019 and 2018, the majority of the Company's financial liabilities were due within one year.

(f) Currency risk:

Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk is limited to its investment portfolio, which invests in U.S. equity securities. The amount of US equity securities as at December 31, 2019 was \$6,625 (2018 - \$8,747). The Company manages currency risk by monitoring US dollar exposure in its investment portfolio at targeted levels.

A strengthening or weakening of the Canadian dollar of 5% against the U.S. dollar at December 31, 2019 would have increased or decreased net earnings and members' surplus by the \$331 (2018 - \$437) assuming all other variables remain constant.

(g) Interest rate risk:

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

(h) Other price risk:

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

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the U.S. For such investments classified as available-for-sale, a 5% change in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus and reserves by approximately \$1,611 (2018 - \$1,358).

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18. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	\$ 41,480	\$ 41,480	\$ 33,420	\$ 33,420
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	17,631	17,631	10,163	10,163
Held-to-maturity investments	43,439	43,341	39,794	39,485
Accrued investment income	342	342	260	260
Premiums receivable	13,165	13,165	11,833	11,833
Amounts payable and accrued liabilities	(3,643)	(3,643)	(1,038)	(1,038)
Due to reinsurers	(8,236)	(8,236)	(6,775)	(6,775)
	\$ 104,178	\$ 104,080	\$ 87,657	\$ 87,348

(b) Valuation models:

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

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

(c) Fair value hierarchy:

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

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

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18. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

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:

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

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

For the years ended December 31, 2019 and 2018, there were no significant transfers between the three levels of the hierarchy.

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

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

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

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18. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

(ii) Financial instruments measured at amortized cost:

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

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

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

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

2019					
Description	Fair value	Valuation technique	Unobservable input	Amount/rate	Sensitivity to change in significant unobservable input
Investments	\$ 1,500	Redemption value	Redemption value	\$ 1,500	The estimated fair value would increase if enterprise value increased
Investments	\$ 7,750	Capitalization models	Capitalization rate	4.30%-6.00%	The estimated fair value would decrease if the capitalization rate increased
2018					
Description	Fair value	Valuation technique	Unobservable input	Amount/rate	Sensitivity to change in significant unobservable input
Investments	\$ 1,500	Redemption value	Redemption value	\$ 1,500	The estimated fair value would increase if enterprise value increased
Investments	\$ 4,750	Capitalization models	Capitalization rate	6.25% - 6.99%	The estimated fair value would decrease if the capitalization rate increased

Redemption value represents the amount that the Company will receive on disposal of the investment. Capitalization models employ a capitalization rate, which is used to determine the fair value of a property based on that property's net operating income. If the redemption value was to increase or decrease by 10% or the capitalization rate were to increase or decrease by 1%, this would result in increase or decrease the investment fair value by \$(2,802) or \$4,840 (2018 - \$(1,255) or \$1,679).

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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, the British Columbia Financial Services Authority ("BCFSA"); safeguard the Company's ability to continue as a going concern; and provide an adequate return on capital by pricing insurance and investment contracts commensurately with the level of risk.

The Company's regulator, BCFSA, sets and monitors capital requirements for the Company's operations. The Company is required to maintain a level of sufficient capital to achieve a target of 150% of a minimum capital test ("MCT"). As at December 31, 2019 and 2018, the Company was in compliance with these requirements.



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