2009 Annual Report

The Mutual Fire Insurance Company
of British Columbia

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President and Chairman's Report

Jake Bredenhof
President and Chairman of the Board

The year 2009 saw the stock market recover from some of the worst market losses that many in the insurance industry have ever experienced. Losses which were reminiscent of the great depression.
Mutual Fire Insurance with its conservative investment policy, weathered the roller coaster investment cycle of not just last year but the past few years well.

2009 saw the company experience an unusual severity of large losses which resulted in a very modest profit in underwriting compared to previous years. We will expand on many of these highlights during the course of the AGM

The Mutual Fire Insurance Company of British Columbia changed its reinsurance provider late this past summer. We are now doing business with Willis Re, an international reinsurance broker who markets our portfolio on the open market to reinsurers around the world. At the same time as changing reinsurance providers, we also took on more risk ourselves by discontinuing our quota share treaty. In a year of lower loss ratios, this move will have a very positive effect on our bottom line.

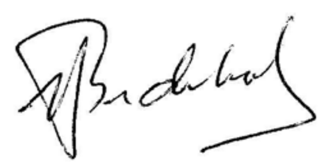
The Board of Directors is responsible to the member policyholders of the company for the performance of the business and the protection of the Company's assets.

Transparency is the key to confidence in our company by all stakeholders, and for this reason we have tried to enhance the quality of reporting in the annual report for 2009.

Against a background of economic uncertainties along with continued soft market underwriting across Canada, the board plays a key role in reviewing and reinforcing business strategy, monitoring the performance of the CEO and management team, investment performance, understanding risks, and reviewing risk control. I'm pleased to say that the board, with its diverse business exposure, brings a wealth of experience to the boardroom table. By having a dedicated board bringing with them a strong sense of stewardship, it helps make for a board where all are focused in the same direction, seeing to it that Mutual Fire Insurance continues to be the well respected insurance company we are today.

This past year the board did an evaluation of its effectiveness and operations. We also put our CEO through a very thorough evaluation process with the help of an external evaluator. The findings of this work confirmed a culture of strong engagement, commitment and open debate, all of which positions both board and CEO, to respond to current challenges both quickly and formidably.

In closing, I would like to pay tribute to the energy, skill and commitment of all of our staff who continue to perform well in such a very challenging market.



Chief Executive Officer Report

Darin Lord Nessel, CIP

Chief Executive Officer

Before I begin, I would like to comment briefly on last year's report where I had mentioned that as an industry, we would have to react in an orderly fashion. By that I meant underwriting discipline would have to be maintained and rate adequacy would be paramount, in order to combat the poor equity returns in the financial markets. I am pleased to announce that in 2009, once again there were no appreciable rate increases passed on to our policyholders and with respect to the financial markets, the company was able to keep our equity portfolio intact, without realizing substantial losses, in order that we could stay the course and see the market recover this year.

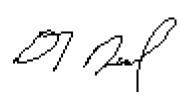
The company is also thrilled that this year we received an increase in our company rating from the rating agency "A.M. Best". This saw the company move from a financial strength rating of B++ to A- (Excellent) and our insurer credit rating from B++ to A-. In fact the only insurance company in Canada to have both of these ratings increased.

2009 witnessed an unforeseen change in our reinsurance partners. Early in the year following the release of industry financial statements, the Financial Institutions Commission (FICOM), approached us to discuss the declining financial strength of our then, reinsurance partner, The Farm Mutual Reinsurance Plan (FMRP). FMRP had two very difficult years in 2007 and 2008 which saw their Minimum Capital Test ratio plummet to just over 150%. Following our discussions with FICOM, it was clear our only alternative was to seek new reinsurance partners. By September 1, a new relationship was forged with our current reinsurance intermediary, Willis Re. Our property retention remained at $200,000 and will continue to be at $200,000 until at least the end of the term, January 1, 2011. The Liability retention was increased to $350,000 for the same 16 month period. For the first time in the history of the company, the quota share treaty has been eliminated and the company will now move forward with an excess of loss treaty only. We are pleased to say however, that FMRP has made an admirable recovery this past year and we hope they continue in this regard in order to alleviate any concerns our members may have with respect to outstanding FMRP claims.

The company began our first complete year of underwriting into our newly licensed jurisdiction of Alberta. I am also pleased to report that we exceeded our budgeted written premiums for that province. Several brokers have been contracted and we look forward to working together as we move forward into 2010. We also became licensed in Saskatchewan effective November 2, 2009 and look forward to expanding into that market.

During 2009 the company hired an in-house Chief Financial Officer and through his leadership, has encountered much in the way of improvements to the financial reporting, accounting and human resource divisions of the company. The company's Chief Operations Officer has also been very busy in preparing the company to go "live" with a new computer system scheduled for early 2010.

Last year was a very busy year at Mutual Fire. Not only did we handle many losses and underwrite a solid increase in Direct Written Premiums, but we also laid the ground work for many more changes this year. Everything from a new website, new logo, new computer software system, new look farm packages and increased penetration into the Alberta and Saskatchewan jurisdictions with the help of our newly hired Business Development Manager. I have to say that Mutual Fire is most certainly looking forward to an exciting year once again.



Finance Report

Jason Christopherson, CGA, BAccSc
Chief Financial Officer

2009 was a year that saw many changes within Mutual Fire Insurance. Poor underwriting results together with the midterm cancellation of our Quota Share Reinsurance Treaty made 2009 one of our least profitable years on record.

The overall direct written premiums ended the year at $26,452,646, a 13.44% growth over the previous year. Net premiums earned increased by 30.51% to $16,971,810. This increase was the result of changes to our reinsurance arrangements that allowed us to retain more of our written premium. However, these increases were offset by a 2009 loss ratio by year of account of 61.26% compared to 42.18% in 2008. A 45.23% increase from the previous year. The resulting combined ratio for 2009 of 98.76% produced a modest net income after taxes of $843,209.

This year saw our investment portfolio rebound well after the worst market performance in decades in 2008. Our conservative investment strategy has allowed Mutual Fire to preserve our capital through these uncertain times. Our portfolio is heavily weighted in bonds and fixed income products. As a result, other comprehensive income for 2009 was $468,752 compared to a loss in 2008 of $665,164. After recognizing our other comprehensive income for the year 2009 ended with a comprehensive income after taxes of $1,311,961. We ended the year with a Minimum Capital Test ratio of 473.62% which is well above regulatory minimums and industry norms.

We are excited to see what 2010 will bring. We will continue to manage our growth, expand in to Saskatchewan, realize the benefits of not having our Quota Share Reinsurance Treaty, and reducing our costs to improve our underwriting results. We will do this while maintaining our conservative investment approach and monitoring our portfolio diligently, in an effort to take advantage of increases in the equity markets. Our capital position remains strong and we look forward to making it even stronger.

Operations & Underwriting Report

Robert Karr
Chief Operations Officer

BRITISH COLUMBIA AND ALBERTA

Underwriting Results

Underwriting results declined in 2009, however, we still produced a net underwriting profit of $212,158. Our gross loss ratio increased by 44.44% ending the year at 52%.

Gross Written Premiums

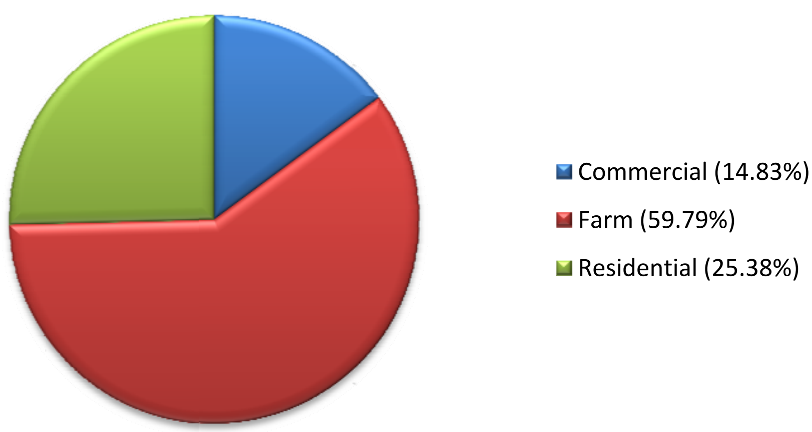
Gross Written Premiums totaled $26,452,646 which was an increase of 13.44% over 2008.

Commercial
Gross written premiums increased by 24.55% to $3,922,873

Farm
Gross written premiums increased by 10.97% to $15,815,493

Residential
Gross written premiums increased by 13.46% to $6,714,280

Gross Written Premiums
By Policy Type



Operations & Underwriting Report (con't)

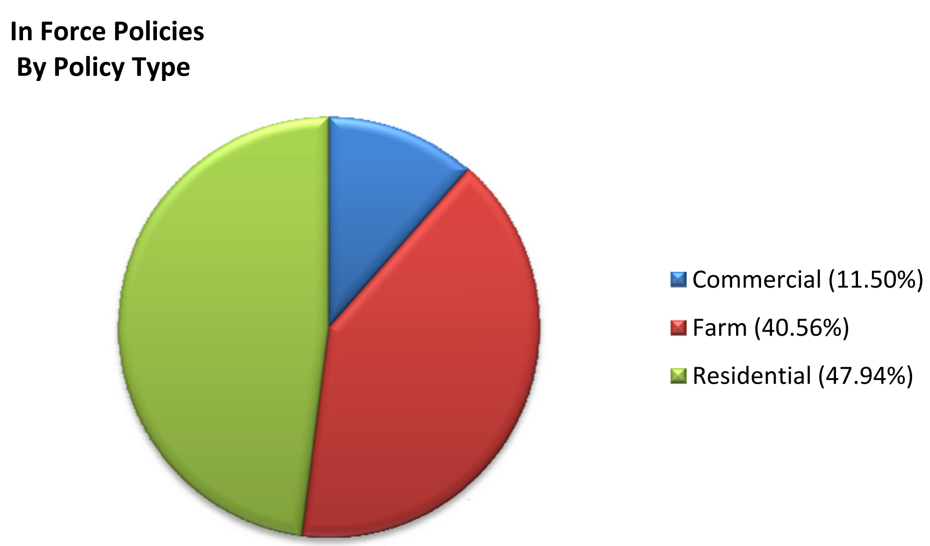
In Force Policies

Policies in force increased by 11.32% ending the year with 13,823 policies.

Commercial
In force policies increased 44.81% ending the year at 1,590 policies

Farm
In force policies increased 7.87% ending the year at 5,606 policies

Residential
In force policies increased 8.25% ending the year at 6,627 policies



Operations & Underwriting Report (con't)

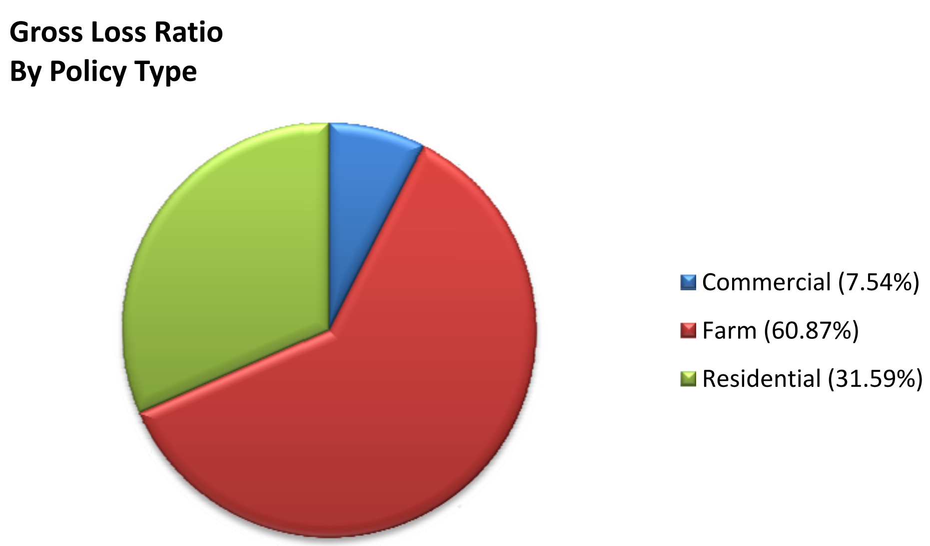
Gross Loss Ratio

Our gross loss ratio increased by 44.44% ending the year at 52%

Commercial
The gross loss ratio increased by 58.82% ending the year at 27%

Farm
The gross loss ratio increased by 32.5% ending the year at 53%

Residential
The gross loss ratio increased by 80.55% ending the year at 65%



Operations & Underwriting Report (con't)

Independent Brokerage Network
Our commitment to broker distribution network remains strong, and we would like to thank all of our brokers for their continued support.

During 2009 we appointed 11 new brokers. Over the year there were some acquisitions and consolidations. We were represented by 93 brokers with 403 locations throughout western Canada.

Province	**Brokers**	**Locations**
British Columbia	78	326
Alberta	13	58
Saskatchewan	2	19

Our Underwriting and Marketing Team
In conjunction with a year of 13.43% growth, we have been developing a new computer software program with our supplier, Insurance Systems Inc from Toronto, Ontario over the past 2 years. This new software will allow us to automate manual processes in all departments and provide enhanced products and services to our broker partners.

I would like to extend my gratitude and thanks to all our staff for their dedication and hard work over the past year.

Claims Report

Pamala Louttit, CIP

Claims Manager

2009 was a busy year for the claims department. We adjusted 534 property, 50 commercial and 27 liability losses for a total of 611 claims. Many claims were adjusted by our own staff, at the same time, we acknowledge and appreciate the talents of our independent adjusters and our managing general agents who are dedicated to Mutual Fire's high standards.

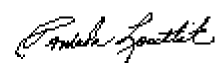
Our Incurred Losses for 2009 were just over $13.8 million compared to $8.4 million in 2008 - an overall increase of 64%. In 2009, Mutual Fire experienced an increase in loss severity. Large property losses, 13 in all, totaled $4.6 million compared to 7 large property losses in 2008 of $2.7 million. Large property losses (or excess losses as they are referred to under our reinsurance treaty) are losses that exceed $200,000. The elimination of our Quota Share in the last four months of the year produced a 25% increase in claims costs. As well, overall growth in all lines of business resulted in proportionally greater claims results.

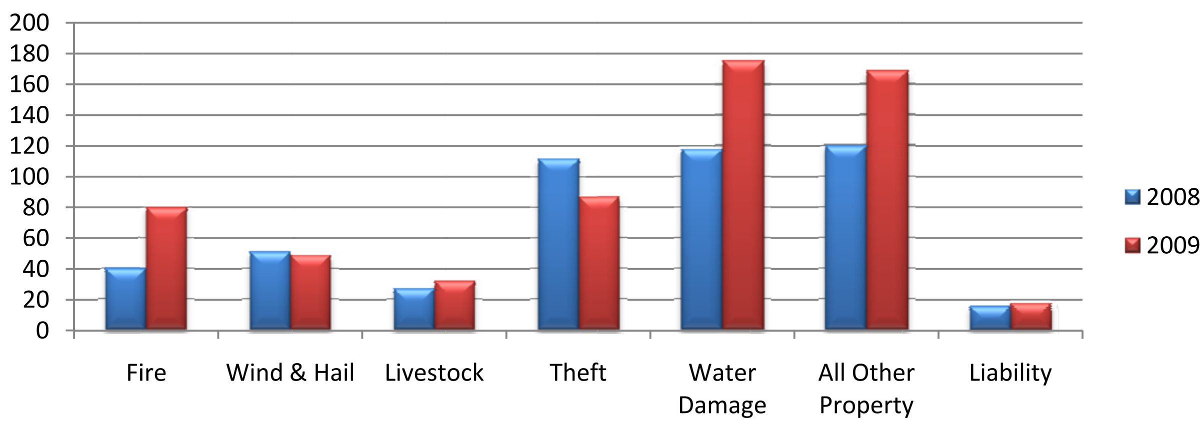
On a positive note, liability losses were the lowest in recent years. As we negotiate liability losses, our emphasis will be to develop our knowledge and ability to skillfully handle these claims to conclusion.

Thank you to our legal counsel for their expertise and commitment to Mutual Fire.

Our claims philosophy is to settle claims promptly, efficiently and fairly and in 2010 this philosophy will continue. In late 2009, we welcomed a third department member. With increased staff, we will continue to focus on customer service, claims training, education and the overall growth of the department using a team approach. At Mutual Fire, we understand that within each department, whether it be underwriting, accounting or claims, we must recognize the talents of individuals and strive to work together to compliment the overall team. Focused and efficient departments are key to strong and united teams within any organization. As our company continues to grow, both in gross premium written and by jurisdiction, our claims settling philosophy will be both maintained and enhanced as we move forward in 2010.

In closing, I would like to take this opportunity to thank all of our business partners that contribute to the settlement of our claims. It has been a pleasure working with you in the past, and we look forward to continuing our valued relationships.





Company Profile

Head Office

201-9366 200A Street
Langley, BC Canada
V1M 4B3
Phone: (604) 881-1250
or 1-866-417-2272

Auditors

Berris Mangan, Charted Accountants
1827 West 5th Avenue
Vancouver, BC Canada
V6J 1P5

Actuary

Dion, Durrell & Associates Inc.
Suite 2900, 250 Yonge Street
Toronto, ON Canada
M5B 2L7

Board of Directors


Jake Bredenhof
President


Len Bouwman
Vice Chairman


Ralph Terpstra
Treasurer


Warren Nottingham


Joe Taylor


Darryl Cherry


Don Hooge


Mike Bose

AUDIT COMMITTEE:
Ralph Terpstra (Chair), Jake Bredenhof, Joe Taylor, Mike Bose

CONDUCT REVIEW COMMITTEE:
Warren Nottingham (Chair), Jake Bredenhof, Darryl Cherry, Don Hooge

INVESTMENT AND LOAN COMMITTEE:
Len Bouwman (Chair), Joe Taylor, Don Hooge

Management & Staff

Back Row
Robert Karr-COO, Morgan Cook, Nicole Lapierre, Lisa Palmer, Darin Nessel-CEO, Robbi-Lynn Sluyter, Patricia Coe, Bill Blackwood

Middle Row
Maggie Hood, Beth Jensen, Heather deVink, Lynn Collard, Pamala Louttit, Marcy Yuchym, Jason Christopherson-CFO

Front Row
Debra Ross, Sandie Ring, Tannis McCulloch, Gail Thomas, Cheryl Fortier, Delia Descalzo, Pina Dorey

Management Statement

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

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

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

The Board of Directors is responsible for approving the financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the financial statements. The Audit Committee then submits its report to the Board of Directors recommending approval of the financial statements.

The Financial Institutions Commission makes a bi annual 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 Nessel, CIP
Chief Executive Officer

Jason Christopherson, CGA, BAccSc
Chief Financial Officer

Auditors' Report

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

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

We have audited the balance sheet of The Mutual Fire Insurance Company of British Columbia as at December 31, 2009 and the statements of income and comprehensive income, unappropriated members' surplus and accumulated other comprehensive income and changes in cash resources for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and the changes in its cash resources for the year then ended in accordance with Canadian generally accepted accounting principles.

Berris Mangan, Charted Accountants

February 2, 2010
Vancouver, BC Canada

Actuary's Report

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

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 policy 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 policy 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.

Policy 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

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

I have valued the policy liabilities of The Mutual Fire Insurance Company of British Columbia for its balance sheet at December 31, 2009 and their change in the statement of 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 policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 19, 2010

Cosimo Pantaleo
Fellow, Canadian Institute of Actuaries

Balance Sheet

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

	2009	2008
ASSETS	**$**	**$**
Cash	1,164,187	2,009,879
Investments (Notes 3(d), 6 & 8)	30,102,820	26,726,270
Other investments (Notes 3(d) & 7)	655,582	1,150,726
Investment income due and accrued	103,218	47,949
Premiums receivable	3,363,021	2,788,499
Income taxes recoverable	281,497	-
Sundry receivable and deposit	318,456	155,127
Due From Reinsurers	1,415,467	-
Reinsurers' share of provision for:		
Unpaid claims and adjustment expenses (Notes 3(h), 10 & 11)	11,118,000	4,019,000
Unearned premiums (Notes 3(g), 9)	-	2,769,559
Deferred acquisition costs (Note 3(g))	2,886,717	2,383,132
Future income taxes (Notes 3(l) & 14)	36,317	27,029
Property, plant and equipment (Notes 3(j) & 12)	1,137,036	635,889
	52,582,318	42,713,059
LIABILITIES		
Provision for unpaid claims and adjustment expenses (Notes 3(h), 10 & 11)	17,316,000	8,390,000
Unearned premiums (Notes 3(g) & 9)	14,280,604	12,047,179
Unearned reinsurance commissions	13,058	1,419,794
Due to reinsurers	-	760,844
Income taxes payable	-	446,986
Other liabilities	809,330	796,893
	32,418,992	23,861,696
MEMBERS' SURPLUS AND RESERVES		
Reserves (Note 13)	1,809,209	686,076
Accumulated other comprehensive income	123,762	(344,990)
Unappropriated members' surplus	18,230,355	18,510,277
	20,163,326	18,851,363
	52,582,318	42,713,059

Commitments (Note 16)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors

Director

Director

Statement of Unappropriated Members' Surplus and Accumulated Other Comprehensive Income

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

	2009	2008
	$	$
SURPLUS, beginning of year	18,510,277	15,447,612
Net income for the year	843,210	3,250,501
Increase in reserves	(1,123,132)	(187,836)
SURPLUS, end of year	18,230,355	18,510,277
ACCUMULATED OTHER COMPREHENSIVE INCOME, beginning of year	(344,990)	320,174
Other comprehensive income for the year	468,752	(665,164)
ACCUMULATED OTHER COMPREHENSIVE INCOME, end of year	123,762	(344,990)

See accompanying notes to consolidated financial statements

Statement of Income and Comprehensive Income

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

	2009	2008
Premium Written	**$**	**$**
Gross premiums written	26,452,646	23,319,480
Less: Reinsurance premiums ceded	(7,394,533)	(8,156,286)
Net premiums written	19,058,113	15,163,194
Less: Increase in unearned premiums	(2,086,294)	(2,159,378)
Net premiums earned	16,971,819	13,003,816
Commission income	1,713,971	2,293,561
	18,685,790	15,297,377
Claims and Expenses Incurred		
Claim and adjustment expenses	10,397,179	5,485,464
Commissions	5,625,029	4,749,713
Salaries, grants and benefits	1,434,739	1,313,511
Administrative - per schedule	802,263	779,765
Premium tax	18,532	1,288
Premium refund	195,889	115,559
	18,473,631	12,445,300
Net Underwriting Income	212,159	2,852,077
Other Income		
Investment income (Note 6)	910,152	1,006,453
Membership fee	33,024	30,386
	943,176	1,036,839
Net income before Income Taxes	1,155,335	3,888,916
Current income tax expense (Note 14)	(321,413)	(641,783)
Future income tax benefit (Note 14)	9,288	3,368
Net Earnings for the year	843,210	3,250,501
Other Comprehensive Income - net of income taxes		
Net unrealized gains (losses) on available for sale investments	468,752	(665,164)
Comprehensive Income	1,311,962	2,585,337

See accompanying notes to consolidated financial statements

Statement of Changes in Cash Resources

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

	2009	2008
	$	$
Operating Activities		
Net income for the year	843,210	3,250,501
Adjustments to convert earnings to cash basis:		
(Increase) in accrued interest receivable	(55,269)	(24,701)
(Increase) in agents balances and premiums receivable	(574,522)	(420,422)
(Increase) in other receivable and deposit	(163,329)	(155,127)
(Increase) in due from reinsurer	(1,415,467)	-
Decrease (Increase) in reinsurers' share of:		
Unpaid claims and adjustment expenses	(7,099,000)	668,000
Unearned premiums	2,769,559	(50,843)
(Increase) in deferred policy acquisition expenses	(503,585)	(495,310)
(Increase) in future income tax asset	(9,288)	(3,368)
Increase in provision for unpaid claims	8,926,000	429,000
Increase in unearned premiums	2,233,425	2,210,222
Increase (Decrease) in unearned reinsurance commission	(1,406,736)	485,243
Increase (Decrease) in due to reinsurers	(760,844)	180,140
Increase (Decrease) in income taxes payable	(728,483)	576,614
Increase in other liabilities	12,439	61,453
Amortization of capital assets	76,380	68,651
Amortization of other investment	21,841	38,640
Amortization of bonds and treasury bills income	(587,272)	(925,325)
Loss (Gain) on sale of investments	111,423	(483,629)
	847,272	2,159,238
Cash provided by operations	1,690,482	5,409,739
Investing Activities		
Bonds-purchase	(4,477,890)	(12,311,731)
Bonds-proceeds on sale	3,247,161	7,831,340
Stocks-purchase	(1,761,908)	(283,069)
Stocks-proceeds on sale	560,687	276,350
Property, plant and equipment-addition	(104,224)	(65,815)
	(2,536,174)	(4,552,925)
Increase (Decrease) in Cash	(845,692)	856,814
Cash, beginning of year	2,009,879	1,153,065
Cash, end of year	1,164,187	2,009,879

Statement of Administrative Expenses

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

	2009	2008
		(Note 19)
	$	$
Amortization - office	76,380	68,651
Appraisals	110,115	91,151
Bank charges	4,874	3,034
Building maintenance	15,428	4,296
Computer supplies	30,502	49,261
Donation and scholarships	37,950	17,545
Dues and fees	30,684	43,950
Inspection and education	28,756	138,107
Insurance	21,535	14,879
Marketing	78,811	53,534
Meeting , travel, & entertainment	73,980	72,184
Office & miscellaneous	112,279	42,891
Postages	28,445	39,087
Professional fees	107,841	101,786
Telephone	23,727	19,068
Vehicle expenses	20,956	20,341
	802,263	779,765

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

1 Nature of Business

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 and is subject to the Insurance Act of British Columbia, the Financial Institutions Act of British Columbia, Insurance Act of Alberta, and the Saskatchewan Insurance Act. It is licensed to write property and liability insurance in British Columbia, Alberta, and Saskatchewan.

2 Reporting Responsibilities

The financial statements and accompanying notes are the responsibility of management.

The external auditors of the Company are required to conduct an examination in accordance with Canadian generally accepted auditing standards to enable their reporting to the members as to whether the annual financial statements present fairly, in all material respects, the financial position and results of operations of the Company in accordance with Canadian generally accepted accounting principles.

The Actuary is appointed by the Board of Directors pursuant to the Insurance Companies Act. He is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. He is also required to provide an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of the Company. Examination of supporting data for accuracy and completeness and analysis of Company assets for their ability to support the amount of policy liabilities are important elements of the work required to form this opinion.

Policy liabilities primarily include unearned premiums, unpaid claims and adjustment expenses, the reinsurers' share of unpaid claims and adjustment expenses and deferred premium acquisition costs. The Appointed Actuary uses the work of the external auditors in verifying data files for valuation purposes.

3 Significant accounting policies

a) Basis of presentation

These financial statements have been prepared in accordance with section 127 of the Financial Institutions Act of British Columbia which states that the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles and regulations of the Act.

b) Revenue recognition

Premiums written are recognized as income over the term of the policy. Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of amounts recoverable from reinsurers on unpaid claims and adjusting expenses are recorded as accounts receivable.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions of British Columbia, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period of the statement of income. Actual results could differ from those estimates.

d) Investments

In consequence of the new Canadian accounting standards the Company records its investments as follows:

i) Investment in debt securities and mortgage loans that are held to maturity are recorded at amortized cost with discounts and premiums being amortized to income using the constant yield method over the period to maturity.

ii) Investment in equity that are held available for sale are carried at fair values.

iii) Investment in land is recorded at cost.

iv) Investment in building is recorded at cost and amortized on a declining balance basis at a rate of 4% per annum.

Gains and losses on investments sold are included in investment income when realized and are calculated on the basis of average cost. Increase or decrease in value on investments between their costs and fair values as at January 1, 2009 and during the year ended December 31, 2009 is recorded as gains or losses in the Company's Accumulated Other Comprehensive Income Account.

e) Reinsurance

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of income to indicate the results of its retention of premium written.

f) Policy liabilities

Policy liabilities primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the reinsurers' shares of provisions for unpaid claims and adjustment expenses, deferred acquisition costs, and salvage and subrogation is recoverable.

g) Premium related balances

i) Premiums and unearned premiums

The Company earns premium income evenly over the term of the insurance policy generally using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums. Premiums receivable are measured at amortized cost, less any required provision for doubtful amounts.

ii) Deferred acquisition costs

Acquisition costs are comprised of agents' commissions and other expenses which relate directly to the acquisition of premiums. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

h) Claims related balances

i) Provisions for unpaid claims and adjustment expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income. Claim liabilities are carried on a discounted basis.

ii) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time and using principles consistent with the Company's.

i) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities, refund due to policy holders, due to re-insurers and other financial liabilities are measured at amortized cost.

j) Property and equipment

Property, plant and equipment, including those classified as other investments, are recorded at cost and are amortized at the following annual rates:

Building	4% declining balance basis
Computer Equipment and Software	20% straight-line basis
Office furniture and equipment	20% declining balance basis

k) Financial instruments

The Company's financial instruments consist of cash, investments, investment income due and accrued, premiums receivable, reinsurers' share of provision for unpaid claims and adjustment expenses, provision for unpaid claims and adjustment expenses, due to reinsurers, and other liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

l) Income taxes

The Company accounts for income taxes using the asset and liability method, which determines future income taxes based on the difference between assets and liabilities reported for financial accounting purposes and those reported for income tax purposes. Future income taxes are calculated using tax rates anticipated to apply in periods that temporary differences are expected to reverse.

m) Future Accounting Changes

i) International Financial Reporting Standards

The Accounting Standards Board has confirmed that all public accountable enterprises will have to comply with IFRS for fiscal years beginning on or after January 1, 2011. The Company understands there to be differences between current Canadian GAAP and IFRS, and has undertaken a project to understand the possible future effects on the financial statements.

4 Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Re-insurance is utilized to protect capital from catastrophic losses as the frequency and severity of those losses are inherently unpredictable. Mutual Fire Insurance Company of British Columbia has purchased catastrophe coverage for property claims as described in Note 15.

Reserves are maintained as described in Note 13. The excess loss payable by the Company in the event of an earthquake under the earthquake reserve at December 31, 2009 amounted to $136,159 (2008: $136,159). Other reserves are maintained to fulfill regulatory requirements.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors.

	Regulatory Requirement	**2009**	**2008**
Minimum Capital Requirement	$4,249,000	$20,124,000	$ 18,730,000

5 Fair Values of Financial Instruments

The table in Note 6 presents the fair value of all financial instruments. Fair value represents the Company's estimate of the price at which a financial instrument could be exchanged in an orderly market in an arm's length transaction between knowledgeable and willing parties, under no compulsion to act. The fair values of financial instruments classified as loans and receivables and other financial liabilities are based on amortized cost. The fair values of financial instruments classified as held-to-maturity and available for sale are based on quoted market prices.

6 Investment Information

Estimated fair value and unrealized gains and losses

The book values, estimated fair values and unrealized gain (loss) on investments as at December 31, 2009 were as follows:

	2009			**2008**		
	$ Carrying value	**$** Estimated fair value	**$** Unrealized gain (loss)	**$** Carrying value	**$** Estimated fair value	**$** Unrealized gain (loss)
Debt securities						
Federal	161,350	160,916	(434)	-	-	-
Provincial	13,438,014	13,502,355	64,341	13,023,333	13,133,779	90,446
Corporate	12,055,131	12,439,665	384,534	11,171,323	10,797,558	(373,765)
	25,654,495	26,102,936	448,441	24,194,656	23,911,337	(283,319)
Common shares						
Canadian	2,095,167	2,095,167	-	1,073,461	1,073,461	-
Foreign	1,875,172	1,875,172	-	1,273,444	1,273,444	-
	3,970,339	3,970,339	-	2,346,905	2,346,905	-
Cash deposits	477,986	477,986	-	184,709 1	84,709	-
Total	30,102,820	30,551,261	448,441	26,726,270	26,442,951	(283,319)

Investment in common shares are deemed to be held available for sale.

The estimated fair value of preferred and common shares and debt securities is based on quoted market values.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than book value and ascertained that the book values are expected to be recovered. Debt securities whose book value exceeds market value can be held until maturity. Preferred and common share investments have been reviewed to ensure that corporate performance expectations have not changed significantly to adversely affect the market value of these securities other than on a temporary basis.

Liquidity and interest rate risk

The following table presents the maturity profile as at December 31, 2009:

	Within 1 Year	Over 1-3 Years	Over 3-5 Years	Over 5-10 Years	Book Value
Term deposits and debt securities	$2,899,188	$7,092,777	$9,739,933	$5,922,597	$25,654,495
Percent of total					
2009	11%	28%	38%	23%	100%
2008	13%	15%	36%	36%	100%

Preferred and common shares have no specific maturities. The average interest rates at December 31, 2009 for term deposits and debt securities are 4.21% (2008: 4.0%)

Investment Income

	2009	**2008**
	$	**$**
Deposit and debt securities	946,295	1,081,375
Savings and other	2,170	12,313
Common shares	80,718	78,028
Loss on sale of investments - common shares	(111,423)	(138,638)
	917,760	1,033,078
Other investment income (rental loss)	(7,608)	(26,625)
Total investment income	910,152	1,006,453

7 Other Investment

	2009	**2008**
	$	**$**
Real estate	859,228	1,459,796
Accumulated amortization	(203,646)	(309,070)
	655,582	1,150,726
Market Value	2,219,000	2,298,000
Amortization for the year	21,841	38,640

Other investment represents the proportion of the Company's office building that is used for rental purposes (see Note 12). The market values of other investment are based on annual property assessments.

8 Line of Credit

The Company has a line of credit agreement with the Bank of Montreal for $1 million (2008: $200,000). The line of credit provides cash resources to the Company to manage the timing of payment of claims and payment of premiums by our insured. The line of credit's rate of interest is prime plus 0% and is secured by certain investments held at the bank. A general security agreement over the assets of the Company that existed at December 31, 2009 is expected to be removed during the bank's next annual review. As at December 31, 2009, the line of credit was undrawn.

9 Unearned Premiums

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claim costs, related expenses, investment income and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2009 and 2008.

10 Provision for Unpaid Claims and Adjustment Expenses

Scope

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.

Provision

The Company's appointed actuary completes an evaluation of the policy liabilities at the end of each year. The table below compares the provision for unpaid claims and adjustment expenses recorded and as valued by the actuary for the years ended December 31, 2009 and 2008:

	Long Settlement $	**Short Settlement $**	**Carrying Value $**	**Actuary Valuation $**
2009 Provision	10,685,000	6,631,000	17,316,000	17,316,000
Reinsurers' share	8,465,000	2,653,000	11,118,000	11,118,000
2008 Provision	3,586,000	4,804,000	8,390,000	8,390,000
Reinsurers' Share	1,953,000	2,066,000	4,019,000	4,019,000

Long term settlement claims relate to liability claims which are reported more slowly and require longer term to settle. Short term settlement claims are typically reported within 30 days, and settled within one year.

Assumptions

Claim 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 occurred 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.

11 Reinsurers' Recoveries

The Company has guidelines and a review process in place to ascertain the credit worthiness of the companies to which it cedes. No information has come to the Company's attention indicating weakness or failure of its current reinsurers and no provision has been made in the accounts for doubtful collection on the reinsurer's share of unpaid claims and adjusting expenses.

12 Property and Equipment

	2009 **$**	**2008** **$**
Office furniture	177,818	172,969
Computer Equipment & Software	271,265	173,204
Building	1,091,754	581,849
	1,540,837	928,022
Accumulated amortization	(600,889)	(397,246
	939,948	530,776
Land	197,088	105,113
	1,137,036	635,889

The Company has allocated 40% of its office building for rental purposes (2008: 68%). Accordingly, a proportionate amount of the cost of land and building has been reallocated to other investment (Note 7).

13 Reserves

	2009 **$**	**2008** **$**
Reserves for non-admitted assets	197,658	138,364
Additional reserve	1,475,392	411,553
Earthquake premium reserve	136,159	136,159
	1,809,209	686,076

a) Reserve for non-admitted assets

Certain assets such as office furniture, prepaid expenses, premium balances unpaid after 90 days are inadmissible under the filing standards of the Superintendent of Financial Institutions for British Columbia. Consequently a reserve has been provided for such items.

b) Additional reserve

Under Section 3 of the Insurance Company Reserves Valuation Regulations of the Financial Institution Act of British Columbia, the Company is required to maintain an additional reserve computed in such manner as provided under the said Act. As a result of the Mutual Fire Insurance Company of British Columbia discontinuing the Quota Share Treaty and only maintaining excess of loss treaties, the Company was required under Section 3 to increase additional reserves by $1,063,839.

c) Earthquake premium reserve

Pursuant to the guidelines set by the Superintendent of Financial Institutions of British Columbia, the Company has set aside an earthquake premium reserve of $136,159 (2008: $136,159) to meet target levels of preparedness to pay earthquake losses when they occur in the future.

d) Increase or decrease in reserves

Increase or decrease during the year to the above-noted reserves are charged to members' surplus as the reserves are not considered as part of the members' unappropriated surplus by the Superintendent of Financial Institutions for British Columbia.

14 Income Taxes

Current income tax expense

Details of the components of income taxes are as follows:

	2009 $		2008 $	
Combined basic federal and provincial statutory income tax	346,601	30.00%	1,205,564	31.00%
Increase (Decrease) in tax due to:				
Income exempt under paragraph 149(1)(t) of the Income Tax Act	(172,803)	(14.96%)	(514,069)	(13.22%)
Small business deduction	-	-	(68,000)	(1.75%)
Non-deductible and other items	147,615	12.78%	18,288	0.47%
	321,413	27.82%	641,783	16.50%

Future income tax asset

Future income tax assets represent mainly taxes paid as a result of the allowable reserves claimed for tax purposes being less than the reserves recorded.

15 Reinsurance

From January 1st to August 31st, 2009 the Company reinsured its contracts of insurance to limit, its liability to a maximum indemnity amount on any one loss of $150,000 in the event of a liability claim and $200,000 plus 10% of the loss up to $1,000,000 in the event of a property claim (2008: $150,000). The Company also obtained property catastrophe reinsurance coverage which limited the Company's liability to $450,000 plus 5% of the balance of the loss in the event of a series of claims arising out of a single occurrence. The Company had a quota share treaty for property claims which provided 25% protection prior to the excess treaty responding. The excess treaty limited the Company's exposure to 5% of amounts in excess of the Company's deductible of $450,000.

All reinsurance was placed with Farm Mutual Reinsurance Plan Inc. (FMRP), of which the Company was a member. The reinsurance, however, did not relieve the Company of its primary obligation to policyholders. If FMRP was unable to meet their obligations under the related agreements, the Company would be liable to its policyholders for unrecoverable amounts. For the period of January 1st to August 31st, 2009, 25% (2008,25%) of the property reinsurance contracts were ceded to FMRP.

From September 1st to December 31st, 2010 (16 months) the Company has reinsured its contracts of insurance to limit its liability to a maximum indemnity amount of any one loss of $350,000 in the event of a liability claim and $200,000 of the loss in the event of a property claim. The Company has obtained property catastrophe reinsurance coverage which limits the Company's liability to $500,000 of the balance of the loss in the event of a series of claims arising out of a single occurrence. The Company no longer has a quota share treaty for property claims.

Reinsurance treaties have been subscribed to by a number of reinsurance companies on the open market through the broker Willis Re. The property treaties are primarily subscribed to by Hanover Re and the Lloyds of London Brit Syndicate. The Company is also using some unregistered reinsurers within the guidelines of the Insurance Act of Canada for a portion of the property treaties. The liabilities treaties are subscribed to by Hanover Re, Aspen Insurance, and nine different Brit Syndicates. 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 higher than A-.

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2009

16 Commitments

The Company is committed to the following future minimum lease payments for the next four years:

2010	$ 18,473
2011	$ 10,332
2012	$ 7,577
2013	$ 7,577

The Company is in the process of up-grading its computer system at a cost of $485,000. A deposit of $141,666 was paid during the year ended December 31, 2008. A further deposit of $111,666 was paid during the year ended December 31, 2009 with a balance of $231,668 payable within the next three months.

17 Members' Profits and Liability

The Company has a premium note policy with its members whereby members agree to participate in the losses and will also share in the profits when the Company declares a premium refund. The premium refund of $195,889 (2008: $115,559) is allocated to members based on the members' share of total premiums.

18 Risk Management and Control Practices

The financial risks inherent to the Company's environment include liquidity, credit and interest rate.

a) Liquidity risk

The Company must maintain adequate liquidity to meet policyholder obligations as they come due. The primary obligations are insurance claims incurred during the year. Evaluation is performed regularly to estimate future claim costs in relation to its readily marketable investments to ensure these obligations can be met on a timely basis.

b) Credit risk

The Company reflects reinsurance balances on the balance sheet 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 senior management and the Board of Directors.

c) Interest rate risk

The Company is exposed to interest rate risk in the normal course of business. The risk exists to the extent that cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount. The Company's exposure to future changes in interest rates is significantly reduced due to the practice of matching cash flows on the assets with those of the corresponding liabilities.

d) Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behavior and expenses. A variety of assumptions are made related to the future level of claim, policyholder behavior, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims are based on Company and industry experience; assumptions for policyholder behavior are based on Company experience and predictive models. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. The Company reinsures risk above specific limits as described in Note 15.

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.

19 Comparative Figures

Certain figures have been reclassified to conform to the current year's financial statement presentation.