2010 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

On behalf of the Board of Directors of The Mutual Fire Insurance Company of British Columbia, it is my privilege to welcome you to our 109th Annual General meeting.

It seems like it was only a few years ago that we celebrated our 100th year in business! Looking back 10 years ago, I noticed that at that time we had $6 million in gross premiums written, and this year we exceeded $30 million. Ten years ago we had $5 million in unappropriated member's surplus and at the conclusion of 2010 our unappropriated member's surplus is now at $23,600,000. The company is far more robust than we were 10 years ago and considerably stronger financially! As a company we are now more confident than ever we can withstand the volatility of the competitive insurance environment that we operate in today.

As board and staff we are constantly striving to make Mutual Fire the company of choice amongst our brokers. The board is always reviewing key indicators as to how we are doing -- loss ratio, return on investment, operating costs, timely renewal of policy to our brokers, quarterly strategic plan updates, and effective claims processing: these have the board's constant attention. Each board member brings their own strengths and perspective to the board, which adds different dimensions to our deliberations.

We realize that we have areas that require improvement, of which the board and management work diligently together on. Management also seeks to work on areas of concern with our brokers at broker council meetings.

2010 was the first complete year Mutual Fire was licensed to write business in Saskatchewan. This has proven to be a difficult market to penetrate, although we were aware of that fact prior to becoming licensed. We are starting to see some traction in Alberta, as we are receiving very good support from our brokers there. As many of you will remember, the Company has branded itself with new colours and a new logo. This was done at the AGM last year.

"Protecting the West" - Not just a Phrase, a Reality!!

With the movement to a greener business environment, Mutual Fire is in the process of going paperless with our commercial department. Shortly we will begin the process of going paperless with our personal lines department, followed by our farm department. We are also moving to a more efficient distribution of our product via e-mail.

We continue to reward brokers who send us profitable business. We will be distributing over $830,000 to those brokers this year. Writing good business is good for our brokers, but it's also good for Mutual Fire. Congratulations to those brokers that will be receiving a contingent profit commission cheque. !!

Late last year we embarked on the process of acquiring an A.M. Best rating. This is a long process involving presentations made by management at the A.M. Best offices in Oldwick, New Jersey. The rating enables Mutual Fire to be a more favourable market in many broker's offices, attract more reinsurers wishing to participate on our reinsurance program and in some cases only "A" rated companies are able to participate on certain business. This rating reflects Mutual Fire's sound capitalization, solid underwriting, a strong diversified risk-based book of business and a diversified conservative investment policy. We are ecstatic that we have been given an "A-" excellent rating from A.M. Best. That's quite an achievement. Congratulations to both staff and management.

It is now my distinct pleasure, that on behalf of the board of directors of The Mutual Fire Insurance Company of British Columbia I declare a patronage dividend for 2010 to the members of the company. Each qualifying member policyholder will receive a refund equal to 15% of the earned premium on their policy.

At this time I would like to thank our many business partners; our brokers, our loyal policyholders, our investment advisors, our legal team, and our auditors.

On behalf of the board I'd like to extend my appreciation to the dedication of the staff and management team at Mutual Fire – they work hard and through their diligent work, have made us the company that we are today.

Chief Executive Officer Report

Darin Lord Nessel, CIP

Chief Executive Officer

2010 was a sensational year for The Mutual Fire Insurance Company of British Columbia. We exceeded our goals, kept to our business plan and produced an exceptional loss ratio.

The Company faced many challenges along the way. What *is* fortunate, however, is that although there were many challenges, there were no surprises. We entered 2010 with an aggressive plan for change. MFI had been looking for a new identity, new regions to underwrite business in and a new software solution. Our new look and new identity was unveiled at last year's AGM, and we have been very pleased with the positive comments from Insured's, brokers, vendors and our competitors alike. Last year saw MFI begin to gain traction in Alberta and complete our first year of underwriting in Saskatchewan. Our conversion to new software, of which we are eight months complete, presented many challenges to both staff and management. However the commitment we received from both, was truly remarkable. We would also like to extend a debt of gratitude to our brokers for their patience and understanding as well. With our new web based system, we will be better positioned to meet the ever increasing technological demands of the next decade.

As I have said in our previous two annual reports; rate adequacy, disciplined underwriting and managing claims costs would be vital. The insurance and financial industry landscape is tumultuous at best, but despite the difficult times we find ourselves in, Mutual Fire has been able to navigate through this and post some very favorable numbers for 2010.

During my 17 year tenure at Mutual Fire I have never witnessed collaboration between the Investment Committee, the Board of Directors, the Executive Management and our Investment Advisors, as I see today. The President of Mutual Fire has made it very clear the unappropriated member's surplus is just that. It is the member's money and we are simply custodians of that money. Fiscal responsibility is alive and well at Mutual Fire. All of us understand the uncertainty and potential volatility of the equity markets and that equities require substantially more capital support for Minimum Capital Test. For these reasons Mutual Fire maintains a very conservative equity investment percentage.

In this low interest rate world, an underwriting profit is not something you hope for, it is mandatory. Mutual Fire has produced an underwriting profit every year for the past fifteen (15) years and 2010 was no exception. 2010's underwriting profit was a healthy $4,953,410.

Once again, last year saw only small rate changes at Mutual Fire. Some minor adjustments to the farm rates were required; however, those were more reflective of the nuances of transferring data to the new software. When it comes to rating, our philosophy is to limit rate fluctuations, whether they are increases or decreases. This in order that the Broker and their client-our members, enjoy rate consistency and know what to expect from us. This philosophy applies not only to rates, but wordings, claims and overall service levels and we endeavor to apply this type of consistency year after year. We continue to host our broker councils and invite brokers to attend in order that we stay abreast of current issues and trends from their perspective.

Many brokers look to align themselves with companies having the documented financial strength to pay claims when they arise. Our recent interactive (A-) excellent rating by the rating agency A.M. Best, clearly indicates that Mutual Fire has that strength. Our current MCT ratio of 489.09% speaks volumes and we are also backed by some of the strongest reinsurers in the industry.

Our focus has remained consistent; provide our insured's with quality products and services, while building long term and mutually beneficial relationships with our brokers. We spent a good portion of 2010 investing in our systems and employees to better support our brokers and insured's as we look ahead.

In conclusion, the company is very pleased with our results and look forward to a successful 2011.

Finance Department Report

Jason Christopherson, CGA, BAccSc

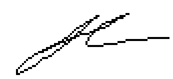
Chief Financial Officer

2010 was a year of many successes within Mutual Fire Insurance. Great underwriting results together with solid investment returns made 2010 our most profitable year on record.

The overall direct written premiums ended the year at $30,385,796, a 14.87% growth over the previous year. Net premiums earned increased by 41.21% to $23,965,977. This increase was the result of changes to our reinsurance arrangements over the last 16 months that allowed us to retain more of our written premium. Increases in premiums were further bolstered by an excellent 2010 loss ratio by year of account of 37.03% compared to 61.26% in 2009, well below the industry average. A 14.65% decrease from the previous year. The resulting combined ratio for 2010 of 79.33% produced a net income after taxes of $4,915,439 compared to $843,209 in 2009.

This year saw our investment portfolio produce solid returns as the markets slowly continue to recover. Our conservative investment strategy has allowed Mutual Fire to preserve our capital through these volatile times. Our portfolio is heavily weighted in bonds and fixed income products. As a result, other comprehensive income for 2010 was $260.379 compared to a gain in 2009 of $468,752. After recognizing our other comprehensive income for the year, 2010 ended with a comprehensive income after taxes of $5,175,818. We ended the year with a Minimum Capital Test ratio of 489.09% well above regulatory minimums and industry norms.

Looking forward 2011 is poised to be just as exciting as 2010. We will continue to manage our growth in expanding markets, realize the benefits of our improved systems and processes, and strive to reduce our costs to improve our underwriting results. We will do this by maintaining solid underwriting principles and continuing our conservative investment approach. Our Mutual remains strong and we look forward to making it even stronger in the coming year.



Underwriting Department Report

Robert Karr
Chief Operations Officer

Gross Written Premiums
Gross Written Premiums at the end of 2010 were $30,385,786 which was an increase of 14.87% over 2009.

Property premiums (including facultative boiler and machinery) accounted for $27,271,467 (89.75%) and Casualty premiums accounted for $3,114,329 (10.25%).

In Force Policies
Our policy count ended the year with 16,027 policies, an increase of 18.11%.

Underwriting Results
Underwriting results were positive for 2010 and we produced a net underwriting income of $4,953,410. The net loss ratio decreased by 14.65% ending the year at 37.03%.

Provincial Reports

British Columbia
Gross written premiums were $28,730,754
Property premiums accounted for $25,724,807 (89.54%) and Casualty premiums accounting for $3,005,947 (10.46%)

Alberta
Gross written premiums were $1,475,038
Property premiums accounted for $1,377,786 (93.41%) and Casualty premiums accounting for $97,252 (6.59%)

Saskatchewan
Gross written premiums were $180,004
Property premiums accounted for $168,874 (93.82%) and Casualty premiums accounting for $11,130 (6.18%)

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

During 2010 we appointed 18 new brokers with 28 locations. Over the year there were some acquisitions and consolidation. We were represented by 111 brokers with 431 locations throughout western Canada.

PROVINCE	BROKERS	LOCATIONS
British Columbia	83	333
Alberta	23	74
Saskatchewan	5	24

Our Underwriting and Marketing Team
In conjunction with a year of 15% growth we have also implemented a new computer system in April 2010. In addition to their regular work, our staff was busy converting underwriting files into our new computer system, which was a monumental task for them. I would like to extend my gratitude and thanks to them for their dedication and hard work over the past year

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Claims Department Report

Pamala Louttit, CIP
Claims Manager

The Industry in general experienced low claim frequency and at Mutual Fire it was no different. Claims experience declined in both severity and frequency in 2010, contributing to our healthy results. I am pleased to report that our Net Loss Ratio of 37.03% is one of our lowest loss ratios ever recorded.

Incurred Losses for 2010 were just over $8.9 million compared to $10.4 million in 2009. A total of 546 claims were reported, with Property Claims accounting for 93.58% (511) and Liability Claims accounting for 6.42% (35). Of those losses experienced, 11 were large losses (or excess losses as they are referred to under our reinsurance treaty) that exceeded our reinsurance retention.

Liability losses were the lowest in recent years. A number of long-outstanding liability claims were settled which added strength to our financial results.

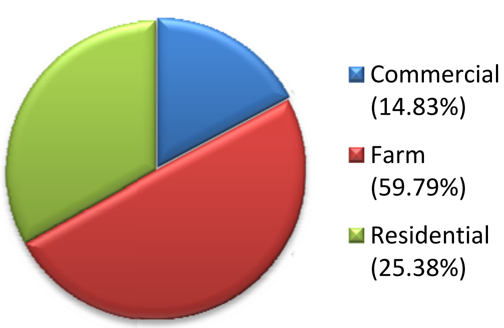
Our claims philosophy – to settle claims promptly, efficiently and fairly – was not only adhered to in 2010 but enhanced. I believe the implementation of new procedures such as an opening contact letter with a frequently asked question sheet to all new claimants, has helped set a positive tone from the initial stages of the claims process right through to settlement.

In 2011, we will continue to seek new avenues for enhancing our customer service. We will look to not only our independent adjusters and legal counsel, but our strong network of brokers to achieve this goal.

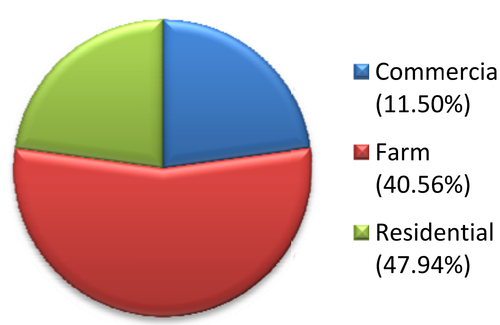
As our company expands throughout Western Canada we look forward to developing relationships with our new brokers and adjusters.

On behalf of the entire Claims Team, we look forward to serving you in 2011.

Property Claims
By Policy Type



Liability Claims
By Policy Type



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


Darryl Cherry
Director


Mike Bose
Director


Bill Adams
Director


Don Hooge
Director


Jeff Regier
Director

AUDIT COMMITTEE:
Ralph Terpstra (Chair), Jake Bredenhof, Mike Bose, Bill Adams

CONDUCT REVIEW COMMITTEE:
Jake Bredenhof (Chair), Mike Bose, Darryl Cherry, Don Hooge

INVESTMENT AND LOAN COMMITTEE:
Len Bouwman (Chair), Don Hooge, Jeff Regier

Management Statement

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

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

Actuary's Report

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

Description of the Actuary's Role

The actuary is appointed by the Board of Directors of the 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.

Appointed Actuary's Report

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, 2010 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.

Nicolas Beaudoin

Toronto, Ontario
February 14, 2011

Nicolas Beaudoin
Fellow, Canadian Institute of Actuaries

Independent Auditors' Report

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

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

We have audited the accompanying financial statements of The Mutual Fire Insurance Company of British Columbia, which comprise the balance sheet as at December 31, 2010, and the statements of income and comprehensive income, changes in unappropriated members' surplus and accumulated other comprehensive income and changes in cash resources for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Mutual Fire Insurance Company of British Columbia as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Berris Mangan

Chartered Accountants

Vancouver, B.C.
February 16, 2011

Balance Sheet

The Mutual Fire Insurance Company of British Columbia • as at December 31, 2010

		2010		2009
ASSETS				
Cash (Note 8)	$	4,464,858	$	1,164,187
Investments (Notes 3(d) & 6)		35,097,274		30,102,820
Other Investments (Notes 3(d) & 7)		668,642		655,582
Investment income due and accrued		137,367		103,218
Premiums receivable		4,092,966		3,363,021
Sundry receivable and deposit		-		318,456
Due From Reinsurers		939,605		1,415,467
Reinsurers' share of provision for:				
Unpaid claims and adjustment expenses (Notes 3(h), 10 & 11)		10,157,068		11,118,000
Deferred acquisition cost(Note 3(g))		3,177,825		2,886,717
Income tax recoverable		-		281,497
Future income taxes (Notes 3(l) & 14)		-		36,317
Property and equipment (Notes 3(j) & 12)		1,715,088		1,137,036
TOTAL ASSETS	$	60,450,693	$	52,582,318
LIABILITIES				
Provision for unpaid claims and adjustment expenses (Notes 3(h), 10 & 11)	$	16,228,280	$	17,316,000
Unearned premiums (Notes 3(g) & 9)		15,500,405		14,280,604
Unearned reinsurance commissions		3,684		13,058
Due to reinsurers		883,175		-
Income taxes payable		738,517		-
Future Taxes Payable		33,856		-
Other liabilities		1,723,632		809,330
		35,111,549		32,418,992
MEMBERS' SURPLUS AND RESERVES				
Reserves (Note 13)		1,353,260		1,809,209
Accumulated other comprehensive income		384,141		123,762
Unappropriated members' surplus		23,601,743		18,230,355
		25,339,144		20,163,326
TOTAL LIABILITIES, RESERVES AND SURPLUS	$	60,450,693	$	52,582,318

Commitments (Note 16)

See accompanying notes to financial statements

Approved on behalf of the Board of Directors

President

Treasurer

Statement of Income and Comprehensive Income

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

	2010	2009 (Note 19)
PREMIUM WRITTEN		
Gross premium written	$ 30,385,796	$ 26,452,646
Less: Reinsurance premiums ceded	(5,200,018)	(7,394,533)
NET PREMIUMS WRITTEN	25,185,778	19,058,113
Less: Increase in unearned premiums	(1,219,801)	(2,086,294)
NET PREMIUMS EARNED	23,965,977	16,971,819
Commission income	68,094	1,713,971
	24,034,071	18,685,790
CLAIMS AND EXPENSES INCURRED		
Claim and adjustment expenses	8,873,823	10,397,179
Commissions	6,784,895	5,625,029
Salaries, grants and benefits	2,084,685	1,434,739
Administration	1,285,807	802,263
Premium tax	51,451	18,532
	19,080,661	18,277,742
NET UNDERWRITING INCOME	4,953,410	408,048
OTHER INCOME AND EXPENSES		
Investment income	1,226,567	910,152
Service fees	1,805	-
Membership fee	32,151	33,024
Patronage expense	(486,238)	(195,889)
	774,285	747,287
NET INCOME BEFORE INCOME TAXES	5,727,695	1,155,335
Current income tax expense (Note 14)	(742,083)	(321,413)
Future income tax benefit (provision)	(70,173)	9,288
NET EARNINGS FOR THE YEAR	$ 4,915,439	$ 843,210
OTHER COMPREHENSIVE INCOME		
Net unrealized gains	260,379	468,752
COMPREHENSIVE INCOME	$ 5,175,818	$ 1,311,962

See accompanying notes to financial statements

Statement of Changes in Unappropriated Members' Surplus and Accumulated Other Comprehensive Income

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

		2010		2009
UNAPPROPRIATED MEMBERS' SURPLUS, beginning of year	$	18,230,355	$	18,510,277
Net income for the year		4,915,439		843,210
(Increase) decrease in reserves		455,949		(1,123,132)
UNAPPROPRIATED MEMBERS' SURPLUS, end of year	$	23,601,743	$	18,230,355
ACCUMULATED OTHER COMPREHENSIVE INCOME,				
beginning of year	$	123,762	$	(344,990)
Other comprehensive income for the year (net of income tax)		260,379		468,752
ACCUMULATED OTHER COMPREHENSIVE INCOME,				
end of year	$	384,141	$	123,762

See accompanying notes to financial statements

Statement of Changes in Cash Resources

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

	2010	2009
OPERATING ACTIVITIES		
Net income for the year	$ 4,915,439	$ 843,210
Adjustments to convert earnings to cash basis:		
(Increase) in accrued interest receivable	(34,149)	(55,269)
(Increase) in agents balances & premiums receivable	(729,945)	(574,522)
(Increase) in other receivable and deposit	318,456	(163,329)
(Increase) in due from reinsurer	475,862	(1,415,467)
(Increase) in reinsurers' share of		
Unpaid claims and adjustment expenses	960,932	(7,099,000)
Unearned premiums	-	2,769,559
(Increase) in deferred policy acquisition expenses	(291,108)	(503,585)
(Increase) in future income tax asset	-	(9,288)
Increase in provision for unpaid claims	(1,087,720)	8,926,000
Increase in unearned premiums	1,219,801	2,233,425
(Decrease) in unearned reinsurance commission	(9,374)	(1,406,736)
(Decrease) in due to reinsurers	883,175	(760,844)
Increase in income taxes payable	1,020,014	(728,483)
(decrease) in future income tax payable	10,926	-
Increase in other liabilities	890,431	12,439
Amortization of capital assets	168,827	76,380
Amortization of other investment	22,020	21,841
Amortization of bonds and treasury bills income	(613,003)	(587,272)
(Gain) Loss on sale of investments	1,050	111,423
	3,206,195	847,272
Cash provided by operations	8,121,634	1,690,482
INVESTING ACTIVITIES		
Bonds-purchase	(5,908,700)	(4,477,890)
Bonds-proceeds on sale	3,323,140	3,247,161
Stocks-purchase	(2,582,781)	(1,761,908)
Stocks-proceeds on sale	1,129,338	560,687
Property, plant and equipment-addition	(781,960)	(104,224)
	(4,820,963)	(2,536,174)
INCREASE (DECREASE) IN CASH	3,300,671	(845,692)
CASH, beginning of year	1,164,187	2,009,879
CASH, end of year	$ 4,464,858	$ 1,164,187

See accompanying notes to financial statements

Schedule of Administrative Expenses

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

	2010	2009
Amortization - office	$ 168,827	$ 76,379
Bad debts (recovery)	219	-
Bank charges	7,685	4,873
Building Maintenance	27,040	15,428
Computer supplies	61,765	30,501
Computer Maintenance Fees	78,732	-
Donation & Scholarships	60,500	37,950
Dues and Fees	31,611	30,683
Inspection and education	103,044	28,756
Insurance	33,925	21,534
Marketing	146,013	78,810
Meeting , Travel, & Entertainment	99,832	73,979
Convention Costs	12,047	-
Office & Misc	158,076	99,743
Appraisals	63,224	110,115
Property Tax - Office	23,827	12,536
Postages	51,793	28,445
Professional fees	108,620	107,841
Telephone	31,322	23,726
Vehicle expenses	17,705	20,964
	$ 1,285,807	$ 802,263

Notes to Financial Statements

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. Investments 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, 2010 and during the year ended December 31, 2010 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.

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

(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:

Office furniture and equipment	20% declining balance basis
Computer Equipment and Software	20% straight-line basis
Vehicle	30% declining balance basis
Building	4% 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.

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

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, 2010 amounted to $328,716 (2009: $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	**2010**	**2009**
Minimum Capital Requirement	$5,115,000	$25,017,000	$ 20,124,000

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, 2010 were as follows:

	2010			2009		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
	$	$	$	$	$	$
Debt securities						
Federal	146,410	148,167	1,757	161,350	160,916	(434)
Provincial	13,974,609	14,292,205	317,596	13,438,014	13,502,355	64,631
Corporate	13,920,734	14,334,373	413,639	12,055,131	12,439,665	384,534
	28,041,753	28,774,745	732,992	25,654,495	26,102,936	448,441
Common shares						
Canadian	4,231,120	4,231,120	-	2,095,167	2,095,167	-
Foreign	1,514,995	1,514,995	-	1,875,172	1,875,172	-
	5,746,115	5,746,115	-	3,970,339	3,970,339	-
Cash deposits	1,309,406	1,309,406	-	477,986	477,986	-
Total	35,097,274	35,830,266	732,992	30,102,820	30,551,261	448,441

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.

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

Liquidity and interest rate risk

The following table presents the maturity profile as at December 31, 2010:

	Within 1 Year	Over 1-3 Years	Over 3-5 Years	Over 5-10 Years	Book Value
	$	$	$	$	$
Term deposits and debt securities	4,096,084	9,765,872	5,772,629	8,407,168	28,041,753
Percent of total					
(2010)	15%	35%	20%	30%	100%
(2009)	11%	28%	38%	23%	100%

Preferred and common shares have no specific maturities. The average interest rates at December 31, 2010 for term deposits and debt securities at is 3.98%. (2009: 4.21%)

Investment Income		2010		2009
Deposit and debt securities	$	1,033,536	$	946,295
Savings and other		8,019		2,170
Common shares		172,731		80,718
Realized loss on sale of investments - common shares		(1,049)		(111,423)
		1,213,237		917,760
Other investment income (rental loss)		13,330		(7,608)
Total investment income	$	1,226,567	$	910,152

7 Other Investment

		2010		2009
Real Estate				
Land	$	131,392	$	131,392
Building		762,917		727,836
Accumulated amortization		(225,667)		(203,646)
	$	668,642	$	655,582
Market Value	$	887,600	$	887,600
Amortization for the year	$	22,021	$	21,841

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. 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. As at December 31, 2010 and 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, 2010 and 2009.

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, 2010 and 2009:

	Long Settlement	Short Settlement	Carrying Value	Actuary Valuation
	$	$	$	$
2010 Provision	9,679,922	6,548,358	16,228,280	16,228,280
Reinsurers' share	7,528,452	2,628,616	10,157,068	10,157,068
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

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.

Notes to Financial Statements

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

	Cost	Accum. Amort.	Net Book Value 12/31/2010	Net Book Value 12/31/2009
Office furniture	$ 247,326	$ (144,625)	$ 102,701	$ 54,525
Computer Equipment & Software	737,575	(152,049)	585,526	99,138
Vehicle	29,871	(5,974)	23,897	-
Building	1,144,376	(338,500)	805,876	786,285
	2,159,148	(641,148)	1,518,000	939,948
Land	197,088	-	197,088	197,088
	$ 2,356,236	$ (641,148)	$ 1,715,088	$ 1,137,036

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

13 Reserves

	2010	2009
i) Reserves for non-admitted assets	$ 1,024,544	$ 197,658
ii) Additional reserve	-	1,475,392
iii) Earthquake premium reserve	328,716	136,159
	$ 1,353,260	$ 1,809,209

(i) 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.

(ii) 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. The Mutual Fire Insurance Company of British Columbia reduced the reserve to $nil in 2010 (2009: $1,475,392) as the companies Unearned Premiums less Deferred Acquisition Costs was sufficient to cover the required reserve under Section 3.

(iii) 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 $328,716 (2009: $136,159) to meet target levels of preparedness to pay earthquake losses when they occur in the future.

(iv) 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.

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

14 Income Taxes

Current income tax expense

Details of the components of income taxes are as follows:

	2010		2009	
Combined basic federal and provincial statutory income tax	$ 1,631,246	28.48%	$ 346,601	30.00%
Increase (Decrease) in tax due to:				
Income exempt under paragraph 149(1)(t) of the Income Tax Act	(720,074)	(12.57%)	(172,803)	(14.96%)
Non-deductible and other items	(169,089)	(2.95%)	147,615	12.78%
	$ 742,083	12.96%	$ 321,413	27.82%

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

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 Company is also using some unregistered reinsurers within the guidelines of the Insurance Act of Canada for a portion of the property treaties. 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 or higher than A-.

16 Commitments

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

2011	$14,256
2012	15,426
2013	7,849
2014	7,849
2015	3,924

Notes to Financial Statements

The Mutual Fire Insurance Company of British Columbia • Year Ended December 31, 2010

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 $486,238 (2009: $195,889) represent a refund of 15% of Members premiums.

18 Risk Management and Control Practices

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

(i) 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.

(ii) 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.

(iii) 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.

(iii) 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 with the current year's financial statement presentation.