2011 Annual Report

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

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President Report

Jake Bredenhof
President

On behalf of the Board of Directors I would like to welcome all of you to our 110th annual general meeting; brokers, business partners, regulatory officials, policy holders, staff and guests.

What an exciting journey which started 110 years ago when a few individuals had the foresight to start The Mutual Fire Insurance Company of British Columbia. Yes, that was in 1902! If we could turn back the calendar to that first meeting, I'm certain we would note some pretty significant changes have happened. We have grown to become a healthy, financially strong company, with over 21,000 policyholders. We now serve Western Canada from the Pacific Ocean to the Manitoba/Ontario border. But there's one thing that has remained constant all these years and that is we are more than 'just another insurance provider' for our broker partners to select from. We're much more than that. Our strong emphasis has always been a " philosophy of service" for everyone who has dealt with us, which has in turn benefited us. This advantage has proven to be more apparent today than ever before! Amidst soft markets, strong competition, uncertain financial markets, slow economic recovery in many parts of the country, we at MFI could focus on the long term financial stability and growth of the company. 2011 has been a profitable year and we have achieved unprecedented growth in this insurance climate. We have a clear focus as a mutual, operating for the benefit of our members, and our loyal brokers.

I believe that we are a company you can feel good about. At The Mutual Fire Insurance Company of British Columbia, our commitment to ethics and integrity, philanthropy, good corporate governance, and honest business principals reflects our values as a company.

The Mutual Fire Insurance Company of British Columbia is building a strong, strategic mix of policyholders across western Canada, in an effort to help spread the risk of claims. As a BC based insurance company selling insurance products on the prairies, we have been very well received by brokers and policyholders alike. Growth this past year has been phenomenal, almost 30%. Our underwriting in the prairies is responsible for one fifth of that entire growth. Brokers in the prairies are giving us a chance to quote on good quality business. Our book of business still has a large farm component in it, but that is slowly being eroded with a large increase in habitational and commercial policies being written. This change will ultimately see the company having to pay 4.4% premium tax on all policies written in BC. Presently we are exempt from paying premium tax in BC provided our book of farm business exceeds 50%. On the prairies we do not enjoy any exemptions with respect to paying premium tax.

Our financial strength continues to grow. Our unappropriated members surplus and reserves as of December 31st, 2011, reached $28 million. Generating competitive returns on our investments has given us the ability to weather financial market downturns as well as remain strong in a year of possible large losses. Our loss ratio has been a respectable 53%. Not quite like last year, but then that was an anomaly! Growth has been strong in all our insurance products which tells us that we are many brokers' one-stop insurance company.

The Mutual Fire Insurance Company of British Columbia ended the year with a Minimum Capital Test of 429.65% (Minimum capital test is an industry standard to measure the financial strength of the company.) This number is closely monitored by the board and the various regulatory bodies.

Our employee team has grown to over 45 people, who each in their own professional way make a valued contribution to the success of the company. Their loyal support of The Mutual Fire Insurance Company of British Columbia is sincerely appreciated.

2012 will be another challenging year for the company. We anticipate robust growth in all provinces and in all our product lines. There is strong competition out there but we are convinced that providing excellent services means going that extra mile.

In closing, I would like to thank the board and management for a very good year and for the excellent environment in which we work together! We have a lot to be thankful for. Thank-you for your continued trust in The Mutual Fire Insurance Company of British Columbia

Chief Executive Officer Report

Darin Lord Nessel, CIP
Chief Executive Officer

The Mutual Fire Insurance Company of British Columbia witnessed tremendous growth during 2011. We completed our expansion into the prairies when in May we became licensed to underwrite business in Manitoba. Our team has grown stronger, our broker force larger and once again we have produced very commendable results.

The vast majority of our growth this year was in British Columbia, and distributed evenly between all three lines of business; farm, commercial and personal lines. Keeping the internal infrastructure together with this type of growth is not easy; however the management team at The Mutual Fire Insurance Company of British Columbia was able to do just that. This, while at the same time providing timely service to our ever expanding broker force. Our software conversion was completed in late spring which could not have been successful without the help of our brokers providing more detailed information on each risk, enabling us to provide more policy level information to our reinsurers, which in turn has allowed them to more accurately price our reinsurance. Also with the majority of this year's industry catastrophe losses, reinsurers are being more forceful in their demand for greater transparency of data in a bid to limit their exposures. The overall effect being the absolute best pricing Mutual Fire can provide to our policyholders.

2011 saw the company continue its path to becoming an outstanding underwriting company. We continued to be innovative with our insurance solutions, offering best–in-class products and remaining strong on our commitment to the broker channel. In fact in British Columbia we were rated #2 (up from #11) in a biennial broker survey by the Insurance Brokers Association of British Columbia. We saw a continued focus on underwriting discipline at The Mutual Fire Insurance Company of British Columbia. All underwriting decisions were properly analyzed and our penetration remains cautious and measured into the newer jurisdictions of Alberta, Saskatchewan and Manitoba.

The company continues to be reinsured by some of the financially strongest reinsurers in the industry today. The strength of our capital reserves coupled with our reaffirmed A- Excellent rating as provided by A.M. Best makes Mutual Fire a formidable competitor in the market today.

Globally speaking we are lucky to work in Canada as the Canadian insurance industry remains well capitalized. Although we have a relatively sound environment in which to operate our businesses, worldwide influences will continue to challenge our ability and that of the entire insurance industry to grow and stay financially strong. With severe weather events increasing right across Canada, we have witnessed increased infrastructure failure and property damage. As an industry we continue to champion the cause of infrastructure renewal and promote loss prevention solutions, since all of us benefit from safer communities.

This year's strategic plan puts the focus at The Mutual Fire Insurance Company of British Columbia squarely on People, Process, and Technology. Our focus has and will remain to consistently improve upon our products while at the same time continuing to provide timely service to our network of brokers. Technology will remain of primary importance at The Mutual Fire Insurance Company of British Columba. Our web-based software is at the leading edge of technology and as we look to 2012 and beyond, we will see constant improvement and upgrade to our product delivery. We have looked to the future with respect to technology, and we are very excited by what we see.

In conclusion, we are pleased with the overall performance in 2011 and we look forward to another successful year in 2012.

Finance Department Report

Jason Christopherson, CGA, BAccSc

Chief Financial Officer

I am pleased to report that financially The Mutual Fire Insurance Company of British Columbia once again had an outstanding year. Exceptional premium growth together with a loss ratio below the industry average combined to provide solid capital growth to our membership. The Mutual Fire Insurance Company of British Columbia continues to be a leader in the mutual insurance industry.

Gross premiums written growth of $9,056,408 represents an increase of approximately 30% over last year. A growth level not experienced at Mutual Fire Insurance since 2003. Net premiums earned increased 23% to $29,561,459. Our success of delivering solid underwriting income resulted in a loss ratio of 53.66% and a combined ratio of 94.97% representing $1,533,426 in underwriting income. A modest increase of 7% in investment income to $1,295,182 contributed to overall comprehensive income of $2,900,516.

With the current economic challenges experienced by the investment markets the mutual continues to maintain a conservative investment approach limiting equity investments to 25% of the portfolio and ensuring the mutual only invests in quality products. As the available amount of capital has grown over recent years the mutual has expanded its portfolio to include preferred shares as well are Real Estate Investment Trust (REIT) investments. This has allowed for continued diversification of our investment risks while maintaining respectable returns.

The Finance department at The Mutual Fire Insurance Company of British Columbia responded to unprecedented premium growth by delivering exceptional customer service to both our Brokers and Policy Holders. The recent survey by the Insurance Brokers Association of British Columbia saw the finance department place 2nd amongst insurance providers in British Columbia, the highest rank for a regional insurance provider. This success was achieved by dedicated staff focused on improving processes and realizing the benefits of system improvements.

This year saw a substantial change in the financial reporting framework at The Mutual Fire Insurance Company of British Columbia. The Company has transitioned to International Financial Reporting Standards (IFRS) effective January 1, 2011 and comparative information on the financial statements has been restated to be in accordance with IFRS. IFRS now forms Part 1 of Canadian Generally Accepted Accounting Principles. These standards allow for financial statements that are more readily comparable to other organizations, both nationally and internationally. The most significant change in the financial statements are expanded notes providing additional comprehensive information about the financial position of The Mutual Fire Insurance Company of British Columbia and the risks the mutual is exposed to. Over the coming years, further IFRS changes, including a new standard on insurance contracts, will be implemented as required.

The progress we made last year and the current position the company experiences in the market has The Mutual Fire Company of British Columbia well positioned to continue to grow in this competitive arena. Our ability to meet our operating targets, while maintaining a strong capital position will ensure continued growth to the benefit of our membership.

Underwriting & IT Department Report

Robert Karr
Chief Operations Officer

GROSS WRITTEN PREMIUMS

Gross Written Premiums at the end of 2011 were $39,442,204 which was an increase of 29.80 % over 2010.

Property premiums (including facultative boiler and machinery) accounted for $35,728,924 (90.59 %) and Casualty premiums accounted for $3,713,280 (9.41 %).

IN FORCE POLICIES

Our policy count ended the year with 21,548 policies, an increase of 32.95% from 2010.

PROVINCIAL REPORTS

British Columbia

Gross written premiums were $35,305,844
Property premiums accounted for $31,865,730 (90.26 %) and Casualty premiums accounted for $3,440,114 (9.74 %)

Alberta

Gross written premiums were $2,805,226
Property premiums accounted for $2,621,505 (93.45 %) and Casualty premiums accounted for $183,721 (6.55 %)

Saskatchewan

Gross written premiums were $874,343
Property premiums accounted for $806,065 (92.19 %) and Casualty premiums accounted for $68,278 (7.81 %)

Manitoba

Gross written premiums were $456,791
Property premiums accounted for $435,624 (95.37 %) and Casualty premiums accounted for $21,167 (4.63 %)

INDEPENDENT BROKERAGE NETWORK

We remain committed to the broker distribution network and we would like to thank all of our broker partners for their continued support.

During 2011, we appointed 25 new brokers with 58 locations. Over the year there were some acquisitions and consolidation in the broker network. We were represented by 137 brokers with 496 locations throughout Western Canada.

PROVINCE	BROKERS	LOCATIONS
British Columbia	95	362
Alberta	28	81
Saskatchewan	8	27
Manitoba	6	26

UNDERWRITING, MARKETING AND IT TEAMS

The expansion into Manitoba, the growth in written premiums and new personal lines programs resulted in several significant initiatives and projects for all departments.

A Help Desk was established for our internal staff. This allows us to monitor employee requests or problems and identify trends that may be developing. We continue with on-going evaluations of disaster recovery and business continuity planning as changes are made to our information systems. We also continue to utilize virtualization software to improve our data recovery capabilities. We expect to continue to make even more exciting and significant enhancements to our computer systems in 2012.

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

Claims Department Report

Pamala Louttit, CIP
Claims Manager

A recent survey indicated that a low percentage of claimants do not trust their insurance company. I am confident and pleased to say this is not the case at The Mutual Fire Insurance Company of British Columbia. I wish to thank the dedicated team members of the Claims Department that are so instrumental in achieving positive outcomes for the settlement of our claims.

The 2011 departmental goals involving enhanced customer services were achieved and are on-going. We have had success with our goal of developing relationships with our adjusters and brokers in the Prairie Regions. Claims activity in those regions was steady, mostly as a result of the weather. In 2012, we will strive to accomplish further objectives: contractor guidelines, audit and customer standard measures and procedures for extreme weather events – just to name a few.

Gross Incurred Losses for 2011 were $17.6 million compared to $8.9 million in 2010. Our claims ratio of 53.66% is well within industry standards. A total of 687 claims were reported with 96.36% being property claims.

Excess Losses experienced in 2011 were slightly higher than in 2010, 13 compared to 11, and accounted for $6.7 million of the overall claims. Due to our strong growth, the retention under our reinsurance treaty increased by $50,000 for property losses.

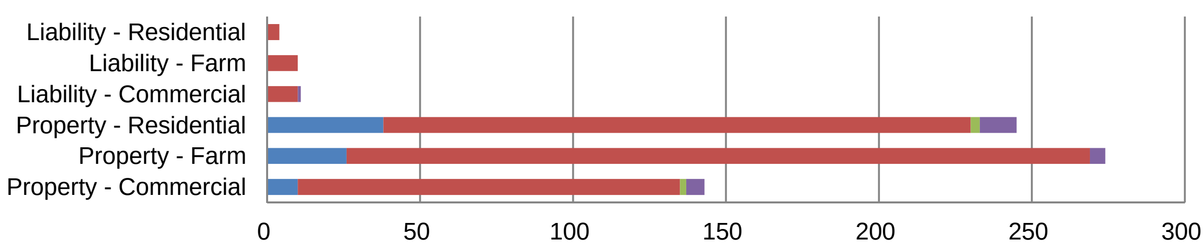
The growing frequency and severity of weather events has resulted in significant and concentrated claims activity; we will not be immune to these events. We will be reviewing our capacity to handle extreme events and enact measures to ensure that when the time comes, we will be ready with all available resources. Preparation is essential to ensure that claims efficiency will prevail.

We will focus on obtaining depth to our department – developing a knowledge base where Team Members will specialize in different types of claims. As the company's product line expands, so too, must the expertise in the Claims Department.

Thank you to our adjusters and legal counsel for all your assistance throughout 2011. Our relationships will remain vital as we move forward.

In 2012, our commitment to settle claims promptly, efficiently and fairly will remain important to us as a Department, and as a Company.

Claim Types by Province



	Property - Commercial	Property - Farm	Property - Residential	Liability - Commercial	Liability - Farm	Liability - Residential
Alberta	10	26	38			
British Columbia	125	243	192	10	10	4
Manitoba	2		3			
Saskatchewan	6	5	12	1		

Company Profile

HEAD OFFICE

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Phone: (604) 881-1250
or 1-866-417-2272

AUDITORS

KPMG Enterprise
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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 President


Bill Adams
Treasurer


Darryl Cherry
Director


Mike Bose
Director


Ralph Terpstra
Director


Don Hooge
Director


Jeff Regier
Director

AUDIT COMMITTEE

Bill Adams (Chair), Mike Bose, Ralph Terpstra

CONDUCT REVIEW COMMITTEE

Jake Bredenhof (Chair), Mike Bose, Daryl Cherry

INVESTMENT COMMITTEE

Len Bouwman (Chair), Don Hooge, Jeff Regier

Management Statement

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and 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

Report of the Actuary

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and December 31, 2010

DESCRIPTION OF THE ACTUARY'S ROLE

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

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

APPOINTED ACTUARY'S REPORT

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

I have valued the policyholder liabilities of the Mutual Fire Insurance Company of British Columbia for its balance sheet at December 31, 2011 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 policyholder liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Nicolas Beaudoin

Toronto, Ontario
February 10, 2012

Nicolas Beaudoin
Fellow, Canadian Institute of Actuaries

Independent Auditors' Report

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and 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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of comprehensive income, changes in members' surplus and reserves, and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained in our audits 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

February 15, 2012
Vancouver, Canada

Statements of Financial Position

The Mutual Fire Insurance Company of British Columbia • as at December 31, 2011 and December 31, 2010

		December 31, 2011		December 31, 2010		January 1, 2010
Assets						
Cash and cash equivalents	$	4,961,447	$	5,774,260	$	1,642,174
Investments (note 4):						
Available for sale		9,405,894		5,746,116		3,992,179
Held-to-maturity		32,506,043		28,041,756		25,632,654
Accrued investment income		127,545		137,367		103,218
Premiums receivable		5,439,242		4,092,966		3,363,021
Sundry receivable and deposit		-		-		318,456
Due from reinsurers		937,935		939,605		1,415,467
Reinsurers' share of provision for:						
Unpaid claims and adjustment expenses (note 7)		6,800,100		10,157,068		11,118,000
Deferred acquisition costs (note 6)		3,864,316		3,177,825		2,886,717
Income taxes receivable		366,160		-		281,497
Deferred income tax asset		15,650		-		36,317
Property and equipment (note 8)		1,877,902		1,874,496		1,765,379
Intangible assets (note 9)		394,584		509,234		27,239
	$	66,696,818	$	60,450,693	$	52,582,318
Liabilities and Members' Surplus and Reserves						
Provision for unpaid claims and adjustment expenses (note 7)	$	17,316,100	$	16,228,280	$	17,316,000
Unearned premiums (note 7)		18,741,112		15,500,405		14,280,604
Unearned reinsurance commissions		1,245		3,684		13,058
Due to reinsurers		1,249,230		883,175		-
Income taxes payable		-		738,517		-
Deferred income tax liability		-		33,856		-
Amounts payable and accrued liabilities (note 10)		1,110,208		1,700,399		809,330
Loans (note 11)		39,263		23,233		-
		38,457,158		35,111,549		32,418,992
Members' surplus and reserves:						
Reserves (note 13)		500,000		1,353,260		1,809,209
Accumulated other comprehensive income		375,220		384,141		123,762
Unappropriated members' surplus		27,364,440		23,601,743		18,230,355
		28,239,660		25,339,144		20,163,326
Commitments (note 17)						
Contingencies (note 18)						
	$	66,696,818	$	60,450,693	$	52,582,318

See accompanying notes to financial statements.

Approved on behalf of the Board:

President

Treasurer

Statements of Comprehensive Income

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and December 31, 2010

	2011	2010
Premium written:		
Gross premium written	$ 39,442,204	$ 30,385,796
Less: Reinsurance premiums ceded	(6,640,038)	(5,200,018)
Net premiums written	32,802,166	25,185,778
Less: Increase in unearned premiums	(3,240,707)	(1,219,801)
Net premiums earned	29,561,459	23,965,977
Commission income	57,105	68,094
Service fees	14,499	1,805
Membership fees	33,326	32,151
	29,666,389	24,068,027
Claims and expenses incurred:		
Claim and adjustment expenses (note 7)	15,862,139	8,873,823
Commissions	8,309,967	6,784,895
Salaries and benefits	2,456,330	2,084,685
Administration including depreciation and amortization of $245,902 (2010 - $190,847)	1,355,551	1,285,807
Premium taxes	148,976	51,451
	28,132,963	19,080,661
Net underwriting income	1,533,426	4,987,366
Net investment income (note 5)	1,295,182	1,213,237
Other income (expenses):		
Other operating income	6,914	13,330
Patronage recovery (expense)	30,326	(486,238)
	37,240	(472,908)
Earnings before income taxes	2,865,848	5,727,695
Income tax expense (benefit) (note 12):		
Current	29,371	742,083
Deferred	(72,960)	70,173
	(43,589)	812,256
Net earnings for the year	2,909,437	4,915,439
Other comprehensive income:		
Net unrealized gains (losses), net of tax of $23,454 (2010 - nil)	(8,921)	260,379
Total comprehensive income, end of year	$ 2,900,516	$ 5,175,818

See accompanying notes to financial statements.

Statements of Changes in Members' Surplus and Reserves

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and December 31, 2010

	Unappropriated members' surplus	Accumulated other comprehensive income	Reserves	Total members' surplus and reserves
Balance, January 1, 2010	$ 18,230,355	$ 123,762	$ 1,809,209	$ 20,163,326
Total comprehensive income	4,915,439	260,379	-	5,175,818
Decrease in reserves (note 13)	455,949	-	(455,949)	-
Balance, December 31, 2010	23,601,743	384,141	1,353,260	25,339,144
Total comprehensive income	2,909,437	(8,921)	-	2,900,516
Decrease in reserves (note 13)	853,260	-	(853,260)	-
Balance, December 31, 2011	$ 27,364,440	$ 375,220	$ 500,000	$ 28,239,660

See accompanying notes to financial statements.

Statements of Cash Flows

The Mutual Fire Insurance Company of British Columbia • Years Ended December 31, 2011 and December 31, 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Total comprehensive income	$ 2,900,516	$ 5,175,818
Items not involving cash:		
Depreciation and amortization	245,902	190,847
Unrealized losses (gains) on available-for-sale investments	8,921	(260,379)
Realized losses (gains) on available-for-sale investments	(55,590)	1,050
Deferred income tax expense		
Amortization of investment income	(580,476)	(696,122)
Deferred income tax expense (recovery)	(49,506)	70,173
Changes in non-cash operating working capital:		
Accrued investment income	9,822	(34,149)
Premiums receivable	(1,346,276)	(729,945)
Sundry receivable and deposit	-	318,456
Due from reinsurers	1,670	475,862
Deferred acquisition costs	(686,491)	(291,108)
Reinsurers' share of unpaid claims and adjustment expenses	3,356,968	960,932
Provision for unpaid claims and adjustment expenses	1,087,820	(1,087,720)
Unearned premiums	3,240,707	1,219,801
Unearned reinsurance commission	(2,439)	(9,374)
Due to reinsurers	366,055	883,175
Income taxes	(1,104,677)	1,020,014
Amounts payable and accrued liabilities	(590,191)	891,069
	6,802,735	8,098,400
Financing:		
Proceeds from loans	16,030	23,233
Investments:		
Purchase of investments	(18,967,159)	(7,660,066)
Proceeds on sale of investments	11,470,239	4,452,478
Purchase of property, plant, and equipment	(128,719)	(215,592)
Purchase of intangible assets	(5,939)	(566,367)
	(7,631,578)	(3,989,547)
Increase (decrease) in cash and cash equivalents	(812,813)	4,132,086
Cash and cash equivalents, beginning of year	5,774,260	1,642,174
Cash and cash equivalents, end of year	$ 4,961,447	$ 5,774,260

See accompanying notes to financial statements

Notes to Financial Statements

1. General information:

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

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 21.

The financial statements were authorized for issue by the Board of Directors on February 15, 2012.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Cash and cash equivalents are measured at fair value; and

Available-for-sale investments are measured at fair value.

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

2. Basis of presentation (continued):

(d) Use of estimates and judgments (continued):

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Note 7(a) - provision for unpaid claims and adjustment expenses

Note 16 - valuation of financial instruments

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(a) Cash and cash equivalents:

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

(b) Financial instruments:

(*i*) Financial assets:

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

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

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

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Financial assets at fair value through profit or loss

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

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

Loans and receivables consist of accrued investment income, premiums receivable and due from reinsurers.

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Available-for-sale financial assets

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

Available-for-sale financial assets consist of cash and cash equivalents and investments in equity securities.

(*ii*) Financial liabilities:

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

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

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

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

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

3. Significant accounting policies (continued):

(c) Property and equipment:

(*i*) Recognition and measurement:

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

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

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

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

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

(*ii*) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(*iii*) Depreciation:

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

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

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

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

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

3. Significant accounting policies (continued):

(d) Intangible assets:

(*i*) Computer software licences:

Computer software licenses acquired by the Company and are not considered integral to the related computer hardware and has finite useful life is measured at cost less accumulated amortization and accumulated impairment losses.

(*ii*) Subsequent expenditure:

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(*iii*) Amortization:

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

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

(e) Leased assets:

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

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

(f) Impairment:

(*i*) Financial assets (including receivables):

A financial asset not carried at fair value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(*i*) Financial assets (including receivables) (continued):

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables and held-to-maturity investments at both a specific asset and collective level. All individually significant receivables and held-to-maturity investments are assessed for specific impairment. All individually significant receivables and held-to-maturity investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investments that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investments with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investments are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in members' surplus, to net earnings. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net earnings. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

3. Significant accounting policies (continued):

(f) Impairment (continued):

(*i*) Financial assets (including receivables) (continued):

If, in a subsequent period, the fair value of an impaired available-for-sale investment increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in net earnings. However, any subsequent recovery in the fair value of an impaired available-for-sale investment is recognized in other comprehensive income.

(g) Employee benefits:

(*i*) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(*ii*) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

3. Significant accounting policies (continued):

(i) Revenue:

(*i*) Premiums from insurance contracts*:*

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

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of premiums received is recognized as revenue proportionately over the period of coverage. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of indemnity received.

(*ii*) Fee and commission income:

Fee and commission income comprises fees from membership and insurance contracts. Fees are recognized as revenue based on the stage of completion of the contracts and proportionately over the period of membership.

Other commissions received or receivable which do not require the Company to render further services are recognized as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over which the services are provided.

(*iii*) Rental income:

Rental income is recognized in profit or loss on a straight-line basis over the term of the rental agreement. Rental income from property is recognized as other income.

3. Significant accounting policies (continued):

(j) Finance income and finance costs:

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains or losses on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(k) Income tax:

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

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

3. Significant accounting policies (continued):

(l) Recognition and measurement of insurance contracts:

(*i*) Classification of insurance contracts:

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

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

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

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

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

(*iii*) Unearned premium provision:

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

3. Significant accounting policies (continued):

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

(*iii*) Unearned premium provision (continued):

The provision for claims incurred and adjustment expenses is the reserve for payment of claims and adjustment expenses arising from insurance contracts. The provision for claims incurred and adjustment expenses consists of reserves for reported claims and reserves incurred but not yet reported ("IBNR") losses. In addition, reserves are set up for adjustment expenses, which includes the estimated legal and other expenses expected to be incurred to finalize the settlement of losses. The provision for claims incurred and adjustment expenses are discounted and include a provision for adverse deviations.

(*iv*) Provision for claims incurred and adjustment expenses:

Claims and adjustment expenses incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Adjustments to claim provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(*v*) Reinsurance:

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

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

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

3. Significant accounting policies (continued):

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

(*v*) Reinsurance (continued):

The amounts recognized as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid and are recorded within due from reinsurers on the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The impairment is recorded in the statement of comprehensive income. Gains and losses on buying reinsurance are recognized in the statement of comprehensive income immediately at the date of purchase and are not amortized.

Reinsurance assets and liabilities are derecognized when the contract rights are extinguished or expire when the contract is transferred to another party.

(*vi*) Deferred acquisition costs ("DAC"):

DAC are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of comprehensive income. DAC are also considered in the liability adequacy test for each reporting period.

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

3. Significant accounting policies (continued):

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

(*vii*) Subrogation and salvage recoveries:

In certain circumstances the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. The Company has recognized and disclosed all identifiable and measurable amounts it expects to recover, in the future, from past loss events, as a separate asset on the statement of financial position.

(m) Accumulated other comprehensive income (AOCI):

AOCI is comprised of unrealized gains or losses on available-for-sale financial assets, net of tax, which represent the cumulative net change in the fair value of available-for-sale investments until the investments are derecognized or impaired.

(n) Reserves

Reserves are made as required by the regulatory authorities in Canada. Increases or decreases during the year to the above-noted reserves are charged to members' surplus as the reserves are not considered as part of the members' unappropriated surplus by the Superintendent of Financial Institutions for British Columbia.

(o) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for: IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2015 financial statements and may impact the classification and measurement of financial assets; and a new insurance contracts standard which is expected to replace IFRS 4 *Insurance Contracts* in 2014. The extent of the impact, if any, has not been determined.

(p) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

4. Investments:

	December 31, 2011	December 31, 2010	January 1, 2010
Available-for-sale financial assets	9,405,894	5,746,116	3,992,179
Held-to-maturity investments	32,506,043	28,041,756	25,632,654
	$ 41,911,937	$ 33,787,872	$ 29,624,833

At December 31, 2011, certain investments with a carrying amount of $1,000,000 (2010: $200,000 and January 1, 2010: nil) are held as security for the bank line of credit (see note 11).

5. Investment income:

	2011	2010
Recognized in net earnings		
Interest income on held-to-maturity investments	$ 1,106,132	$ 1,112,942
Interest income on deposits	15,275	8,019
Dividend income on available-for-sale financial assets	239,845	172,731
Net realized gain (loss) on investments	55,590	(1,050)
Investment fees	(121,660)	(79,405)
Investment income	$ 1,295,182	$ 1,213,237

6. Deferred acquisition costs:

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

At January 1, 2010	$ 2,886,717
Expenses deferred	6,244,265
Recognized in net earnings	(5,953,157)
At December 31, 2010	3,177,825
Expenses deferred	8,134,186
Recognized in net earnings	(7,447,695)
At December 31, 2011	$ 3,864,316

7. Insurance contract provision and reinsurance assets:

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

Analysis of movements in insurance contract provisions is as follows:

2011	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 16,228,280	$ 10,157,068	$ 6,071,212
Effect of discounting and provision for adverse deviation at January 1	569,112	332,978	236,134
Undiscounted provision at January 1	15,659,168	9,824,090	5,835,078
Estimate of ultimate claims incurred for current accident year	19,695,595	4,547,722	15,147,873
less:			
Payment on current accident year claims	(8,015,161)	(214,532)	(7,800,629)
Payment on prior accident year claims	(10,763,996)	(7,142,152)	(3,621,844)
Undiscounted provision before change in prior accident year ultimates	16,575,606	7,015,128	9,560,478
Increase (decrease) in estimate of ultimate claims incurred for prior year accident years	379,326	(234,979)	614,303
Undiscounted provision at December 31	16,954,930	6,780,149	10,174,781
Effect of discounting and provision for adverse deviation at December 31	361,170	19,951	341,219
Provision for unpaid claims and adjustment expenses, December 31	$ 17,316,100	$ 6,800,100	$ 10,516,000

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

2010	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 17,316,000	$ 11,118,000	$ 6,198,000
Effect of discounting and provision for adverse deviation at January 1	211,628	69,195	142,433
Undiscounted provision at January 1	17,104,372	11,048,805	6,055,567
Estimate of ultimate claims incurred for current accident year	13,585,978	4,219,527	9,366,451
Less:			
Payment on current accident year claims	(6,212,812)	(1,039,354)	(5,173,458)
Payment on prior accident year claims	(8,485,018)	(4,972,372)	(3,512,646)
Undiscounted provision before change in prior accident year ultimates	15,992,520	9,256,606	6,735,914
Increase (decrease) in estimate of ultimate claims incurred for prior year accident years	(333,351)	567,485	(900,836)
Undiscounted provision at December 31	15,659,168	9,824,090	5,835,078
Effect of discounting and provision for adverse deviation at December 31	569,112	332,978	236,134
Provision for unpaid claims and adjustment expenses, December 31	$ 16,228,280	$ 10,157,068	$ 6,071,212

Notes to Financial Statements

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

The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2011 and December 31, 2010:

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 12,789,100	$ 4,267,900	$ 8,521,200	$ 12,781,768	$ 8,399,599	$ 4,382,169
Claims incurred but not reported	4,527,000	2,532,200	1,994,800	3,446,512	1,757,469	1,689,043
Outstanding claims provision	17,316,100	6,800,100	10,516,000	16,228,280	10,157,068	6,071,212
Unearned premiums	18,741,112	-	18,741,112	15,500,405	-	15,500,405
Total insurance provisions	$ 36,057,212	$ 6,800,100	$29,257,112	$ 31,728,685	$10,157,068	$ 21,571,617

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

	2011			2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 13,138,435	$ 4,938,136	$ 8,200,299	$ 13,102,220	$ 8,535,658	$ 4,566,562
Undiscounted provision for incurred but not reported (IBNR) claims	3,676,595	1,842,013	1,834,582	2,472,890	1,288,432	1,184,458
Undiscounted unallocated loss adjustment expenses	139,900	-	139,900	84,058	-	84,058
	16,954,930	6,780,149	10,174,781	15,659,168	9,824,090	5,835,078
Effect of discounting	(1,348,497)	(975,111)	(373,386)	(710,067)	(493,002)	(217,065)
Provision for adverse deviation	1,709,667	995,062	714,605	1,279,179	825,980	453,199
Provision for unpaid claims and adjustment expense	$ 17,316,100	$ 6,800,100	$10,516,000	$ 16,228,280	$10,157,068	$ 6,071,212

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

Analysis of unearned premium provisions is as follows:

	2011	2010
Provision for net unearned premiums at January 1	$ 15,500,405	$ 14,280,604
Net premiums written	32,802,166	25,185,778
Less: net premiums earned	29,561,459	23,965,977
Provision for net unearned premiums at December 31	$ 18,741,112	$ 15,500,405

(a) Assumptions on claims development:

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims 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.

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

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

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

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

(b) Development claims table:

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

Gross insurance contract outstanding claims provision for 2011:

Accident year	2007	2008	2009	2010	2011	Total
At end of accident year	$10,996,862	$ 8,230,897	$14,911,971	$13,545,782	$19,601,317	
One year later	10,545,341	8,835,551	15,568,491	13,086,276		
Two years later	16,326,993	8,161,942	16,135,498			
Three years later	15,653,938	8,338,238				
Four years later	15,466,111					
Estimate of cumulative claims incurred	$15,466,111	$ 8,338,238	$16,135,498	$13,086,276	$19,601,317	$72,627,440
At end of accident year	$ 4,928,880	$ 3,621,581	$ 7,890,847	$ 6,212,812	$ 8,015,161	
One year later	8,422,469	8,079,680	13,730,788	10,346,506		
Two years later	9,180,447	8,067,543	14,228,368			
Three years later	10,617,368	8,193,836				
Four years later	15,363,144					
Cumulative payments to date	$15,363,144	$ 8,193,836	$ 14,228,368	$ 10,346,506	$ 8,015,161	$56,147,015
Gross discounted outstanding insurance claims provision at December 31, 2011	$ 102,967	$ 144,402	$ 1,907,130	$ 2,739,770	$11,586,156	$16,480,425
Gross discounted outstanding insurance claims provision with respect to prior accident years						$ 334,605
Total gross undiscounted outstanding insurance claims provision at December 31, 2011						$16,815,030
Current estimate of surplus/(deficiency)	$ (4,469,249)	$ (107,341)	$ (1,223,527)	$ 459,506		
% Surplus/(deficiency) of initial reserve	(73.7)%	(2.3)%	(17.4)%	6.3%		

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

(b) Development claims table (continued):

Net insurance contract outstanding claims provision for 2011:

Accident year	2007	2008	2009	2010	2011	Total
At end of accident year	$ 5,121,836	$ 5,483,246	$ 10,246,612	$ 9,326,255	$ 15,053,596	
One year later	5,005,420	5,683,357	9,757,118	9,300,154		
Two years later	5,008,228	5,140,223	10,245,194			
Three years later	5,179,207	5,317,198				
Four years later	4,987,301					
Estimate of cumulative claims incurred	$ 4,987,301	$ 5,317,198	$ 10,245,194	$ 9,300,154	$ 15,053,596	$ 44,903,443
At end of accident year	$ 2,737,325	$ 2,532,142	$ 5,909,384	$ 5,173,458	$ 7,800,629	
One year later	4,315,382	5,069,371	8,912,343	7,959,362		
Two years later	4,591,432	5,050,808	9,277,494			
Three years later	4,866,729	5,172,796				
Four years later	4,933,008					
Cumulative payments to date	$ 4,933,008	$ 5,172,796	$ 9,277,494	$ 7,959,362	$ 7,800,629	$ 35,143,289
Net discounted outstanding insurance claims provision at December 31, 2011	$ 54,293	$ 144,402	$ 967,700	$ 1,340,792	$ 7,252,967	$ 9,760,154
Net discounted outstanding insurance claims provision with respect to prior accident years						$ 274,727
Total net undiscounted outstanding insurance claims provision at December 31, 2011						$ 10,034,881
Current estimate of surplus (deficiency)	$ 134,534	$ 166,048	$ 1,418	$ 26,101		
% Surplus (deficiency) of initial reserve	5.6%	5.6%	0.0%	0.6%		

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

(c) Expected loss ratios:

The following table sets the expected loss ratios:

	Expected loss ratio 2011	2010
Property	49.37%	31.22%
Casualty	123.93%	137.99%
Total	53.66%	37.03%

8. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost					
Balance at January 1, 2010	$ 2,148,072	$ 177,819	$ 98,416	$	$ 2,424,307
Additions	87,702	69,507	28,512	29,871	215,592
Balance at December 31, 2010	2,235,774	247,326	126,928	29,871	2,639,899
Balance at January 1, 2011	2,235,774	247,326	126,928	29,871	2,639,899
Additions	18,212	37,094	23,673	49,740	128,719
Balance at December 31, 2011	$ 2,253,986	$ 284,420	$ 150,601	$ 79,611	$ 2,768,618

8. Property and equipment (continued):

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation					
Balance at January 1, 2010	$ 509,117	$ 123,294	$ 26,517	$ -	$ 658,928
Depreciation for the year	55,050	21,331	24,120	5,974	106,475
Balance at December 31, 2010	564,167	144,625	50,637	5,974	765,403
Balance at January 1, 2011	564,167	144,625	50,637	5,974	765,403
Depreciation for the year	54,454	23,013	29,485	18,361	125,313
Balance at December 31, 2011	$ 618,621	$ 167,638	$ 80,122	$ 24,335	$ 890,716
Carrying amounts					
At January 1, 2010	$ 1,638,954	$ 54,525	$ 71,899	$ -	$1,765,379
At December 31, 2010	1,671,607	102,701	76,291	23,897	1,874,496
At December 31, 2011	1,635,365	116,782	70,479	55,276	1,877,902

Security

At December 31, 2011, vehicles with carrying values of $55,277 (2010 - $23,897; January 1, 2010 - nil) are specific security for loans (see note 11).

9. Intangible assets:

		Computer software licences
Cost		
Balance at January 1, 2010	$	44,280
Acquisitions		566,367
Balance at December 31, 2010	$	610,647
Balance at January 1, 2011	$	610,647
Acquisitions		5,939
Balance at December 31, 2011	$	616,586
Amortization		
Balance at January 1, 2010	$	17,041
Amortization for the year		84,372
Balance at December 31, 2010	$	101,413
Balance at January 1, 2011	$	101,413
Amortization for the year		120,589
Balance at December 31, 2011	$	222,002
Carrying amounts		
At January 1, 2010	$	27,239
At December 31, 2010		509,234
At December 31, 2011		394,584

10. Amounts payable and accrued liabilities:

	December 31, 2011	December 31, 2010	January 1, 2010
Agents, brokers and intermediaries	$ 816,000	$ 833,650	$ 707,624
Other amounts payable and accrued expenses	294,208	866,749	101,706
	$ 1,110,208	$ 1,700,399	$ 809,330

Notes to Financial Statements

11. Loans:

The Company has non-interest bearing loans, which are measured at amortized cost.

Loans are secured by certain vehicles within property and equipment (note 8). The loans will mature during 2013 and 2014.

In addition, the Company maintains a line of credit agreement with the Bank of Montreal for up to $1,000,000 (2010 - $200,000; January 1, 2010 - nil). No amounts were drawn on the line of credit as at December 31, 2011 (2010 - nil; January 1, 2010 - nil).

12. Income taxes:

Total income tax expense consists of the following:

	2011	2010
Current tax expense:		
Current period	$ 480,448	$ 742,083
Adjustment for prior periods	(451,077)	-
	29,371	742,083
Deferred tax expense	(72,960)	70,173
Total income tax expense	$ (43,589)	$ 812,256

Reconciliation of effective tax rate:

	2011	2011	2010	2010
Net earnings before income tax		$ 2,865,848		$ 5,727,695
Income tax at combined federal and provincial statutory income tax rate	26.6%	761,410	28.5%	1,631,248
Non-deductible expenses	1.9%	53,175	(3.1)%	(178,469)
Tax exempt income	(11.5)%	(329,214)	12.4%	(710,696)
Tax incentives	(0.2)%	(4,923)	-	-
Change in unrecognized temporary differences	(0.3)%	(72,960)	1.2%	70,173
Under (over) provided in prior periods	(15.7)%	(451,077)	-	-
	(0.2)%	$ (43,589)	12.95%	$ 742,083

13. Reserves:

A breakdown of reserves consists of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
(*i*) Reserves for non-admitted assets	$ -	$ 1,024,544	$ 197,658
(*ii*) Additional reserve	-	-	1,475,392
(*iii*) Earthquake premium reserve	500,000	328,716	136,159
	$ 500,000	$ 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 were deemed inadmissible under previous filing standards of the Superintendent of Financial Institutions for British Columbia. Due to the implementation of Minimum Capital Tests and other risks management in place, the reserve was considered no longer required and was transferred to members' surplus during the year ended December 31, 2011.

Movements in the reserve for non-admitted assets were as follows:

Balance at January 1, 2010	$ 197,658
Revaluation increase	826,886
Balance at December 31, 2010	1,024,544
Balance at January 1, 2011	1,024,544
Revaluation decrease	(1,024,544)
Balance at December 31, 2011	$ -

(*ii*) Additional reserve:

Under Section 3 of the Insurance Company Reserves Valuation Regulations of the Financial Institution Act of British Columbia ("the Act"), the Company is required to maintain an additional reserve computed in such manner as provided under the Act.

13. Reserves (continued):

(*ii*) Additional reserve (continued):

Movements in additional reserve were as follows:

Balance at January 1, 2010	$	1,475,392
Revaluation increase (decrease)		(1,475,392)
Balance at December 31, 2010 and 2011	$	-

(*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 $500,000 (2010 - $328,716).

Movements in the earthquake reserve were as follows:

Balance at January 1, 2010	$	136,159
Revaluation increase		192,557
Balance at December 31, 2010		328,716
Balance at January 1, 2011		328,716
Revaluation increase		171,284
Balance at December 31, 2011	$	500,000

14. Financial risk management:

(a) Overview:

The Company has exposure to the following risks from its use of financial instruments:

- insurance risk;
- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk;
- other market price risk; and
- operational risk.

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

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

(b) Risk management framework:

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

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

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

14. Financial risk management (continued):

(c) Insurance risk:

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

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

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

(1) Property:

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

(2) Accident:

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

(3) Personal accident:

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

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

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

14. Financial risk management (continued):

(c) Insurance risk (continued):

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

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

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

(1) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of $5,000,000 (2010 - $5,000,000).

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

(2) Reinsurance strategy:

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Company on any one risk to less than $350,000 (2010 - $350,000).

14. Financial risk management (continued):

(c) Insurance risk (continued):

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

(2) Reinsurance strategy (continued):

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

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

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

(*iii*) Exposure relating to catastrophe events:

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

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of $500,000 (2010 - $500,000).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $60,000,000 (2010 - $50,000,000).

14. Financial risk management (continued):

(c) Insurance risk (continued):

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

Reinsurance treaties have been subscribed to by a number of reinsurance companies on the open market through the 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 Hannover Re, Aspen Insurance, and nine different Lloyd's of London 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 at A- or higher.

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

(*iv*) Other risks and policies mitigating these risks:

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

(d) Credit risk:

Credit risk is the risk of loss if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from reinsurers and insurance brokers and investment securities. The Company's credit risk lies in its cash and cash equivalents, investments, premiums receivable, and due from reinsurers.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each reinsurer and insurance broker.

Credit risk for policyholders is managed through continual review of receivables and active collection of overdue amounts. In addition, the Company regularly evaluates the financial strength of its reinsurers to ensure that the reinsurers have the capacity to fulfill their obligations.

14. Financial risk management (continued):

(d) Credit risk (continued):

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

The carrying amount of financial assets as at December 31, 2011 best represents the maximum exposure to credit risk.

As at December, 2011 and December 31, 2010, the Company's credit risk exposure for equity and debt securities within the investment portfolio based on fair value, grouped by credit risk rating of Standard & Poor's, was as follows:

2011	AAA	AA	A	BBB	BB	N/A	Total
Fixed income	$ 1,473	$ 16,588	$ 3,534	$ 52	$ -	$ 6,245	$ 27,892
Short-term investments	-	3,782	-	-	-	1,849	5,631
Equities	-	-	243	155	-	9,351	9,749
	$ 1,473	$ 20,370	$ 3,777	$ 207	$ -	$ 17,445	$ 43,272

2010	AAA	AA	A	BBB	BB	N/A	Total
Fixed income	$ 956	$ 18,850	$ 2,448	$ 1	$ -	$ 2,523	$ 24,778
Short-term investments	-	2,005	-	-	-	1,805	3,810
Equities	-	-	-	-	-	5,933	5,933
	$ 956	$ 20,855	$ 2,448	$ 1	$ -	$ 10,261	$ 34,521

The aging of loans and receivables at the reporting date was:

	December 31, 2011	December 31, 2010	January 1, 2010
Not past due	$ 5,197,901	$ 3,823,460	$ 3,205,777
90-120 days	241,341	269,506	157,244
	$ 5,439,242	$ 4,092,966	$ 3,363,021

Allowance accounts in respect of receivables and held-to-maturity investments are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at which point the amounts are considered irrecoverable and are written off against the financial asset directly. As at December 31, 2011 and 2010 and January 1, 2010, the Company did not have any impaired receivables or held-to-maturity investments.

14. Financial risk management (continued):

(e) Liquidity risk:

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

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

In addition, the Company's line of credit agreement with the Bank of Montreal disclosed in note 11 provides cash resources to the Company to primarily 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 (note 4).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

December 31, 2011	Carrying amount	Within 1 year	1-3 years	3-5 years	More than 5 years
Financial liabilities:					
Trade and other payables	$1,110,208	$ 1,110,208	$ -	$ -	$ -
Due to reinsurers	1,249,230	1,249,230	-	-	-
Loans	39,263	21,094	18,169	-	-
	$2,398,701	$ 2,380,532	$ 18,169	$ -	$ -

14. Financial risk management (continued):

(e) Liquidity risk (continued):

December 31, 2010	Carrying amount	Within 1 year	1-3 years	3-5 years	More than 5 years
Financial liabilities:					
Trade and other payables	$1,700,399	$ 1,700,399	$ -	$ -	$ -
Due to reinsurers	883,175	883,175	-	-	-
Loans	23,233	9,957	13,276	-	-
	$2,606,807	$ 2,593,531	$ 13,276	$ -	$ -

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(f) Currency risk:

Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk was limited to its investment portfolio which invests in Canadian and US equity securities. The amount of US equity securities as at December 31, 2011 was $1,827,007 (2010 - $1,409,313; January 1, 2010 - $1,009,736).

A strengthening or weakening of the Canadian dollar against the US dollar at December 31 would have decreased net earnings and members' surplus by the amounts shown below, assuming all other variables, in particular interest rates, remain constant.

	Net earnings	Members' surplus
December 31, 2011 US (5 percent strengthening)	$ 86,568	$ 86,568
December 31, 2010 US (5 percent strengthening)	95,318	95,318

14. Financial risk management (continued):

(g) Interest rate risk:

Interest rate risk is the risk that the value of interest-bearing financial instruments, such as bonds, will fluctuate due to changes in the levels of market interest rates. At the reporting date, all of the Company's interest-bearing financial instruments and loans had fixed rate interest terms and therefore the Company is not exposed to significant interest rate risk.

The Company's bank line of credit has variable rate interest terms therefore the Company is exposed to risk of interest rate changes although the line of credit was not drawn as at December 31, 2011, December 31, 2010, and January 1, 2010.

(h) Other market price risk:

Equity price risk arises from available-for-sale equity securities. Management of the Company monitors the mix of debt and equity securities in its investment portfolio. Material investments within the portfolio are managed on an individual basis and all transactions are monitored for compliance with the Company's approved investment policy. The primary goal of the Company's investment strategy is to optimize investment returns within its risk parameters; management is assisted by external advisers in this regard.

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the US. For such investments classified as available-for-sale, a 5 percent increase in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus by approximately $428,490 after tax (2010 - $269,279) assuming a 100% correlation between the TSX Composite Index and S&P 500 and the available-for-sale investments held by the Company.

(i) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and other factors. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of policies for the management of operational risk in the following areas:

14. Financial risk management (continued):

(i) Operational risk (continued):

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance when this is effective.

Compliance with Company standards are monitored by the Board of Directors.

15. Capital management and statutory requirements:

The Company's objectives when managing capital, consisting of members' surplus and reserves, are to comply with the insurance capital requirements required by the Superintendent of Insurance of British Columbia; safeguard the Company's ability to continue as a going concern; and provide an adequate return on capital by pricing insurance and investment contracts commensurately with the level of risk.

The Company's regulator is the Financial Institutions Commission (FICOM) which sets and monitors capital requirements for its operations and are requires it to maintain a level of sufficient capital to achieve a target of 150% of a minimum capital test (MCT). As at December 31, 2011 the MCT's of the Company are above the 150% MCT level.

15. Capital management and statutory requirements (continued):

The minimum capital required and held are shown below:

	Regulatory requirement	2011	2010	January 1, 2010
Minimum capital requirement	$ 6,569,000	$ 28,224,000	$25,017,000	$ 20,124,000
Reinsurance assets	-	937,935	939,605	1,415,467
Reinsurers' share of insurance liabilities	$	$ 6,800,100	$10,157,068	$ 11,118,000

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are re-insured are included in loans and other receivables.

16. Fair values of financial instruments:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	December 31, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 9,405,894	$ 9,405,894	$ 5,746,116	$ 5,746,116
Cash and cash equivalents	4,961,447	4,961,447	5,774,260	5,774,260
Assets and liabilities carried at amortized costs:				
Held-to-maturity investments	$ 32,506,043	$ 33,856,268	$28,041,756	$ 28,774,745
Accrued investment income	127,545	127,545	137,367	137,367
Premiums receivable	6,377,177	6,377,177	5,032,571	5,032,571
Due from reinsurers	937,935	937,935	939,605	939,605
Amounts payable and accrued liabilities	1,110,208	1,110,208	1,700,399	1,700,399
Due to reinsurers	1,249,230	1,249,230	883,175	883,175
Loans	39,263	39,263	23,233	23,233
	$ 42,347,401	$ 43,697,626	$36,758,106	$ 37,491,095

16. Fair values of financial instruments (continued):

Fair value is assumed to approximate carrying value for accrued investment income, premiums receivable, due from reinsurers, amounts payable and accrued liabilities, due to reinsurers and loans due to their immediate or short-term maturity.

In accordance IFRS 7 *Financial Instruments: Disclosures*, all financial instruments measured at fair value are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure that fair value of the assets or liabilities:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2011 and 2010, all of the Company's cash and cash equivalents and available-for-sale investments are classified as Level 1.

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Investments in equity and debt securities:

The fair value of financial assets at held-to-maturity investments and available-for-sale financial assets are determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

17. Operating leases:

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

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	$ 15,426	$ 15,426	$ 18,473
Between 1 and 5 years	27,471	19,622	25,486

During the year ended December 31, 2011 $6,914 was recognized as other operating income in net earnings (2010 - $13,330). Repairs and maintenance expense, recognized in administration expense was $33,784 (2010 - $27,040).

18. Contingencies:

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

19. Related parties:

(a) Key management personnel compensation:

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

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

Key management personnel compensation comprised:

	2011	2010
Salaries and benefits	$ 520,464	$ 389,433
Registered savings plan contributions	35,000	29,000
	$ 555,464	$ 418,433

(b) Key management personnel and director transactions:

The aggregate value of transactions relating to key management personnel and directors over which they have control or significant influence were as follows:

	2011	2010
Management:		
Insurance premiums	$ 3,371	$ 2,982
Directors:		
Insurance premiums and director fees	123,927	156,314
	$ 127,298	$ 159,296

20. 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. There was no declared premium refund for 2011 (2010 - $486,476). The premium refund is allocated to members based on the members' share of total premiums.

21. Explanation of transition to IFRS:

As stated in note 2(a), these are the Company's first financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010.

IFRS 1 provides certain mandatory and optional exemptions for first time IFRS adopters. The option exemption the Company has elected to take is as follows:

- The Company has elected to apply the transitional requirements of IFRS 4 *Insurance Contracts* prospectively to reporting periods beginning on or after January 1, 2005

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

21. Explanation of transition to IFRS (continued):

(a) Reconciliation of total members' surplus and reserves:

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
		January 1, 2010			December 31, 2010		
Assets							
Cash		$ 1,642,174	$ -	$ 1,642,174	$ 5,774,260	$ -	$ 5,774,260
Investments:							
Available-for-sale		3,992,179	-	3,992,179	5,746,116	-	5,746,116
Held-to-maturity		25,632,654	-	25,632,654	28,041,756	-	28,041,756
Investment property	*(i)*	655,582	(655,582)	-	668,642	(668,642)	-
Investment income due and accrued		103,218	-	103,218	137,367	-	137,367
Premiums receivable		3,363,021	-	3,363,021	4,092,966	-	4,092,966
Sundry receivable and deposit		318,456	-	318,456	-	-	-
Due from reinsurer		1,415,467	-	1,415,467	939,605	-	939,605
Reinsurers' share of provisions for:							
Unpaid claims and adjustment expenses		11,118,000	-	11,118,000	10,157,068	-	10,157,068
Deferred policy acquisition expenses		2,886,717	-	2,886,717	3,177,825	-	3,177,825
Income tax recoverable		281,497	-	281,497	-	-	-
Future income taxes		36,317	-	36,317	-	-	-
Property and equipment	*(i)(ii)*	1,137,036	628,343	1,765,379	1,715,088	159,408	1,874,496
Intangible assets	*(ii)*	-	27,239	27,239	-	509,234	509,234
Total assets		52,582,318	-	52,582,318	60,450,693	-	60,450,693
Liabilities							
Provision for unpaid claims and adjustment expenses		17,316,000	-	17,316,000	16,228,280	-	16,228,280
Unearned premiums		14,280,604	-	14,280,604	15,500,405	-	15,500,405
Unearned reinsurance commissions		13,058	-	13,058	3,684	-	3,684
Due to reinsurers		-	-	-	883,175	-	883,175
Income tax payables		-	-	-	738,517	-	738,517
Future taxes payable		-	-	-	33,856	-	33,856
Amounts payable and accrued liabilities		809,330	-	809,330	1,700,399	-	1,700,399
Loans		-	-	-	23,233	-	23,233
Total liabilities		32,418,992	-	32,418,992	35,111,549	-	35,111,549
Members' surplus and reserves							
Reserves		1,809,209	-	1,809,209	1,353,260	-	1,353,260
Accumulated other comprehensive income		123,762	-	123,762	384,141	-	384,141
Unappropriated members' surplus		18,230,355	-	18,230,355	23,601,743	-	23,601,743
Total members' surplus and reserves		20,163,326	-	20,163,326	25,339,144	-	25,339,144
Total liabilities and members' surplus and reserves		$ 52,582,318	$ -	$ 52,582,318	$ 60,450,693	$ -	$ 60,450,693

21. Explanation of transition to IFRS (continued):

(b) Reconciliation of comprehensive income:

December 31, 2010	Note	GAAP	Canadian IFRS	Effect of transition to IFRS
Premiums written				
Gross premiums written		$ 30,385,796	$ -	$ 30,385,796
Less: reinsurance premiums ceded		(5,200,018)	-	(5,200,018)
Net premiums written		25,185,778	-	25,185,778
Less: Decrease (increase) in unearned premiums		(1,219,801)	-	(1,219,801)
Net premiums earned		23,965,977	-	23,965,977
Commission income		68,094	-	68,094
Insurance contracts		1,805	-	1,805
Membership fees		32,151	-	32,151
		$ 24,068,027	$ -	$ 24,068,027
Claims and expenses incurred				
Claim and adjustment expenses		$ 8,873,823	$ -	$ 8,873,823
Commissions		6,784,895	-	6,784,895
Salaries, grants and benefits		2,084,685	-	2,084,685
Administration		1,285,807	-	1,285,807
Premium tax		51,451	-	51,451
		$ 19,080,661	$ -	$ 19,080,661
Underwriting income (loss)		$ 4,987,366	$ -	$ 4,987,366
Investment operations				
Investment income		$ 1,293,692	$ -	$ 1,293,692
Net realized gain (loss) on investments		(1,050)	-	(1,050)
Investment fees		(79,405)	-	(79,405)
		$ 1,213,237	$ -	$ 1,213,237

21. Explanation of transition to IFRS (continued):

(b) Reconciliation of statement of comprehensive income (continued):

December 31, 2010	Note	GAAP	Effect of Transition to IFRS	IFRS
Other income (expenses)				
Other operating income		$ 13,330	$ -	$ 13,330
Patronage expense		(486,238)	-	(486,238)
		$ (472,908)	$ -	$ (472,908)
Net income before income taxes				
Current income tax expense		(742,083)	-	(742,083)
Future income tax benefit (provision)		(70,173)	-	(70,173)
		(812,256)	-	(812,256)
Net earnings for the year		4,915,439	-	4,915,439
Other comprehensive income - net of income tax:				
Net unrealized gains (losses)		260,379	-	260,379
Comprehensive income for the period		$ 5,175,818	$ -	$ 5,175,818

(c) Reconciliation of cash flows:

There were no transition differences noted for the statement of cash flows upon the transition from Canadian GAAP to IFRS.

(d) Explanations of the above differences between Canadian GAAP and IFRS:

(*i*) A portion of the Company's corporate building that was previously classified as investment property has been classified as property and equipment in accordance with IAS 16 *Property, Plant and Equipment*. The portion of the Company's corporate building was reclassified at their historical net book value as at the date of transition. Under both Canadian GAAP and IFRS, the corporate building is depreciated using the declining balance method at a rate of 4% to 20%. There is no impact on members' surplus as a result of the reclassification of investment property to property and equipment.

21. Explanation of transition to IFRS (continued):

(d) Explanations of the above differences between Canadian GAAP and IFRS (continued):

(*ii*) The Company's computer software licences that were previously classified as property and equipment have been classified as intangible assets in accordance with IAS 8 Intangible Assets. The computer software licenses were reclassified at their historical net book value as at the date of transition. Under both Canadian GAAP and IFRS, computer software licences are depreciated over their estimated useful lives of 5 years. There is no impact on members' surplus as a result of the reclassification of computer software licences to intangible assets.