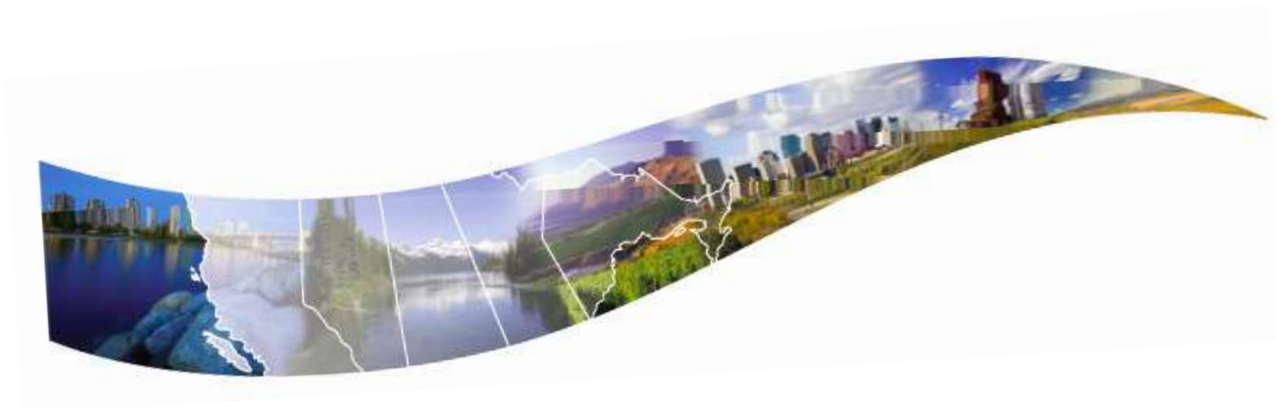

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

2015 Annual Report

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THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Chairman Report

Don Hooge

Chairman

On behalf of the Board of Directors I am pleased to present the Chairman's Report for 2015.

- Premiums Written - $83,181,000
- Investment Income - $2,508,000
- Underwriting Loss – ($1,447,000)
- Net after tax profit -$1,025,000
- Member Surplus – $34,023,000

In 2015 premiums grew 19.2%. Our overall policy count increased by 30%.

Our Investment portfolio had a strong performance in 2015 with a yield of 3.41%.

From a claims perspective, last year was our most challenging on record. Our combined ratio was 103.90%. We suffered two substantial dairy barn losses and one poultry barn loss, all of which were located in the British Columbia Fraser Valley, with combined reserves of approximately $8.5million. We also caught the tail end of the forest fire season with a $3 million dollar reserve posted for the Rock Creek BC forest fire. The year also provided us with significant loss frequency.

Demutualization regulations for Federally regulated Mutuals were finalized by the Federal government this past year. We are a member of the Canadian Association of Mutual Insurance Companies (CAMIC) and as such, they presented our interests to government in an effort to ensure the framework developed, was fair.

During 2015 we completed our Own Risk and Solvency Assessment (ORSA), as required by the Financial Institutions Commission (FICOM). This process along with our enterprise risk management (ERM) engaged the efforts of all management and the Board of Directors and created the basis for Mutual Fire Insurance to identify and mitigate our key risks.

We are continuing to create products, coverages and pricing, consistent with the needs of consumers, in response to the ever changing climate exposures affecting all jurisdictions in which we write business.

Our information technology experts continue to monitor and build safe guards to protect the company in the event of a cyber-attack. Our Enterprise Risk Management (ERM) policy clearly identifies cyber risks as an 'emerging threat' and Mutual Fire Insurance is taking all precautions, including but not limited to staff training and the purchasing of a cyber insurance policy in order to mitigate the threat.

This year we say good bye to one of our directors; John Peterson. He is retiring after a three year term. The board and management thank him for his time and wish him well. On behalf of the Board of Directors I would like to once again take this opportunity to thank our network of supportive brokers and look forward to our mutual success in the future. I would also like to thank the staff and management for their efforts throughout this extremely challenging year.

Respectfully submitted,

Don Hooge

D Hooge

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

President & Chief Executive Officer Report

Darin Lord Nessel, CIP

President & Chief Executive Officer

The Mutual Fire Insurance Company of British Columbia has just completed our most challenging year in the company's history and I couldn't be more proud of our team as the year came to a close. Although our combined ratio was marginally better than the previous year, we still produced an underwriting loss. We did however, continue to see solid growth and met the year with a plan to not only improve upon our underwriting integrity, but improve upon our underwriting fundamentals and skills throughout the organization. We also began the year with a stronger than ever focus on our farm department, through increased staffing, training, inspections and returning to our strong farm principles in an effort to restore our loss ratios to where we have become accustomed.

Our gross written premiums for 2015 were just over $83 million and aside from our fronting arrangements, where the risks are ceded almost entirely to the reinsurers, we were able to slow our growth to a more manageable 9.2%. Our commercial and residential books became a slightly lower percentage of our overall volumes. This planned decrease along with a targeted $4 million increase in farm business, improved our gross farm numbers to a healthy 46.4% of our overall book of business. Up almost 6% from 40.6% last year.

Challenging years lead to change and opportunity. This past year has brought about a revitalization of our corporate culture, strengthening of our business development, claims, accounting and information technology departments, along with a more structured and disciplined underwriting department. We will continue to develop new products in all three lines, including the development of our residential flood product for 2016. We are excited as to how these changes will produce positive improvements to our results over the next 12-18 months.

With today's technology, customers have drastically increased expectations as to how and when they receive their policy and deservedly so. They expect a policy to be in their hands on time and in a format they can easily understand. As the staff and management at Mutual Fire Insurance see it, the very best thing that's coming from all of our customers increased expectations, is that it forces us to become the best we can be and we are certainly up for that challenge. The staff and management at Mutual Fire Insurance are following our vision statement to a "T". "Embracing Change to Protect You". We are working closer together with our brokers than ever before, as we believe Insurer and broker success will continue to depend on their strong fundamentals, which include acting as trusting advisors and advocates. It will also require the ability to innovate and deliver a simple and seamless experience based on the evolving needs and expectations of consumers. There is so much in the way of disruption in today's marketplace and this disruption doesn't just happen, it's because our customers are asking for it.

Reflecting on the challenging year that was, it's extremely important to recognize all of the hard work and dedication of the Mutual Fire Insurance staff. We dealt with all the challenges of 2015 through our strong corporate culture and by following our vision statement and core values. It's evident The Mutual Fire Insurance Company of British Columbia has the team, the integrity and discipline to meet any challenge that presents itself, while at the same time demonstrating the value of our company to the mutual benefit of our customers, key partners and employees.

Darin L. Nessel

Finance Report
Jason Christopherson, CPA, CGA, BAccS
Chief Financial Officer

Times of adversity can test the finest companies. It is during these times that a company learns what it is made of and the strength of its employees. For The Mutual Fire Insurance Company of British Columbia this was one of those years. The challenges and opportunities encountered during 2015 have given us insight into the things we do well as a company and those areas that will define us as a company moving forward.

At Mutual Fire Insurance the increased frequency and severity of claims in 2015 has served as a catalyst for Mutual Fire Insurance to build an even stronger control environment that will improve underwriting discipline, claims handling, and reserving. We will achieve this through appropriate risk selection made possible by strict compliance to our underwriting guidelines. We will proactively manage our business through closely monitoring underwriting trends as we strive to produce consistent results.

We continue to reduce our geographic concentration of risk through further diversification into provinces other than British Columbia. This has helped spread our exposure to losses from natural or intentionally caused catastrophic events. This diversification was important in 2015 as Mutual Fire Insurance experienced significant losses in British Columbia resulting in a much higher than normal gross loss ratio in B.C. of 80% compared to a previous historical average of just over 50%.

Our ability to adapt quickly enabled Mutual Fire Insurance to reduce its expense ratio to 37.03% down from 41.28% in 2014. This helped to offset the less favorable claims ratio of 66.87% compared to 63.16% in 2014. The overall combined ratio was 103.90%. This improvement in the combined ratio resulted in an underwriting loss of $1,447,000 and a net after tax income of $1,025,000 up from $581,000 in 2014.

We continued to generate consistent investment income of $2,508,000 in 2015 with an investment portfolio primarily in low risk, high quality debt securities. The market risk to the investment portfolio is primarily interest risk associated with our debt securities. These securities are sensitive to changes in interest rates. An increase in interest rates typically reduces the fair market value of fixed income securities. In addition, if interest rates decline, investment income from future investments in fixed income securities will be lower. This makes it important to ensure the duration of our investments are properly matched to our loss reserves. Mutual Fire Insurance has reduced its duration to 2.90 years in 2015 from 3.22 years in 2014 in order to address this risk Exposure. Our equity pricing risk is related to investments in high dividend paying equities making up 24.93% of our portfolio.

As we move forward Mutual Fire Insurance will drive improved profitability across all business lines. This increased profitability will be driven by the knowledge and experience of our insurance team in key markets. We will reach our benchmarks by continuing to leverage our core strengths of Mutuality and Community and focusing on further building the trust of our clients in the markets we operate.

Jason Christopherson

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Company Profile

HEAD OFFICE

201-9366 200A Street
Langley, BC Canada
V1M 4B3

Phone: 604- 881-1250
Toll Free: 1-866-417-2272

AUDITORS

KPMG Enterprise
777 Dunsmuir Street
Vancouver, BC Canada
V7Y 1K3

ACTUARY

Baron Insurance Services Inc.
206 Laird Dr. East
York, ON Canada
M4G 3W4

Board of Directors


Don Hooge
Chairman


Jake Bredenhof
Vice Chairman


Bill Adams
Treasurer


Mike Bose
Director


John Pruim
Director

No photo available
John Peterson
Director


Tako van Popta
Director


Dan Robinson
Director

AUDIT COMMITTEE
Bill Adams (Chairman), Bill Adams (Treasurer)
Jake Bredenhof, Tako van Popta

CONDUCT REVIEW COMMITTEE
Don Hooge (Chairman), Mike Bose (Chair)
Tako van Popta, Dan Robinson

INVESTMENT COMMITTEE
Don Hooge (Chairman), Mike Bose (Chair)
Jake Bredenhof, Dan Robinson

ERM COMMITTEE
Don Hooge (Chairman), Jake Bredenhof (Vice Chairman)
Bill Adams Mike Bose, John Pruim,
Tako van Popta, Dan Robinson, John Peterson

DONATIONS COMMITTEE
Don Hooge (Chairman), Mike Bose (Chair)
John Pruim,

Financial Statements

(Expressed in thousands of dollars)

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Year ended December 31, 2015

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Management Statement

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

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

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

The Financial Institutions Commission makes a 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
President & Chief Executive Officer

Jason Christopherson, CPA, CGA, BAccS
Chief Financial Officer

Baron Insurance Services Inc.

Actuaries & Consultants

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

Report of the Actuary

DESCRIPTION OF THE ACTUARY'S ROLE

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

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

APPOINTED ACTUARY'S REPORT

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

I have valued the policyholder liabilities and the reinsurance recoverables of The Mutual Fire Insurance Company of British Columbia for its statement of financial position at December 31, 2015 and their change in the statement of comprehensive income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policyholder liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

Toronto, Ontario
February 19, 2016

Barb Addie
Fellow, Canadian Institute of Actuaries

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

Independent Auditors' Report

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

We have audited the accompanying financial statements of The Mutual Fire Insurance Company of British Columbia, which comprise the statement of financial position as at December 31, 2015, the statements of comprehensive income, changes in members' surplus and reserves, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Mutual Fire Insurance Company of British Columbia as at December 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 19, 2016
Vancouver, Canada

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Financial Position
(Expressed in thousands of dollars)

December 31, 2015, with comparative information for 2014

	Notes	2015	2014
Assets			
Cash and cash equivalents		$ 2,783	$ 11,607
Investments	4	67,803	67,027
Accrued investment income		252	209
Premiums receivable		9,754	8,317
Due from reinsurers		1,069	-
Reinsurers' share of provisions for:			
Unpaid claims and adjustment expenses	5	30,909	15,091
Unearned premiums	5	8,356	1,050
Deferred policy acquisition expenses	6	7,058	7,692
Taxes receivable		1,568	-
Deferred income tax asset		219	143
Property and equipment	7	1,946	1,840
Intangible assets	8	239	123
		$ 131,956	$ 113,099
Liabilities and Members' Surplus and Reserves			
Amounts payable and accrued liabilities	9	$ 1,432	$ 1,341
Due to reinsurers		3,466	2,503
Taxes payable		-	2,043
Unearned reinsurance commissions		3,229	221
Provisions for unpaid claims and adjustment expenses	5	52,727	39,365
Unearned premiums	5	32,684	30,300
		93,538	75,773
Members' surplus and reserves:			
Reserves	10	500	500
Accumulated other comprehensive income		3,895	3,828
Unappropriated members' surplus		34,023	32,998
		38,418	37,326
Commitments	11		
Contingencies	12		
		$ 131,956	$ 113,099

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director

Director

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Comprehensive Income
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Notes		2015		2014
Premiums written:					
Gross premiums written	13	$	83,181	$	69,768
Less: Reinsurance premiums ceded			(39,890)		(16,823)
Net premiums written			43,291		52,945
Less: Increase in unearned premiums			(2,093)		(5,199)
Net premiums earned			41,198		47,746
Commission income			10,845		1,854
Service fees			142		153
Membership fees			21		28
			52,206		49,781
Claims and expenses incurred:					
Claims and adjustment expenses			27,554		30,157
Commissions			18,342		14,506
Salaries and benefits	13		4,027		3,694
Administration			1,737		1,760
Premium taxes			1,993		1,604
			53,653		51,721
Net underwriting loss			(1,447)		(1,940)
Net investment income	14		2,508		2,475
Income before income taxes			1,061		534
Income tax expense (recovery):	15				
Current			112		41
Deferred			(76)		(88)
			36		(47)
Net income			1,025		581
Other comprehensive income:					
Net unrealized gains on available-for-sale assets, net of tax of $10 (2014 - $201)			67		1,315
Total comprehensive income, for the year		$	1,092	$	1,896

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Changes in Members' Surplus and Reserves
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Reserves	Accumulated other comprehensive income	Unappropriated members' surplus	Total members' surplus and reserves
Balance, December 31, 2013	$ 500	$ 2,513	$ 32,417	$ 35,430
Net income	-	-	581	581
Net unrealized gains on available for sales assets	-	1,315	-	1,315
Balance, December 31, 2014	500	3,828	32,998	37,326
Net income	-	-	1,025	1,025
Net unrealized gains on available for sales assets	-	67	-	67
Balance, December 31, 2015	$ 500	$ 3,895	$ 34,023	$ 38,418

See accompanying notes to financial statements.

THE MUTUAL FIRE INSURANCE COMPANY OF BRITISH COLUMBIA

Statement of Cash Flows
(Expressed in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Net income	$ 1,025	$ 581
Adjustments for:		
Depreciation and amortization	247	287
Deferred income tax recovery	(76)	(88)
Interest income	(2,117)	(1,949)
Premium tax expense	1,993	1,604
Income tax expense	112	41
Realized gains on available-for-sale investments	(602)	(715)
	582	(239)
Changes in non-cash operating working capital:		
Premiums receivable	(1,436)	(2,228)
Due from reinsurers	(1,069)	827
Deferred acquisition costs	633	(2,494)
Reinsurers' share of unpaid claims and adjustment expenses	(15,818)	(6,199)
Reinsurers' share of unearned premium	(7,306)	(1,050)
Provision for unpaid claims and adjustment expenses	13,363	12,354
Unearned premiums	2,384	6,249
Unearned reinsurance commission	3,008	221
Due to reinsurers	963	829
Amounts payable and accrued liabilities	91	(543)
Premium tax payable	(1,061)	1,195
	(5,666)	8,922
Interest received	1,800	1,923
Income taxes paid	(1,839)	(1,784)
Premium taxes paid	(2,824)	(456)
	(8,529)	8,605
Investments:		
Purchase of investments	(9,433)	(14,330)
Proceeds on sale of investments	9,610	10,684
Purchase of property, plant, and equipment	(253)	(123)
Purchase of intangible assets	(219)	(26)
	(295)	(3,795)
Increase (decrease) in cash and cash equivalents	(8,824)	4,810
Cash and cash equivalents, beginning of year	11,607	6,797
Cash and cash equivalents, end of year	$ 2,783	$ 11,607
Cash and cash equivalents comprised of:		
Cash	$ 89	$ 7,860
Cash equivalents	2,694	3,747
	$ 2,783	$ 11,607

See accompanying 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, the Insurance Act of Manitoba and the Insurance Act of Ontario.

The registered office of the Company is located at Suite 201, 9366 - 200A Street, Langley, British Columbia, V1M 4B3.

2. Basis of presentation:

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements were authorized for issue by the Board of Directors on February 18, 2016.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

The area of significant estimation in these financial statements is in respect to the provision for unpaid claims and adjustment expenses. Further information over this estimate is included in note 5.

3. Significant accounting policies:

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

(a) Cash and cash equivalents:

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

(b) Financial instruments:

(*i*) Financial assets:

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

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

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

Financial assets at fair value through profit or loss:

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

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

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*i*) Financial assets (continued):

Held-to-maturity financial assets:

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

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

Loans and receivables:

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

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

Available-for-sale financial assets:

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

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

3. Significant accounting policies (continued):

(b) Financial instruments (continued):

(*ii*) Financial liabilities:

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

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

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

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

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

(c) Property and equipment:

(*i*) Recognition and measurement:

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

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

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

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

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

3. Significant accounting policies (continued):

(c) Property and equipment (continued):

(*ii*) Depreciation:

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

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

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

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

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

(d) Intangible assets:

(*i*) Computer software licences:

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

(*ii*) Amortization:

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

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

3. Significant accounting policies (continued):

(e) Leased assets:

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

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

(f) Recognition and measurement of insurance contracts:

(*i*) Classification of insurance contracts:

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

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

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

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

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

3. Significant accounting policies (continued):

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

(*iii*) Unearned premium provision:

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

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

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

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

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

(*v*) Reinsurance:

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

3. Significant accounting policies (continued):

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

(*v*) Reinsurance (continued):

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

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

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

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

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

(*vi*) Deferred policy acquisition costs (“DPAC”):

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

3. Significant accounting policies (continued):

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

(*vi*) Deferred policy acquisition costs ("DPAC") (continued):

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

(*vii*) Subrogation and salvage recoveries:

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

(g) Reserves:

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

(h) Revenue:

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

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

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

3. Significant accounting policies (continued):

(h) Revenue (continued):

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

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

(*ii*) Fee and commission income:

Fee and commission income comprises fees from membership and insurance contracts. Fees are recognized as revenue over the period that the related service is provided or proportionately over the period of membership, as applicable.

(*iii*) Investment income:

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

(i) Income tax:

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

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

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

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

(Expressed in thousands of dollars)

3. Significant accounting policies (continued):

(j) New standards and interpretations not yet adopted:

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

(*i*) IFRS 9 - *Financial Instruments*:

IFRS 9 represents a comprehensive project to replace IAS 39 and deals with classification and measurement of financial assets based on the business model in which they are held and the characteristics of their cash flows. The mandatory effective date for this standard is for fiscal periods commencing January 1, 2018; however, early adoption of the new standard is still permitted. The Company has not yet evaluated the extent of impact of this standard.

(*ii*) IFRS 4 - *Insurance Contracts:*

IFRS 4 changes the basis for measuring insurance contracts. The standard is not expected to affect the Company until 2020 at the earliest. IFRS 4 - *Insurance Contracts,* will impact the classification and measurement of insurance liabilities and premiums. The Company is currently assessing the impact of these standards.

4. Investments:

	2015	2014
Available-for-sale financial assets	$ 25,480	$ 22,729
Held-to-maturity investments	42,323	44,298
	$ 67,803	$ 67,027

At December 31, 2015, certain investments with a carrying amount of $2,000, (2014 - $2,000) are held as security for the bank line of credit (note 16).

(Expressed in thousands of dollars)

5. Insurance contract provision and reinsurance assets:

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

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

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

(Expressed in thousands of dollars)

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

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

2014	Gross	Reinsurance	Net
Provision for unpaid claims and adjustment expenses, January 1	$ 27,011	$ 8,892	$ 18,119
Effect of discounting and provision for adverse deviation, January 1	(760)	(95)	(665)
Undiscounted provision at January 1	26,251	8,797	17,454
Estimate of ultimate claims incurred for current accident year	39,024	9,452	29,572
Payment on current accident year claims	(15,676)	(1,424)	(14,252)
Payment on prior accident year claims	(12,148)	(2,467)	(9,681)
Undiscounted provision before change in prior accident year ultimates	37,451	14,358	23,093
Increase in estimate of ultimate claims incurred for prior year accident years	845	577	268
Undiscounted provision, December 31	38,296	14,935	23,361
Effect of discounting and provision for adverse deviation, December 31	1,069	156	913
Provision for unpaid claims and adjustment expenses, December 31	$ 39,365	$ 15,091	$ 24,274

(b) The following is a summary of the insurance contract provisions and related reinsurance assets as at December 31, 2015 and 2014:

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	$ 43,570	$ 26,350	$ 17,220	$ 32,157	$ 11,958	$ 20,199
Claims incurred but not reported	9,157	4,559	4,598	7,208	3,133	4,075
Outstanding claims provision	52,727	30,909	21,818	39,365	15,091	24,274
Unearned premiums	32,684	8,356	24,328	30,300	1,050	29,250
Total insurance provisions	$ 85,411	$ 39,265	$ 46,146	$ 69,665	$ 16,141	$ 53,524

(Expressed in thousands of dollars)

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

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

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Undiscounted claims case reserves	$ 43,570	$ 26,350	$ 17,220	$ 32,157	$ 11,958	$ 20,199
Undiscounted provision for incurred but not reported ("IBNR") claims	7,212	4,135	3,077	5,650	2,977	2,673
Undiscounted unallocated loss adjustment expenses	492	-	492	489	-	489
	51,274	30,485	20,789	38,296	14,935	23,361
Effect of discounting	(1,860)	(1,110)	(750)	(1,405)	(684)	(721)
Provision for adverse deviation	3,313	1,534	1,779	2,474	840	1,634
Provision for unpaid claims and adjustment expense	$ 52,727	$ 30,909	$ 21,818	$ 39,365	$ 15,091	$ 24,274

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

	2015	2014
Provision for net unearned premiums, January 1	$ 29,250	$ 24,051
Net premiums written	43,291	52,945
Portfolio transfer	(7,015)	-
Less net premiums earned	41,198	47,746
Provision for net unearned premiums, December 31	$ 24,328	$ 29,250

The portfolio transfer is the result of ceding a portion of our unearned premiums under a new net quota share treaty as of January 1, 2015. Since the premiums have already been written, this represents retroactive coverage and reclassifies a portion of unearned premiums to the reinsurer.

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

(e) Assumptions on claims development:

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

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

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

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

(f) Sensitivity analysis:

The discount rate used by the actuary in determining the provision for unpaid claims and adjustment expenses 2.58% (2014 - 2.65%). A 1.00% change in the discount factor would change the net provision by $317 (2014 - $306).

(g) Development claims table:

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

(Expressed in thousands of dollars)

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

(g) Development claims table (continued):

Net insurance contract outstanding claims provision for 2015:

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
At end of accident year	$ 5,122	$ 5,483	$ 10,206	$ 9,326	$ 15,054	$ 22,024	$ 21,635	$ 29,572	$ 27,032	$
One year later	5,005	5,679	9,757	9,300	14,407	21,148	21,450	30,073		
Two years later	5,004	5,140	10,245	9,610	13,760	21,708	21,092			
Three years later	5,179	5,317	10,187	9,229	13,798	22,285				
Four years later	4,987	5,364	10,165	9,059	13,556					
Five years later	5,061	5,247	10,225	9,118						
Six years later	5,039	5,217	9,998							
Seven years later	5,022	5,192								
Estimate of cumulative claims incurred	5,022	5,192	9,998	9,118	13,556	22,285	21,092	30,073	27,032	138,346
Cumulative payments to date	5,015	5,182	9,786	8,942	13,287	19,480	19,552	26,718	15,139	118,086
Net undiscounted outstanding insurance claims provision at December 31, 2015	$ 7	$ 10	$ 212	$ 176	$ 269	$ 2,805	$ 1,540	$ 3,355	$ 11,893	20,260
Net undiscounted outstanding insurance claims provision with respect to prior accident years										37
Total net undiscounted outstanding insurance claims provision at December 31, 2015										20,297
Undiscounted unallocated loss adjustment expenses										492
Effect of discounting										(750)
Provision for adverse deviation										1,779
Total net discounted outstanding insurance claims provision, December 31, 2015										$ 21,818

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

(h) Expected loss ratios:

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

	Expected loss ratio	
	2015	2014
Property	55.00%	55.00%
Casualty	80.00%	78.00%
Blended expected loss ratio	56.31%	56.09%

6. Deferred policy acquisition costs:

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

At December 31, 2013	$ 5,198
Expenses deferred	17,638
Recognized in loss for the year	(15,144)
At December 31, 2014	7,692
Expenses deferred	18,284
Recognized in net earnings	18,918
At December 31, 2015	$ 7,058

(Expressed in thousands of dollars)

7. Property and equipment:

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Cost:					
Balance, December 31, 2013	$ 2,345	$ 192	$ 205	$ 80	$ 2,822
Additions	-	13	110	-	123
Disposals	-	-	(65)	-	(65)
Balance, December 31, 2014	2,345	205	250	80	2,880
Additions	128	-	89	39	256
Disposals	-	-	(30)	(17)	(47)
Balance, December 31, 2015	$ 2,473	$ 205	$ 309	$ 102	$ 3,089

	Land and buildings	Office furniture	Computer equipment	Vehicles	Total
Depreciation:					
Balance, December 31, 2013	$ 723	$ 66	$ 128	$ 53	$ 970
Depreciation for the year	52	28	50	8	138
Disposals	-	-	(68)	-	(68)
Balance, December 31, 2014	775	94	110	61	1,040
Depreciation for the year	50	23	61	12	146
Disposals	-	-	(30)	(13)	(43)
Balance, December 31, 2015	$ 825	$ 117	$ 141	$ 60	$ 1,143
Carrying amounts:					
At December 31, 2014	$ 1,570	$ 111	$ 140	$ 19	$ 1,840
At December 31, 2015	1,648	88	168	42	1,946

(Expressed in thousands of dollars)

8. Intangible assets:

		Computer software licenses
Cost:		
Balance, December 31, 2013	$	721
Acquisitions		26
Balance, December 31, 2014		747
Acquisitions		217
Disposal		(567)
Balance at December 31, 2015	$	397

		Computer software licenses
Amortization:		
Balance, December 31, 2013	$	475
Amortization for the year		149
Balance, December 31, 2014		624
Amortization for the year		101
Disposal		(567)
Balance, December 31, 2015	$	158
Carrying amounts:		
At December 31, 2014	$	123
At December 31, 2015		239

9. Amounts payable and accrued liabilities:

		2015		2014
Agents, brokers and intermediaries	$	1,281	$	1,307
Other amounts payable and accrued expenses		151		34
	$	1,432	$	1,341

(Expressed in thousands of dollars)

10. Reserves:

Pursuant to the guidelines set by the Superintendent of Financial Institutions of British Columbia, the Company has set aside an earthquake premium reserve of $500 (2014 - $500).

11. Commitments:

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

	2015	2014
Less than 1 year	$ 31	$ 27
Between 1 and 5 years	95	77

12. Contingencies:

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

13. Related parties:

(a) Key management personnel compensation:

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

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

Key management personnel compensation comprised:

	2015	2014
Salaries and benefits	$ 779	$ 909
Registered savings plan contributions	49	55
	$ 828	$ 964

(Expressed in thousands of dollars)

13. Related parties (continued):

(b) Key management personnel and director transactions:

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

	2015	2014
Management insurance premiums	$ 6	$ 5
Directors insurance premiums	60	67
	$ 66	$ 72

14. Net investment income:

	2015	2014
Recognized in net earnings:		
Interest income on held-to-maturity investments	$ 1,324	$ 1,398
Interest income on cash and cash equivalents	9	9
Dividend income on available-for-sale investments	784	541
Net realized gain on investments	602	715
Investment management fees	(211)	(189)
Net investment income	$ 2,508	$ 2,474

15. Income taxes:

Total income tax expense consists of the following:

	2015	2014
Current tax expense:		
Current year	$ 112	$ 41
Deferred tax recovery	(76)	(88)
Total income tax expense	$ 36	$ (47)

(Expressed in thousands of dollars)

15. Income taxes (continued):

Reconciliation of effective tax rate:

			2015			2014
Net earnings before income tax		$	1,061		$	534
Income tax at combined federal and provincial statutory income tax rate	26.1 %	$	277	25.8 %	$	138
Non-deductible expenses	0.6 %		7	0.9 %		5
Non-taxable dividend income	(7.1)%		(76)	(20.4)%		(109)
Non-taxable farming income	(5.8)%		(61)	(5.2)%		(28)
Other	(10.4)%		(111)	(9.9)%		(53)
	3.4%	$	36	(8.8)%	$	(47)

16. Line of credit:

The Company maintains a line of credit agreement with a third party lender for up to $2,000 (2014 - $2,000). Nil was drawn on the line of credit as at December 31, 2015 (2014 - nil).

17. Financial and insurance risk management:

(a) Overview:

The Company has exposure to the following risks arising from its insurance operations and from its use of financial instruments:

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

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

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

17. Financial and insurance risk management (continued):

(b) Risk management framework:

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

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

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

(c) Insurance risk:

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

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

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

(A) Property:

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

(B) Accident:

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

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(C) Personal accident:

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

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

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

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

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

(A) Underwriting strategy:

The Company underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the Company is prepared to accept exposure. This strategy is implemented by individual underwriters through limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the Company is a maximum of $5,000 (2014 - $5,000).

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

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

(B) Reinsurance strategy:

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company enters into a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the Company on any one risk to less than $450 (2014 - $350).

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

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

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

(*iii*) Exposure relating to catastrophe events:

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

The Company considers that its most significant exposure would arise in the event of an earthquake. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The Company's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake, the net retained loss would be a maximum of $375 (2014 - $500).

The Company has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity to the Company to a maximum of $125,000 (2014 - $85,000).

17. Financial and insurance risk management (continued):

(c) Insurance risk (continued):

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

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

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

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

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

(d) Credit risk:

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

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

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

Credit risk for investments is managed by investing 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, 2015 and 2014, best represents the maximum exposure to credit risk for each respective year.

(Expressed in thousands of dollars)

17. Financial and insurance risk management (continued):

(d) Credit risk (continued):

As at December, 2015 and 2014, the Company's credit risk exposure for equity and debt securities within the investment portfolio, grouped by credit risk rating of Standard & Poor's, was as follows:

2015	AAA	AA	A	BBB	N/A	Total
Fixed income	$ 10,477	$ 10,312	$ 4,805	$ 2,464	$ 6,100	$ 34,158
Short-term investments	-	2,055	150	-	5,960	8,165
Equities	41	-	20	415	25,004	25,480
	$ 10,518	$ 12,367	$ 4,975	$ 2,879	$ 37,064	$ 67,803

2014	AAA	AA	A	BBB	N/A	Total
Fixed income	$ 1,270	$ 26,350	$ 3,114	$ 2,770	$ 7,700	$ 41,204
Short-term investments	151	2,971	221	50	2,451	5,844
Equities	-	-	762	22	19,195	19,979
	$ 1,421	$ 29,321	$ 4,097	$ 2,842	$ 29,346	$ 67,027

The aging of premiums receivable at the reporting date was:

	2015	2014
Not past due	$ 9,670	$ 7,994
Past due (>90 days outstanding)	84	323
	$ 9,754	$ 8,317

As at December 31, 2015 and 2014, the Company did not have any impaired receivables, held-to-maturity investments, or available-for-sale financial assets.

(e) Liquidity risk:

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

17. Financial and insurance risk management (continued):

(e) Liquidity risk (continued):

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

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

As at December 31, 2015 and 2014, the majority of the Company's financial liabilities were due within one year.

(f) Currency risk:

Currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk was limited to its investment portfolio which invests in Canadian and US equity securities. The amount of US equity securities as at December 31, 2015 was $8,061 (2014 - $7,138).

A strengthening or weakening of the Canadian dollar of 5% against the US dollar at December 31, 2015 would have decreased or increased respectively net earnings and members' surplus by the $403 (2014 - $378) assuming all other variables remain constant.

(g) Interest rate risk:

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

(h) Other price risk:

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

(Expressed in thousands of dollars)

17. Financial and insurance risk management (continued):

(h) Other market price risk (continued):

All of the Company's investments in equities are listed on major stock exchanges located either in Canada or the US. For such investments classified as available-for-sale, a 5% change in the TSX Composite Index and S&P 500 at the reporting date would have increased or decreased members' surplus and reserves by approximately $1,149 (2014 - $1,136).

18. Fair values of financial instruments:

(a) Fair value of financial instruments:

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value:				
Available-for-sale investments	$ 25,480	$ 25,480	$ 22,729	$ 22,729
Assets and liabilities carried at amortized cost:				
Cash and cash equivalents	2,783	2,783	11,607	11,607
Held-to-maturity investments	42,323	43,394	44,298	45,522
Accrued investment income	252	252	209	209
Premiums receivable	9,754	9,754	8,317	8,317
Due from reinsurers	1,069	1,069	-	-
Amounts payable and accrued liabilities	(1,432)	(1,432)	(1,341)	(1,341)
Due to reinsurers	(3,466)	(3,466)	(2,503)	(2,503)
	$ 76,763	$ 77,834	$ 83,316	$ 84,540

(b) Valuation models:

Observable prices and model inputs are usually available in the market for listed equity securities, and for pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Available-for-sale investments that are traded in a public market are valued based on closing market quotations. Private available-for-sale investments are value for disclosure purposes based on the present value of future expected cash flows.

(Expressed in thousands of dollars)

18. Fair values of financial instruments (continued):

(c) Fair value hierarchy:

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

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

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(*i*) Financial instruments measured at fair value:

The following table illustrates the classification within the fair value hierarchy of the financial instruments measured at fair value by the Company:

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

2014	Level 1	Level 2	Level 3	Total
Available-for-sale investments	$ 21,729	$ -	$ 1,000	$ 22,729

For the year ended December 31, 2015 and 2014, there were no significant transfers between the three levels of the hierarchy.

18. Fair values of financial instruments (continued):

(c) Fair value hierarchy (continued):

(*i*) Financial instruments measured at fair value (continued):

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

2015		Investments
Balance, beginning of the year	$	1,000
Purchases		1,500
Balance, end of year	$	2,500

2014		Investments
Balance, beginning of the year	$	-
Purchases		1,000
Balance, end of year	$	1,000

(*ii*) Financial instruments measured at amortized cost:

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

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

(Expressed in thousands of dollars)

18. Fair values of financial instruments (continued):

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

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

2015					
Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Investments	$ 2,500	Investment cost/ Enterprise value	Enterprise value	$ 2,500	The estimated fair value would increase if enterprise value increased

2014					
Description	Fair value	Valuation technique	Unobservable input	Amount	Sensitivity to change in significant unobservable input
Investments	$ 1,000	Investment cost/ Enterprise value	Enterprise value	$ 1,000	The estimated fair value would increase if enterprise value increased

Enterprise value represents the amount that market participants would pay when purchasing the company. If the enterprise value were to increase or decrease by 10%, this would result in increase or decrease the investment fair value by $250 (2014 - $100).

19. Capital management and statutory requirements:

The Company’s objectives when managing capital, consisting of members’ surplus and reserves, are to comply with the insurance capital requirements required by the Company’s regulator, Financial Institutions Commission of British Columbia (“FICOM”); safeguard the Company’s ability to continue as a going concern; and provide an adequate return on capital by pricing insurance and investment contracts commensurately with the level of risk.

The Company’s regulator, FICOM, sets and monitors capital requirements for the Company’s operations. The Company is required to maintain a level of sufficient capital to achieve a target of 150% of a minimum capital test (“MCT”). As at December 31, 2015 and 2014, the Company was in compliance with these requirements.