



Algoma Mutual Insurance Co.

131 Main Street, Thessalon, Ontario P0R 1L0

Phone: (705) 842-3345 Fax: (705) 842-3500

ALGOMA MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the Year Ended December 31, 2009



PRESIDENT'S MESSAGE

It is my pleasure to present, on behalf of the Board of Directors of Algoma Mutual Insurance Company, this Annual Report for the year 2009, the 110th year of operation of our company.

Algoma Mutual Insurance Company has emerged from a challenging financial cycle as the Canadian economy begins to recover from the effects of the 2008 global recession. I am pleased to report a moderate overall profit for the year 2009 with a commensurate small increase in retained earnings. For the first time in our company's history the percentage of income originating from the farm sector fell below twenty percent. However, continuing solid growth into other profitable lines of business has been encouraging and has offset the loss in farm premium. Accident benefits, fires and liability claims, respectively, were responsible for the majority of losses in 2009 with one of the more expensive liability claims having been actually incurred in 2002. Property and automobile business turned a profit, with liability claims outpacing premiums by a fairly wide margin.

In 2009 we were able to grow our numbers of policies in force and accompanying premium, in both automobile and property lines of business. This incremental growth is very encouraging, and has allowed for modest but steady investments that recovered in 2009 to finish at over nine million dollars for the first time in the history of the company. This level of investment normally produces a steady income that underwrites claim losses and allows for lower premiums as well as meeting Provincial regulatory requirements. On the other hand, we parted company with one broker and had frank discussions with a few others over the need for sustained profitability. Our newer operations in Parry Sound, Muskoka, and Haliburton Districts have continued to produce solid results, and now generate nearly a million dollars in premium, which is close to ten per cent of the overall premium income of the company.

Algoma Mutual continued its quota share agreement with the Farm Mutual Reinsurance Plan (FMRP), to provide an added measure of protection for our company. This mitigated property and liability losses by 20% while we continued to protect and grow our earned surplus.

We are looking forward to 2010 as a period of solid steady growth and as an opportunity to continue to solidify our relationships with new brokers. We are Northern Ontario's only homegrown insurance company. We believe that fact, as reflected in our corporate culture and common sense approach, allows us to provide you with the very best mix of insurance products and services available. We continue to provide that service through established local brokers.

In Ontario we are entering a period where demand for insurance products is outstripping supply. This part of the normal cycle is known as a hard market and is generally associated with an increased difficulty in getting insurance and an increasing premium. Recognizing that we must stay competitive and after extensive market analysis we have increased base premium rates for the first time in six years. We will continue to the best of our ability to direct your company in a manner that provides a healthy balance between price and coverage that benefits all policyholders.

Respectfully submitted,
Will Samis, President

AUDITOR'S REPORT

To the Policyholders of Algoma Mutual Insurance Company

We have audited the balance sheet of Algoma Mutual Insurance Company as of December 31, 2009, and the statements of income, policyholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Dennis Thompson, CA, Professional Corporation,

Authorized to practice public accounting by the Institute of Chartered Accountants of Ontario.

Thessalon, Ontario

February 15, 2010

**ALGOMA MUTUAL INSURANCE COMPANY
BALANCE SHEET**

December 31, 2009
With comparative figures for 2008 (Stated in Thousands of Dollars)

	ASSETS	
	2009	2008
Cash and short-term deposits	\$ 931	\$ 573
Bonds, debentures, deposits, mortgages and equity investments (note 2)	9,269	8,366
Deposits- Fire Mutuals' Guarantee Fund	21	16
Due from agents	538	435
Installment premiums owing	2,937	2,377
Investment income accrued	37	41
Income taxes refundable		474
Reinsurer's share of provision for unpaid claims and adjusting	6,379	3,176
Reinsurer's share of unearned premiums	699	591
Other receivables	268	329
Deferred policy acquisition expenses	618	707
Future income tax assets	20	20
Property and equipment (Note 3)	659	610
	<u>\$ 22,376</u>	<u>\$ 17,715</u>
	=====	=====

LIABILITIES AND POLICYHOLDERS' EQUITY

Provisions for unpaid claims and adjusting	\$ 9,655	\$ 6,201
Unearned premiums	5,838	4,919
Unearned commissions	65	95
Accounts payable and accrued liabilities	1,279	1,040
Income and premium taxes payable	1	
Total Liabilities	<u>\$ 16,838</u>	<u>\$ 12,255</u>
Contingent Liability (Note 13)		
Policyholders' equity	5,538	5,460
	<u>\$ 22,376</u>	<u>\$ 17,715</u>
	=====	=====

APPROVED BY THE BOARD AS A WHOLE

See accompanying notes to financial statements

ALGOMA MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME

For the year ended December 31, 2009
With Comparative figures for 2008 (Stated in Thousands of Dollars)

Underwriting:	2009	2008
Gross premiums written	\$ 11,007	\$ 9,394
Reinsurance premiums assumed		(1)
Reinsurance premiums ceded	<u>(3,727)</u>	<u>(3,126)</u>
Net premiums written	7,280	6,267
Increase in unearned premiums	(810)	(487)
Net premiums earned	6,470	5,780
Service charges	215	178
Other income	<u>18</u>	<u>11</u>
 Total Underwriting revenue	 6,703	 5,969
 Claims and expenses incurred:		
Net claims and adjustment expenses	3,968	3,536
Net commissions	1,704	1,329
Premium taxes	28	22
General	<u>1,483</u>	<u>1,405</u>
	<u>7,183</u>	<u>6,292</u>
 Premium deficiency adjustments	 (10)	 (5)
 Net underwriting income	 (490)	 (328)
 Investment:		
Increase (decrease) in fair value	330	(83)
Capital gains (losses)	(53)	(193)
Interest and dividends earned	350	355
Investment expenses	<u>(63)</u>	<u>(58)</u>
 Net investment income	 <u>564</u>	 <u>(21)</u>
 Income (loss) before income tax	 74	 (307)
 Income tax (recovery) (note 6)	 (4)	 <u>(103)</u>
 Net income (loss)	 \$ 78	 \$ (204)
	=====	=====

See accompanying notes to financial statements.

ALGOMA MUTUAL INSURANCE COMPANY
STATEMENT OF POLICYHOLDER'S EQUITY

For the year ended December 31, 2009
With comparative figures for 2008 (Stated in Thousands of Dollars)

	2009	2008
Balance at beginning of year, as previously reported	\$ 5,460	\$ 5,664
Add:		
Net income (loss)	<u>78</u>	<u>(204)</u>
Balance at end of year	\$ 5,538 =====	\$ 5,460 =====

See accompanying notes to financial statements.

ALGOMA MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS

For the year ended December 31, 2009
With comparative figures for 2008 (Stated in Thousands of Dollars)

Operating Activities:	2009	2008
Net income (loss)	\$ 78	\$ (204)
Adjustments to convert earnings to a cash basis:		
Increase in provision for unpaid claims	3,456	2,450
Increase in unearned premiums	919	553
Increase in accounts payable and accrued liabilities	238	16
Increase (decrease) in income taxes	475	(704)
Depreciation of fixed assets	63	62
Losses (gains) on investments	53	193
Increase in investment income accrued	4	7
Decrease (increase) in recoverable from reinsurers	(3,311)	(1, 607)
Increase in receivables	(603)	(400)
Increase in deferred policy acquisition expenses	89	(80)
Decrease (increase) in future income taxes		4
Increase (decrease) in unearned commissions	<u>(30)</u>	<u>10</u>
Cash provided	<u>1,431</u>	<u>300</u>
Investment activities:		
Sale of investments	6,078	2, 822
Purchase of investments	<u>(7,039)</u>	<u>(2,905)</u>
Cash applied	<u>(961)</u>	<u>(83)</u>
Financing activities:		
Purchase of property and equipment	<u>(112)</u>	<u>(124)</u>
Cash applied	<u>(112)</u>	<u>(124)</u>
Increase (decrease) in cash position	358	93
Cash and cash equivalents at beginning of year	<u>573</u>	<u>480</u>
Cash and cash equivalents at end of year	\$ 931 =====	\$ 573 =====

See accompanying notes to financial statements.

ALGOMA MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS:

The company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability and auto insurance in Ontario.

The accounting policies of the company conform with those generally accepted in Canada and comply with the requirements for filing with the Financial Services Commission of Ontario.

ACCOUNTING ESTIMATES:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

REVENUE RECOGNITION:

Insurance premiums are included in income on a daily pro rata basis over the term of the policies. Investment income is recognized as revenue when earned on the accrual basis. Gains and losses on disposal of investments are determined on a completed transaction basis.

INVESTMENTS:

The company has designated all its investments as held for trading and these financial assets are carried at fair value on the balance sheet from the trade date and changes in fair values are recorded in net income. Fair value is an amount which represents the estimated exchange value of a financial instrument between willing parties.

FINANCIAL INSTRUMENTS:

Financial instruments consist of cash and cash equivalents, accounts receivable, accrued interest, investments, accounts payable, unearned premium and unpaid claims. The carrying amounts approximate their fair value except for investments which are disclosed in note 2 to these financial statements.

Cash and equivalents are classified as held for trading. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Investments are classified as held for trading. Accounts payable, unearned premiums and unpaid claims are classified as other financial liabilities, which are measured at amortized cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

TRANSACTION COSTS:

Purchases and sales of financial assets are accounted for at settlement date. Transactions costs are recognized immediately in income.

PREMIUMS EARNED AND DEFERRED POLICY ACQUISITION EXPENSES:

Insurance premiums are included in income on an annual pro rata basis over the life of the policies. Acquisition expenses related to unearned premiums, which expenses comprise commissions and premium taxes are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

UNPAID CLAIMS:

The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlements of claims incurred prior to the balance sheet date. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

REINSURANCE CEDED:

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as assets at the same time as claims recognition. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer might be unable to meet its obligations under the reinsurance agreements.

INCOME TAXES:

The company follows the liability method of accounting for income taxes as outlined in the provisions of Section 3465 of the Handbook of the Canadian Institute of Chartered Accountants. Under this method, current income taxes are recognized for the estimated incomes taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward for tax purposes that are likely to be realized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

PROPERTY AND EQUIPMENT DEPRECIATION:

Real estate and capital assets are not financial instruments and are stated at cost less accumulated depreciation. Depreciation is provided using the declining balance method at rates reflecting the useful lives of the assets as follows:

Buildings	4%
Furniture, fixtures and equipment	20%
Automotive equipment	30%
Computer equipment	30%
Computer software	50%

2. INVESTMENTS

	<u>2009</u>			<u>2008</u>		
	<u>Cost</u> <u>Amount</u>	Fair Value Carrying <u>Amount</u>	<u>Excess</u>	<u>Cost</u> <u>Amount</u>	Fair Value Carrying <u>Amount</u>	<u>Excess</u>
			(thousands)			
Treasurer Bills	\$ 747	\$ 747		\$ 978	\$ 975	\$ (3)
Debt Securities						
Corporate	2,562	2,682	\$ 120	687	667	(20)
Federal	3,340	3,471	131	3,784	4,123	339
Provincial	151	164	13	375	419	44
Municipal	52	52				
Mortgages and Notes	100	100				
Equity Investments	1,911	2,053	142	117	117	
Pooled Funds				1,095	1,001	(94)
				1,254	1,064	(190)
	\$ 8,863	\$ 9,269	\$ 406	\$ 8,290	\$8,366	\$ 76

The maximum exposure to credit risk would be the fair value as shown above.

The maturity profile of debt securities and mortgages at year-end is as follows:

	(thousands)					
	<u>Within</u> <u>1 Year</u>	<u>Over</u> <u>1 to 3 Years</u>	<u>Over</u> <u>3 to 5 Years</u>	<u>Over</u> <u>5 to 10 Years</u>	<u>Over</u> <u>10 Years</u>	<u>Book</u> <u>Value</u>
	\$ <u>17</u>	\$ <u>1,700</u>	\$ <u>3,498</u>	\$ <u>578</u>	\$ <u>412</u>	<u>\$6,205</u>
Percent of Total	0.3	27.4	56.4	9.3	6.6	100.0

The effective interest rate at December 31, 2009 for these investments is 4.9% (2008, 4.8%).

2. INVESTMENTS: (Continued)

In compliance with CICA Handbook Section 3862, Financial Instruments – Disclosures, the company has categorized its assets and liabilities that are carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

- Level 1. Fair value is based on unadjusted quoted prices for identical assets in an active market.
- Level 2. Fair value is based on quoted prices for similar assets in active markets, valuation that is based on significant observable inputs or outputs that are derived principally for or corroborated with observable market data through correlation or other means.
- Level 3. Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These observable inputs reflect the company's assumptions about the assumptions market participants would use in pricing the assets.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>(thousands)</u>			
Assets				
Cash and cash equivalents	\$ 931			\$ 931
Canadian treasury bills	747			747
Debt securities				
Corporate		\$ 2,682		2,682
Federal		3,471		3,471
Provincial		164		164
Municipal		52		52
Mortgages and note			\$ 100	100
Equity investments	2,053			2,053
Fire Mutuals' Guarantee Fund	<u> </u>	<u> 21</u>	<u> </u>	<u> 21</u>
TOTAL ASSETS VALUED AT FAIR VALUE	<u>\$ 3,731</u>	<u>\$ 6,390</u>	<u>\$ 100</u>	<u>\$ 10,221</u>

3. PROPERTY AND EQUIPMENT:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
		(thousands)		
Land	\$ 37		\$ 37	\$ 37
Buildings	730	\$ 252	478	464
Furniture, fixtures and equipment	171	89	82	52
Computer equipment	166	110	56	43
Computer software				5
Automotive equipment	<u>30</u>	<u>24</u>	<u>6</u>	<u>9</u>
	<u>\$ 1,134</u>	<u>\$ 427</u>	<u>\$ 659</u>	<u>\$ 610</u>

4. REINSURANCE CONTRACTS:

The company entered into reinsurance contracts with Farm Mutual Reinsurance Plan Inc. In 2009, the company is liable for the first \$100,000 of each claim for auto and liability and \$80,000 for property. In addition, the company has obtained reinsurance which limits the company's liability to \$150,000 in the event of a series of claims arising out of a single occurrence. The company has an upper limit of \$6,000,000 for property risks and \$2,000,000 for automobile and liability risks. Stop loss reinsurance protects the company by limiting "Net Incurred Loss Ratio" to 80% for property and 90% for auto and liability. Reinsurance ceded does not relieve the company of primary liability as the originating insurer.

5. UNPAID CLAIMS:

The process of determining the provision for unpaid claims and adjustment expenses, and related amounts recoverable, include the risk that the actual results will deviate, perhaps substantially, from the best estimates made by the company. The deviation arises because all events affecting the ultimate settlement value of claims are not known at the time the unpaid claims reserve is established.

6. INCOME TAXES:

Under the Income Tax Act, the company has received a partial exemption from income taxes on its farm writings. However when farm writings are less than 20%, there is no exemption. This was the case in 2009 when farm writings decreased to 18.27%.

The company's income tax expense (recovery) for the years ended December 31 consists of the following:

	<u>2009</u>	<u>2008</u>
	(thousands)	
Current tax expense	\$ (4)	\$ (107)
Future income tax expense (benefit) relating to The origin and reversal of temporary difference	<u> </u>	<u> 4</u>
	<u>\$ (4)</u>	<u>\$ (103)</u>

7. RATE REGULATIONS

The company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario.

Rate regulation may affect the automobile revenues that are earned by the company. The actual impact of rate regulation would depend on the competitive environment at the time.

8. QUOTA SHARING TREATY

The company has entered into a quota share treaty with Farm Mutual Reinsurance Plan Inc. whereby the reinsurer assumes 20% of the company's property and liability portfolios.

9. PENSION PLAN

Employees of the company are members of the Ontario Mutual Insurance Pension Plan. During the year, the company paid \$42,653 (2008-\$42,115) in contributions on behalf of the employees.

10. FUTURE ACCOUNTING CHANGES

The Accounting Standards Board has confirmed that all publicly accountable enterprises will have to comply with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. We understand there to be differences between current Canadian GAAP and IFRS, and have developed a plan which seeks to address all the differences that could potentially impact the company.

11. CAPITAL MANAGEMENT

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and the severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits Algoma Mutual Insurance Company to \$150,000 plus 5% of the remaining loss. The \$150,000 net retained amount represents 3% of the company's capital. For the purposes of capital management the company has defined capital as policyholders' equity.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty insurers to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities, and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. The MCT result for the company at December 31, 2009 was 337%.

12. FINANCIAL INSTRUMENT RISK MANAGEMENT

CREDIT RISK

Credit Risk is the risk of financial loss to the company if a debtor fails to make payments of interest and principal when due. The company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payments when certain loss conditions are met.

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits and corporate sector limits. The bond portfolio remains very high quality with 83% of the fixed income component rated A, or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the credit-worthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivables are short-term in nature and are not subject to material credit risk.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure this risk.

13. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

Our company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate bond issuer to a maximum of 5% of the portfolio and limits the investment in equities to a maximum of 25% of the portfolio.

CURRENCY RISK

Currency risk relates to the company operating in different currencies and converting non Canadian earnings at different points in time at different exchange levels when adverse changes in foreign exchange rates occur.

The company's foreign exchange rate is related to its stock holdings. The company limits its holdings in foreign currency Canadian issuer bonds to 5% of the portfolio and limits its holdings in foreign issuer bonds to 15% of the portfolio. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with investment policy. As at December 31, 2009, a 1% change in the value of the US dollar would cause the portfolio value to increase or decrease by approximately \$ 3,740 Canadian or .18% of the total portfolio value.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

INTERST RATE RISK

Interest rate risk is the potential for financial loss caused by fluctuation in fair value or future cash flows of financial instruments because of changes in market interest rates.

The company is exposed to this risk through its interest bearing investments.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the company's investment income will move with interest rates over the medium to long-term and short term interest rate fluctuations creating unrealized gains or losses. There are only few instances where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over a period of years. This protects the company from fluctuations in interest rates.

12. FINANCIAL INSTRUMENT RISK MANAGEMENT (Continued)

As at December 31, 2009, a 1% increase in interest rates, with all other variables held constant, could reduce the market value of the bonds by \$286,250 or 4.5%. Conversely, a 1% decrease in interest rates could increase the market value of the bonds by \$304,500 or 4.8%. For bonds that the company did not sell during the year, the change during the year and changes prior to the year would be recognized as net income during the period.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures and methods used to measure the risk.

EQUITY RISK

Equity Risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio has a geographic distribution of 82% Canadian, 8% U.S. and 10% International. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the company's common stocks by approximately \$205,250 or less than 3.0% of the total portfolio value. For stocks that the company did not sell during the period, the change would be recognized in the asset value and in net income. For stocks that the company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in net income during the period.

LIQUIDITY RISK

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they come due. The company mitigates this risk by monitoring cash activities and expected outflows. Our current liabilities rise as claims are made. We do not have material liabilities that can be called unexpectedly at the demand of a lender or a client. We have no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flows including investment income.

There have been no significant changes from the previous period in the exposure to risk or policies, procedures, and methods used to measure the risk.

13. CONTINGENT LIABILITY

In connection with its operations, the company has been named as a defendant in an action for damages and costs allegedly sustained by the plaintiffs. It is not possible to estimate the outcome of the proceedings at this time. The uninsured exposure to the company is estimated to be \$124,000.

