

Algoma Mutual Insurance Company

Financial Statements

For the year ended December 31, 2021

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Independent Auditor's Report

To the Policyholders of Algoma Mutual Insurance Company

Opinion

We have audited the financial statements of Algoma Mutual Insurance Company (the Entity), which comprise the statement of financial position as at December 31, 2021, and the statements of comprehensive income and members' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Independent Auditor's Report (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Sault Ste. Marie, Ontario
February 15, 2022



Algoma Mutual Insurance Company
Statement of Financial Position
December 31, 2021

(in thousands of Canadian dollars)

	2021	2020
Assets		
Cash	\$ 1,343	\$ 1,273
Investments (Note 5)	11,802	12,006
Investment income accrued	55	24
Income taxes recoverable	98	-
Due from policyholders and brokers	3,054	3,161
Reinsurer's share of unpaid claims (Note 4)	3,583	3,640
Deferred policy acquisition expenses (Note 4)	1,112	1,080
Property, plant and equipment (Note 13)	394	439
Intangible assets (Note 13)	12	14
Other receivables	78	121
Deferred income taxes	24	26
	\$ 21,555	\$ 21,784
Liabilities		
Accounts payable and accrued liabilities	\$ 873	\$ 831
Income taxes payable	-	174
Unearned premiums (Note 4)	5,666	5,589
Unpaid claims and adjustment expenses (Note 4)	6,647	7,334
	13,186	13,928
Members' surplus		
Unappropriated members' surplus	8,369	7,856
	\$ 21,555	\$ 21,784

Signed on behalf of the Board by:

_____ Director

_____ Director

Algoma Mutual Insurance Company
Statement of Comprehensive Income and Members' Surplus
For the year ended December 31, 2021

(in thousands of Canadian dollars)

	2021	2020
Underwriting income		
Gross premiums written	\$ 10,501	\$ 10,381
Less reinsurance ceded	2,372	2,318
	8,129	8,063
Net premiums written	8,129	8,063
Change in unearned premiums	(77)	143
Net premiums earned	8,052	8,206
Service charges	90	93
	8,142	8,299
Direct losses incurred		
Gross claims and adjustment expenses (Note 10)	6,660	13,904
Less reinsurer's share of claims and adjustment expenses	2,842	9,687
	3,818	4,217
Expenses		
Fees, commissions and other acquisition expenses (Note 8)	2,102	2,163
Other operating and administrative expenses (Note 9)	1,768	1,675
	3,870	3,838
Premium deficiency adjustments	-	7
Net underwriting income (loss)	454	251
Investment and other income (Note 6)	136	651
Comprehensive income (loss) before taxes	590	902
Provision (recovery) for income taxes (Note 11)	77	160
Total comprehensive income (loss) for the year	513	742
Unappropriated members' surplus, beginning of year	7,856	7,114
Unappropriated members' surplus, end of year	\$ 8,369	\$ 7,856

The accompanying notes are an integral part of these financial statements.

Algoma Mutual Insurance Company
Statement of Cash Flows
For the year ended December 31, 2021

(in thousands of Canadian dollars)

	2021	2020
Operating activities		
Comprehensive income (loss)	\$ 513	\$ 742
Adjustments for:		
Depreciation and amortization	72	80
Interest and dividend income	(168)	(102)
Provision for income taxes	77	160
Realized (gain) loss from disposal of investments	(99)	(520)
Change in fair value on investments	118	(5)
	-	(387)
Changes in working capital		
Change in due from policyholders and reinsurers	107	246
Change in other receivables	43	158
Change in accounts payable and accrued liabilities	42	(75)
	192	329
Changes in insurance contract related balances, provisions		
Change in deferred policy acquisition expenses	(32)	108
Change in unearned premiums	77	(143)
Change in provision for unpaid claims	(687)	(1,814)
Change in reinsurer's share of unpaid claims	57	1,247
	(585)	(602)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	137	121
Income taxes (paid) received	(270)	206
	(133)	327
Total cash inflows (outflows) from operating activities	(13)	409
Investing activities		
Sale of investments	38,500	24,887
Purchase of investments	(38,396)	(24,564)
Sale of property and equipment	2	-
Purchase of property and equipment	(23)	(39)
	83	284
Total cash inflows (outflows) from investing activities	83	284
Net decrease in cash and cash equivalents	70	693
Cash and cash equivalents, beginning of year	1,273	580
Cash and cash equivalents, end of year	\$ 1,343	\$ 1,273

The accompanying notes are an integral part of these financial statements.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

1. Corporate information

Algoma Mutual Insurance Company ("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 automobile insurance in Ontario. The Company's head office is located at 131 Main Street, Thessalon, Ontario.

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 Ontario Mutual Insurance Association ("OMIA"). The rate filing includes actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Regulatory Authority 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.

These financial statements have been authorized for issue by the audit committee of the Board of Directors on February 9, 2022.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

Basis of measurement

These financial statements were prepared under the historical cost convention, as modified by the revaluation of financial assets measure at fair value through profit and loss.

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency, and all values are rounded to the nearest thousand (CDN \$'000), unless otherwise indicated.

Judgement and estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, discount rates, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The calculation of bad debt expense and allowance for doubtful accounts on Premiums receivable and other customer receivables using historical experience and forward-looking information.
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).

In addition, in preparing the financial statements, the notes to the financial statements were ordered such that the most relevant information was presented earlier in the notes and the disclosures that management deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgement.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

3. Adoption of new accounting standards

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2021 did not materially affect the Company's financial statements.

4. Insurance contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims and adjustment expenses, the reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

a) Premiums and unearned premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions' payable to agents and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2021 and 2020 and their impact on net premiums earned for the two years follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of the year	\$ 5,589	\$ 5,732
Premiums written	8,129	8,063
Premiums earned during year	(8,052)	(8,206)
Balance, end of the year	\$ 5,666	\$ 5,589

Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue and exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2021 and 2020.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

b) Reinsurer's share of unearned premiums

The Reinsurer's share of unearned premiums are recognized as an asset using principles consistent with Company's method for determining the unearned premium liability.

c) Deferred policy acquisition expenses

Acquisition costs are comprised of brokers' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2021 and 2020 and their impact on fees, commissions and other acquisition expenses for the two years follow:

	2021	2020
Balance, beginning of the year	\$ 1,080	\$ 1,188
Acquisition costs incurred	2,644	2,538
Expensed during the year	(2,612)	(2,646)
Balance, end of the year	\$ 1,112	\$ 1,080

d) Unpaid claims and adjustment expenses

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

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada, claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

In relation to COVID-19, the Company applied judgment and actuarial standards to determine its unpaid claims, using different scenarios and assumptions based on the information currently available.

A summary of the Company's outstanding gross unpaid claims liabilities, related reinsurer's share of unpaid claims and the net insurance liabilities follow:

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

	2021			2020		
	Gross insurance	Re- Net	Net	Gross insurance	Re- Net	Net
Outstanding claims provision						
Long settlement term	\$ 945	\$ 493	\$ 452	\$ 1,638	\$ 890	\$ 748
Short settlement term	2,410	1,613	797	2,542	1,409	1,133
Facility Association and other residual pools	211	-	211	198	-	198
	3,566	2,106	1,460	4,378	2,299	2,079
Provision for claims incurred but not reported	3,081	1,477	1,604	2,956	1,341	1,615
	\$ 6,647	\$ 3,583	\$ 3,064	\$ 7,334	\$ 3,640	\$ 3,694

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The Company must participate in industry automobile residual pools of business, and recognizes a share of this business based on its automobile market share. The Company records its share of the assets, liabilities, revenue and expenses provided by the actuaries of the pools.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2021 and 2020 and their impact on claims and adjustment expenses for the two years follow:

	2021	2020
Unpaid claim liabilities, beginning of year—net of reinsurance\$	3,694	\$ 4,261
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(33)	(210)
Provision for losses and expenses on claims occurring in the current year	3,463	3,613
Payment on claims:		
Current year	(2,304)	(2,542)
Prior years	(1,756)	(1,428)
	3,064	3,694
Unpaid claim liabilities – end of year - net	3,064	3,694
Reinsurer's share and subrogation recoverable	3,583	3,640
Unpaid claims - end of year - gross	\$ 6,647	\$ 7,334

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

Claim development

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and claims reporting patterns. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2012 to 2021. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

Gross claims

	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Gross estimate of cumulative claims cost											
At the end of accident year	\$ 8,042	\$ 6,847	\$ 4,398	\$ 5,241	\$ 3,485	\$ 4,435	\$ 5,809	6,795	\$ 13,090	\$ 5,941	
One year later	7,653	6,400	4,194	4,955	3,633	4,570	5,953	6,568	12,992		
Two years later	8,711	5,816	3,786	4,836	3,202	4,426	5,502	6,152			
Three years later	8,355	5,935	3,801	5,317	3,097	5,274	6,300				
Four years later	8,192	6,233	3,705	5,977	2,956	5,231					
Five years later	8,042	6,308	3,497	5,947	2,922						
Six years later	8,009	6,102	3,442	5,926							
Seven years later	8,096	6,243	3,411								
Eight years later	8,103	6,404									
Nine years later	8,085										
Current estimate of cumulative claims cost	8,085	6,404	3,411	5,926	2,922	5,231	6,300	6,152	12,992	5,941	63,364
Cumulative payments	8,033	6,336	3,377	5,622	2,804	5,025	5,051	5,460	12,070	2,939	56,717
Outstanding claims	52	68	34	304	118	206	1,249	692	922	3,002	6,647
Total gross unpaid claims and adjustment expenses											\$ 6,647

Net of reinsurance	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Net estimate of cumulative claims cost											
At the end of accident year	\$ 4,022	\$ 3,909	\$ 2,960	\$ 3,997	\$ 2,879	\$ 3,434	\$ 3,419	\$ 4,951	\$ 3,613	\$ 3,463	
One year later	4,268	4,025	3,040	3,776	3,025	3,637	3,430	4,716	3,571		
Two years later	4,713	4,110	3,023	4,010	2,903	3,666	3,300	4,627			
Three years later	4,593	4,129	3,096	4,318	2,905	3,771	3,363				
Four years later	4,597	4,120	3,087	4,338	2,875	3,813					
Five years later	4,569	4,170	2,929	4,342	2,866						
Six years later	4,569	4,165	2,906	4,368							
Seven years later	4,631	4,170	2,881								
Eight years later	4,631	4,191									
Nine years later	4,629										
Current estimate of cumulative claims cost	4,629	4,191	2,881	4,368	2,866	3,813	3,363	4,627	3,571	3,463	37,772
Cumulative payments	4,595	4,135	2,848	4,112	2,772	3,625	3,191	4,191	3,249	1,990	34,708
Outstanding claims	34	56	33	256	94	188	172	436	322	1,473	3,064
Total net unpaid claims and adjustment expenses											\$ 3,064

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

Results of sensitivity testing based on expected loss ratios are as follows, showing gross and net of reinsurance and the impact on pre-tax income:

	Property claims		Auto claims		Liability claims	
	2021	2020	2021	2020	2021	2020
5% increase in loss ratios						
Gross	\$ 5,418	\$ 5,240	\$ 3,337	\$ 3,278	\$ 575	\$ 571
Net	\$ 3,544	\$ 3,334	\$ 2,501	\$ 2,433	\$ 305	\$ 294
5% decrease in loss ratios						
Gross	\$ (5,418)	\$ (5,240)	\$ (3,337)	\$ (3,278)	\$ (575)	\$ (571)
Net	\$ (3,544)	\$ (3,334)	\$ (2,501)	\$ (2,433)	\$ (305)	\$ (294)

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

e) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the Statement of Comprehensive Income and Members' Surplus initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

f) Reinsurer's share of provisions for unpaid claims and adjustment expenses

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense when due.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$240 (2020 - \$180) in the event of a property claim, an amount of \$300 (2020 - \$200) in the event of an automobile claim and \$240 (2020 - \$180) in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to \$720 (2020 - \$540) in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property and automobile respectively. As of January 1, 2015, the company ceased participating in the quota share reinsurance program related to property claims.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

4. Insurance contracts (continued)

Amounts recoverable from reinsurer are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2021 and 2020 follow:

	2021	2020
Balance, beginning of the year	\$ 3,640	\$ 4,887
New claims reserve	2,441	9,687
Change in prior years' reserve	394	6
Submitted to reinsurer	(2,892)	(10,940)
Balance, end of the year	\$ 3,583	\$ 3,640

Reinsurance is placed with Farm Mutual Re (FMRe), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRe by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

Changes in reinsurer's receivable for incurred claims recorded in the statement of financial position for the years-ended December 31, 2021 and 2020:

Reinsurer's receivable for incurred claims

	2021	2020
Balance, beginning of the year	\$	\$ 31
Submitted to reinsurer	2,892	10,940
Received from reinsurer	(2,892)	(10,971)
Balance, end of the year	\$ -	\$ -

g) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a claim, it acquires rights to subrogate its claim against other parties. These claims are reflected when determined by the Company as the amounts cannot be accurately estimated.

h) Refund of premium

At the discretion of the board of directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared.

Algoma Mutual Insurance Company

Notes to Financial Statements

December 31, 2021

(in thousands of Canadian dollars)

5. Investments

a) Recognition and initial measurement

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

b) Classification and subsequent measurement

The Company classifies its debt instruments, bankers' acceptable and bonds as FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company's mutual funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principle and interest and therefore are classified as FVTPL.

The company classifies its equity instruments at FVTPL.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

c) Derecognition

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

d) Risks

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

	December 31, 2021		December 31, 2020	
	Cost	Fair value	Cost	Fair value
Bonds issued by				
Federal	\$ 2,888	\$ 2,871	\$ 11,725	\$ 11,737
Provincial	5,153	5,115	-	-
Corporate				
A or better	3,578	3,501	-	-
	11,619	11,487	11,725	11,737
Equity investments				
Canadian private company	250	299	250	249
Other investments				
Fire Mutuals guarantee fund	16	16	20	20
Total investments	\$ 11,885	\$ 11,802	\$ 11,995	\$ 12,006

Algoma Mutual Insurance Company

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5. Investments (continued)

The Company is exposed to credit risk relating to its bond holdings in its investment portfolio.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio includes 100% (2020 - 100%) of bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 65% to 100% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The bond portfolio will be invested so that its holdings have a minimum weighted average credit rating of A or its equivalent. All fixed income portfolios are measured for performance on a quarterly basis and are monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

Bond yields have increased in the current year as financial markets recover from the impact of COVID-19. The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit 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. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has 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 flow including investment income.

The Company's investment policy requires that 0% to 30% of the Company's portfolio be held in cash and short-term investments. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
December 31, 2021	\$ 2,871	\$ 6,323	\$ 2,293	\$ -	11,487
Percent of total	24.99 %	55.04 %	19.96 %	- %	
December 31, 2020	\$ 3,212	\$ 8,525	\$ -	\$ -	11,737
Percent of total	27.37 %	72.63 %	- %	- %	

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

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

Algoma Mutual Insurance Company

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5. Investments (continued)

The 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 the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 10% of the company bond portfolio for corporate bonds and 10% of the company equity portfolio for equities.

The Company's currency risk is related to the Company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company limits its holdings in foreign equity to 10% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the General Manager and holdings are adjusted if offside of the investment policy.

The Company is exposed to this risk through its interest bearing investments (T-Bills, Money market funds, Bonds, and Mortgages).

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 with short-term interest rate fluctuations creating unrealized gains or losses.

At December 31, 2021, a 1% decrease in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$281 (2020 - \$294). A 1% increase in interest rates, with all other variables held constant, could impact the market value of bonds by approximately \$281 (2020 - \$294). These changes would be recognized in profit or loss.

The Company's investment policy limits investment in preferred and common shares to a maximum of 35% of the market value of the portfolio.

Equities are monitored by the Board of Directors and holdings are adjusted following each quarter if the investments are offside of the investment policy.

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

e) Fair value measurement

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Algoma Mutual Insurance Company

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5. Investments (continued)

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Bonds	\$ -	\$ 11,487	\$ -	\$ 11,487
Equities	-	-	299	299
Other investments	-	-	16	16
Total	\$ -	\$ 11,487	\$ 315	\$ 11,802
December 31, 2020				
Bonds	\$ -	\$ 11,737	\$ -	\$ 11,737
Equities	-	-	249	249
Other investments	-	-	20	20
Total	\$ -	\$ 11,737	\$ 269	\$ 12,006

There were no transfers between Level 1, Level 2, and Level 3 for the year ended December 31, 2021.

6. Investment and other income

	2021	2020
Interest income	\$ 124	\$ 99
Dividend income	44	3
Realized gains (losses) on disposal of investments	99	520
Investment expenses	(45)	(37)
Change in fair value on investments	(118)	5
Rental and other income	32	61
	\$ 136	\$ 651

7. Capital management

For the purpose of capital management, the Company has defined capital as members' surplus.

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.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies 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 that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

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8. Fees, commissions and other acquisition expenses

	2021	2020
Commissions	\$ 2,065	\$ 2,105
Other	37	58
	\$ 2,102	\$ 2,163

9. Other operating and administrative expenses

	2021	2020
Administrative allocation to claims expense	\$ (526)	\$ (507)
Advertising and promotion	6	14
Amortization of intangible assets	9	14
Auto and travel	4	6
Bad debts (recovery)	(14)	5
Computer costs	566	433
Depreciation	63	66
Inspections and investigations	133	126
Insurance	34	46
Licenses, fees, and dues	73	64
Occupancy	37	55
Office costs	101	117
Professional fees	86	69
Remuneration	1,157	1,121
Telephone and communications	14	14
Travel, meetings and training	25	32
	\$ 1,768	\$ 1,675

10. Salaries, benefits and directors' fees

	2021	2020
Salaries and benefits	\$ 1,128	\$ 1,094
Directors' fees	29	27
	\$ 1,157	\$ 1,121

Included in claims expenses are wage and administrative costs of \$526 (2020 - \$507).

11. Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in comprehensive income except to the extent that it relates to a business combination, or items recognized directly in members' surplus.

The significant components of tax expense included in net income are composed of:

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11. Income taxes (continued)

	2021	2020
Current tax expense		
Based on current year taxable income	\$ 75	\$ 158
Deferred tax expense		
Origination and reversal of temporary differences	2	2
Total income tax expense (recovery)	\$ 77	\$ 160

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2020 – 26.5%) are as follows:

	2021	2020
Income before taxes for the year	\$ 590	\$ 902
Expected taxes based on the statutory rate of 26.5% (2020 – 26.5%)	156	239
Small Business deduction	(127)	(113)
Canadian dividend income not subject to tax	(12)	(1)
Other non deductible expenses	7	(6)
General tax adjustment	61	55
Provision adjustment to prior year returns	(1)	(16)
Other	(7)	2
Total income tax expense (recovery)	\$ 77	\$ 160

Algoma Mutual Insurance Company

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12. Structured settlements, fire mutuals guarantee fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfil their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets equal to their proportionate share in meeting this objective.

The Company is also a member of the Farm Mutual Re ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

From time to time the Company purchases annuities from life insurance companies to settle certain obligations to claimants. The Company guarantees the life insurers' obligation under these annuities, which are estimated to be \$282 (2020 - \$284) based on the net present value of the projected cash flows of these guarantees in 2021. The Company acquires these annuities from reputable and credit-worthy life insurance companies whose obligations are insured, within limits, by Sun Life Assurance Co, Manulife Financial, Sun Life Financial Services and BMO Life Insurance Company. Accordingly, the Company considers its credit risk to be nil.

	2021	2020
Life company valuations:		
Total original premium	\$ 250	\$ 250
Gross valuation as at December 31	282	284
Net valuation as at December 31	\$ (32)	\$ (34)

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13. Property, plant and equipment and intangible assets

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets.

	Useful Life	2021		
		Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 37	\$ -	\$ 37
Buildings	40 years	670	384	286
Computer hardware	4 years	237	191	46
Furniture and fixtures	10 years	161	143	18
Vehicles	7 years	21	14	7
		\$ 1,126	\$ 732	\$ 394

	Useful Life	2020		
		Cost	Accumulated Depreciation	Net Book Value
Land	N/A	\$ 37	\$ -	\$ 37
Buildings	40 years	670	363	307
Computer hardware	4 years	219	155	64
Furniture and fixtures	10 years	160	139	21
Vehicles	7 years	51	41	10
		\$ 1,137	\$ 698	\$ 439

Intangible assets

Intangible assets consist of computer software which is not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life.

	Useful Life	2021		
		Cost	Accumulated Depreciation	Net Book Value
Software	3 years	\$ 99	\$ 87	\$ 12

	Useful Life	2020		
		Cost	Accumulated Depreciation	Net Book Value
Software	3 years	\$ 98	\$ 84	\$ 14

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14. Pension plan

The Company participates in a multi-employer defined benefit pension plan (the Ontario Mutual Insurance Association Pension Plan, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

The Company makes contributions to the plan on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to all employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan was \$127 (2020 - \$120). The contributions were made for current service and have been recognized in comprehensive income. These contributions amount to 1.98% of the total contributions made to the Ontario Mutual Insurance Association Pension Plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to \$126, which is based on payments made to the multi-employer plan during the current fiscal year.

An actuarial valuation of the pension plan as of January 1, 2020 showed both a going concern surplus and solvency surplus positions. The next required actuarial valuation will be January 1, 2023.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date. The COVID-19 crisis has created additional uncertainty which could impact assumptions going forward. This uncertainty could create volatility in the funding status of the plan.

15. Related party transactions

The Company entered into the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2021	2020
Compensation		
Short term employee benefits and directors' fees	\$ 160	\$ 150
Total pension and other employment benefits	19	19
	<u>\$ 179</u>	<u>\$ 169</u>
Premiums	<u>\$ 29</u>	<u>\$ 36</u>
Claims paid	<u>\$ 9</u>	<u>\$ -</u>

16. Standards, amendments and interpretations not yet effective

Certain new standards, amendments to standards, and interpretations were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2022 or later that the Company has decided not to adopt early.

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16. Standards, amendments and interpretations not yet effective (continued)

Of those new standards, interpretations and amendments that are not yet effective, IFRS 17 Insurance Contracts is expected to have a material impact on the Company's financial statements in the period of initial application.

- *IFRS 17 Insurance Contracts* supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Company has not yet determined the impact of adoption, however is expected to significantly impact the overall Financial Statements.
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2* provides guidance and examples to assist entities apply material judgments to accounting policy disclosures. The amendment to IAS 1 aim to help entities improve the usefulness of its accounting policy disclosures by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies. The amendment to IFRS Practice Statement 2 provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The effective date for the amendment to IAS 1 is January 1 , 2023 with earlier application permitted. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.