Germania Mutual Insurance Company Financial Statements

For the year ended December 31, 2010

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Tel: 519 881 1211
Fax: 519 881 3530

www.bdo.ca

BDO Canada LLP
121 Jackson Street
PO Box 760
Walkerton ON N0G 2V0 Canada

Independent Auditors' Report

To the Policyholders of Germania Mutual Insurance Company

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe the audit evidence we have obtained in our audit 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 Germania Mutual Insurance Company as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"BDO CANADA LLP"

Chartered Accountants, Licensed Public Accountants

Walkerton, Ontario
February 17, 2011

Germania Mutual Insurance Company
Balance Sheet

December 31	2010	2009
Assets		
Cash and cash equivalents	$ 3,581,711	$ 2,373,623
Accounts receivable (Note 2)	7,647,524	6,478,598
Income taxes recoverable	41,735	-
Prepaid expenses	24,151	16,059
Long-term investments (Note 3)	17,656,507	14,797,104
Deferred policy acquisition expenses	1,231,921	1,256,007
Capital assets (Note 4)	1,299,999	1,205,061
Goodwill and other intangible assets (Note 5)	217,955	94,470
Future income tax asset (Note 9)	69,000	90,000
	$31,770,503	$ 26,310,922
Liabilities and Surplus		
Accounts payable and accrued liabilities	$ 1,539,460	$ 1,222,571
Due to auto facility association	188,621	156,666
Unpaid claims (Note 8)	8,074,363	7,678,527
Unearned commissions	242,928	213,071
Income taxes payable	-	292,674
Unearned premiums	7,788,377	6,208,828
	17,833,749	15,772,337
Surplus		
Unappropriated members' surplus	13,119,181	9,956,134
Accumulated other comprehensive income	817,573	582,451
	13,936,754	10,538,585
	$31,770,503	$ 26,310,922

On behalf of the Board:

______________________ Director

______________________ Director

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

Germania Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2010	2009
Revenue (Page 6)	$10,819,292	$ 8,687,050
Expenses (Page 6)	8,886,650	7,860,296
Underwriting income	1,932,642	826,754
Investment income	640,598	358,214
Gain on amalgamation (Note 16)	912,387	-
Income before taxes	3,485,627	1,184,968
Income tax expense (Note 9)	322,580	178,385
Net income for the year	3,163,047	1,006,583
Unappropriated members' surplus, beginning of year	9,956,134	8,949,551
Unappropriated members' surplus, end of year	$13,119,181	$ 9,956,134

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

Germania Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2010	2009
Net Income	$ 3,163,047	$ 1,006,583
Other comprehensive income		
Change in unrealized gain on available for sale securities	350,387	596,530
Net loss (gain) reclassified to income	(79,778)	5,248
	270,609	601,778
Income tax effect	(44,728)	(95,900)
	225,881	505,878
Comprehensive income	$ 3,388,928	$ 1,512,461

Germania Mutual Insurance Company
Statement of Accumulated Other Comprehensive Income

December 31	2010	2009
Accumulated other comprehensive income, beginning of year (Note 16)	$ 591,692	$ 76,573
Other comprehensive income	225,881	505,878
Accumulated other comprehensive income, end of year	$ 817,573	$ 582,451

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

Germania Mutual Insurance Company
Schedule of Revenue and Expenses

For the year ended December 31	2010	2009
Revenue		
Gross premiums written	$15,365,861	$ 12,158,465
Less reinsurance premiums cost	3,942,904	3,003,104
Net premiums written	11,422,957	9,155,361
Increase in provision for unearned premiums	(725,193)	(571,930)
	10,697,764	8,583,431
Service charges	121,528	103,619
	$10,819,292	$ 8,687,050
Expenses		
Net claims incurred	$ 3,559,280	$ 4,172,875
Commissions	2,294,471	1,807,334
Salaries and directors' fees	1,295,229	827,968
Inspection of risks and fire prevention	65,962	55,264
Other expenses (see below)	1,671,708	996,855
	$ 8,886,650	$ 7,860,296
Other expenses		
Advertising	$ 158,588	$ 89,687
Amortization of capital assets	102,510	94,973
Amortization of intangible assets	47,441	2,780
Association fees and training	187,090	111,307
Computer services	182,367	132,109
Employee benefits	473,167	175,532
Occupancy costs	143,956	81,834
Postage and telephone	73,410	64,622
Printing, stationery and office	96,270	59,839
Professional	57,174	87,175
Provincial premiums tax	43,404	34,986
Travel	106,331	62,011
	$ 1,671,708	$ 996,855

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

Germania Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2010	2009
Cash provided by (used in)		
Operating activities		
Net income for the year	$ 3,163,047	$ 1,006,583
Adjustments to convert earnings to cash basis		
Amortization of bond premiums	3,708	7,515
Amortization of capital assets	102,510	94,973
Amortization of intangible assets and software license rights	47,441	11,530
Gain on disposal of capital assets	(36,296)	(9,935)
Gain on disposal of investments	(73,253)	(63,622)
Gain on amalgamation	(912,387)	-
Write down on investments	-	50,000
(Increase) decrease in accounts receivable	118,494	(311,469)
Decrease (increase) in income taxes recoverable	(346,631)	676,631
(Increase) decrease in prepaid expenses	(8,092)	2,836
(Increase) decrease in deferred policy acquisition expenses	50,504	(124,229)
(Increase) decrease in future income tax asset	114,134	(45,000)
Increase in accounts payable and accrued liabilities	48,940	436,524
Increase (decrease) in due to auto facility association	31,955	(33,907)
Decrease in provision for unpaid claims	(1,184,932)	(295,127)
Increase (decrease) in provision for unearned commissions	(168,676)	34,424
Increase in unearned premiums	818,452	685,627
Income tax effect on other comprehensive income	(44,728)	(95,900)
	1,724,190	2,027,454
Investing activities		
Proceeds on sale of investments	1,892,828	2,372,997
Purchase of investments	(3,842,492)	(4,232,718)
Acquisition of capital assets	(137,669)	(135,825)
Proceeds on disposal of capital assets	71,518	-
	(2,015,815)	(1,995,546)
Increase (decrease) in cash and equivalents during the year	(291,625)	31,908
Cash and equivalents, beginning of year (Note 16)	3,873,336	2,341,715
Cash and equivalents, end of year	$ 3,581,711	$ 2,373,623

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

December 31, 2010

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 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.
Cash and Cash Equivalents	Cash and cash equivalents consist of cash on hand, bank balances and investments in treasury bills with maturities of three months or less.
Reinsurance Ceded	Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of the amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as accounts receivable. 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.
Premiums Earned and Deferred Policy Acquisition Expenses	Insurance premiums are included in income on a daily 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 deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.
Capital Assets	Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line basis over the estimated useful life of the assets as follows:

Buildings	- straight line over 25 years
Computer	- straight line over 5 years
Equipment and fixtures	- straight line over 3 to 5 and 25 years

Other Intangible Assets	Customer lists are recorded at cost and are amortized on a straight-line basis over 10 years.

1. Summary of Significant Accounting Policies (continued)

Goodwill	Goodwill is recorded at cost less accumulated amortization. Goodwill is deemed to have an indefinite life and, accordingly, the company ceased amortizing it effective January 1, 2003. Goodwill is tested for impairment at least annually.
Income Taxes	Income taxes are accounted for using the liability method. Future income taxes occur as a result of temporary timing differences between the carrying amount of assets and liabilities for financial statement purposes and their tax basis. Future income tax assets and liabilities are measured using the tax rates anticipated to apply in the periods in which the temporary differences are expected to be realized or settled. The company is responsible for income taxes on the portion of its premiums that relate to non-farm business.
Reserve for Unpaid Claims	Unpaid claims and related adjustment expenses are determined using cash-basis evaluations plus an amount for adverse development and are estimates of the ultimate cost of all insurance claims incurred to December 31, 2010. The provision for unpaid claims represents the amounts needed to provide for the estimated cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. All provisions are periodically evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate claim liability are reflected in current operations.
Use of Estimates	The preparation of financial statements in accordance 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 amounts of revenues and expenses during the reporting period. The principal estimates used in the preparation of these financial statements, not disclosed elsewhere (unpaid claims reserves and reinsurance ceded) are the determination of the estimated useful life of property, plant and equipment, and other intangibles, and valuation of property, plant and equipment and other intangibles, transaction costs and other assets when testing for possible impairment, and future income taxes. Actual results could differ from management's best estimates as additional information becomes available in the future.

1. Summary of Significant Accounting Policies (continued)

Financial Instruments

The company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a settlement date basis.

The company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and cash equivalents. It is carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets including investments in debt securities. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprises certain investments in equity instruments, including the company's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Financial Instruments

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises accounts payable and accrued liabilities, due to auto facility association and unpaid claims. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Revenue Recognition

Gross premium revenue is recognized over the effective term of the insurance policy as the policy amount is determined and collection is reasonably assured.

Investment income is recognized as it is earned over the term of the investment. Discounts and premiums on debt securities are amortized using the effective interest method over the period to maturity. Gains and losses are recorded when realized and are calculated on the basis of average cost.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and will have a potential implication for the company, are as follows:

a) International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the company's financial statements has yet to be determined.

December 31, 2010

2. Accounts Receivable

	2010	2009
Accrued interest	$ 85,148	$ 88,684
Agents' balances	1,020,445	836,211
Due from policyholders	3,033,640	2,402,381
Broker's margin account - cash	446	1,662
Amounts recoverable on unpaid claims	2,440,090	2,154,251
Amounts receivable on paid claims	97,487	140,453
Recoverable from reinsurer - unearned premiums	736,144	645,670
Recoverable from Auto Facility Association	234,124	209,286
	$ 7,647,524	$ 6,478,598

3. Long-term Investments

The cost, estimated fair values and carrying values of investments at December 31, 2010 (with comparative cost amounts for December 31, 2009) were as follows:

	Cost	Fair Value	2010 Carrying Value	2009 Carrying Value
Available for Sale				
Debt securities				
Federal	$ 6,055,532	$ 6,140,308	$ 6,140,308	$ 5,199,418
Provincial	2,143,708	2,273,568	2,273,568	2,263,322
Corporate	2,628,655	2,665,612	2,665,612	2,226,059
Term deposits	450,000	450,000	450,000	-
Common and preferred shares	2,667,131	3,448,814	3,448,814	2,923,368
Farm Mutual Fixed Income Pooled Fund	2,259,766	2,223,162	2,223,162	1,790,735
Farm Mutual Equity Pooled Fund	449,792	426,422	426,422	367,495
Fire Mutual Guarantee Fund	28,621	28,621	28,621	26,707
	$16,683,205	$17,656,507	$17,656,507	$ 14,797,104

3. Long-term Investments (continued)

Maturity profile of bonds, debentures and investment certificates at December 31, 2010:

Within 1 year	Over 1 to 5 years	Over 5 years	Carrying Value
$ 1,679,371	$ 8,830,466	$ 569,651	$ 11,079,488

The effective interest rate at December 31, 2010 for bonds, debentures and investment certificates is 3.5% (2009 - 3.9%).

For all investments, the carrying values are equal to their fair values and the maximum exposure to credit risk would be the fair value as shown above.

4. Capital Assets

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land and buildings	$ 1,142,534	$ 83,549	$ 1,241,788	$ 198,724
Computer	148,121	76,297	170,999	129,460
Equipment and fixtures	327,754	158,564	265,146	144,688
	$ 1,618,409	$ 318,410	$ 1,677,933	$ 472,872
Net book value		$ 1,299,999		$ 1,205,061

During the year, aggregate capital assets in the amount of $147,274 were acquired, of which $9,605 was by way of trade, with the remaining $137,669 paid by cash.

5. Goodwill and other intangible assets

		2010		2009
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer lists	$ 158,388	$ 81,471	$ 72,925	$ 34,030
Goodwill	141,038	-	55,575	-
	$ 299,426	$ 81,471	$ 128,500	$ 34,030
Net book value		$ 217,955		$ 94,470

During the year $85,463 in customer lists and $85,463 in goodwill was acquired on amalgamation with Culross Mutual Insurance Company for no cash consideration (see Note 16). No goodwill was impaired during the year. The company changed its estimate of the useful life of customer lists in 2010 to 10 years from 20 years. During the year, $47,441 (2009 - $2,780) was amortized.

6. Credit Facility Agreement

The company has a credit facility agreement with the Royal Bank of Canada, due on demand. Interest is prime plus 1.35% calculated and payable monthly. The total credit available and undrawn under this facility and a corporate VISA is $280,000. Any amount drawn on these facilities would have been shown as a liability in the financial statements. The agreement contains reporting requirements and a general security agreement.

7. Underwriting Policy

The company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to the first $250,000 plus 10% of the next $750,000 on any claim in the event of a property claim, $200,000 plus 10% of the next $800,000 on any claim in the event of a liability claim and $125,000 plus 10% of the next $875,000 on any one claim in the event of an auto claim. In addition, the company has obtained reinsurance having an upper amount of $6,000,000, and which limits the company's liability to the first $600,000 plus 5% of any additional amount in the event of a series of claims arising out of a single occurrence.

December 31, 2010

8. Unpaid Claims

The process of determining the provision for unpaid claims and adjustment expenses, and related amounts recoverable, involves 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 liability is established.

9. Income Taxes

The income tax expense (recovery) for the year is made up of the following:

	2010	2009
Current income tax expense	$ 253,174	$ 319,285
Future income tax expense (recovery)	114,134	(45,000)
Income tax effect on other comprehensive income	(44,728)	(95,900)
	$ 322,580	$ 178,385

The future income tax asset of $69,000 (2009 - $90,000) arises from the differences between the carrying amounts of capital assets, investments and unpaid claims reserves for financial statement purposes and their tax amounts.

10. Rate Regulation

The company's automobile insurance rates are subject to approval by Financial Services Commission of Ontario (FSCO). Application for automobile rate increases are presented to FSCO by the Farm Mutual Reinsurance Plan (FMRP) on behalf of members of OMIA. FSCO approves these rates based on information submitted. FMRP uses actuarial data to set the automobile rates.

11. Pension Plan

Employees of the company are eligible to be members of the Ontario Mutual Insurance Association pension plan which is a multi-employer pension plan. The plan provides defined benefits to employees based on their length of service and rates of pay. Employees contribute 7.25% of their pensionable earnings to the plan, to a maximum of $11,000 (2009 - $11,000) each. The plan administrator calculates the total contributions required to meet the future benefits and the company pays the excess amount not covered by the employee contributions.

The company contributions made during the year on behalf of the employees amounted to $81,414 (2009 - $57,617) for current service. A payment of $210,943 was also made in 2010 for the company's share of the pension plan deficit that existed for the year ended December 31, 2009 based on an actuarial valuation. The next actuarial valuation will be performed for the year ended December 31, 2010, but is unavailable as at the report date of these financial statements.

All of the payments related to the pension plan current service and deficit costs are included as an expense in the statement of operations. As this is a multi-employer pension plan, these contributions are the company's pension benefit expenses. No pension liability for this type of plan is included in the company's financial statements.

12. Capital Management

Germania Mutual Insurance Company uses a premium to surplus ratio financial indicator to measure capital, with a goal of 1:1 ratio on both a net and gross basis.

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 severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits Germania Mutual Insurance Company’s exposure to $600,000 plus 5% of the remaining loss. The $600,000 net retained amount represents approximately 4% of company’s capital. For the purpose of capital management, the company has defined capital as policyholders' equity excluding accumulated other comprehensive income.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect 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. The regulator indicates that the company should produce a minimum MCT of 150%. The MCT for the company at December 31, 2010 was in excess of 500%.

13. 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 payment 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, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with 95% of the bonds 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 (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by the board and management prior to renewal of the reinsurance contract.

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

The maximum exposure to credit risk and concentration of this risk is outlined in Note 3.

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

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 issuer to a maximum of 7.5% of the company's equity portfolio.

a) Currency Risk

Currency risk relates 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.

13 Financial Instrument Risk Management (continued)

The company's foreign exchange risk is related to its stock holdings. The company limits its holdings in foreign equity to 5% in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by $977 which would be reflected in net income or other comprehensive 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.

b) Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations 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 (T-Bills, GICs, Bonds).

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 gain or losses in other comprehensive income. There are no occurrences 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 10 years. One tenth of the bond portfolio would come due each year and be reinvested. This protects the company from fluctuations in the interest rates.

At December 31, 2010, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $473,336. 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 other comprehensive 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.

13. Financial Instrument Risk Management (continued)

c) 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.

A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the company's Canadian and United States common and preferred shares and equity pooled fund of $387,524. For stocks that the company did not sell during the period, the change would be recognized in the asset value and in other comprehensive 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 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 arise as claims are made. We do not have material liabilities that can be called unexpectedly at the demand of a lender or 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 flow 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.

14. Statement of Cash Flows Information

Items not disclosed separately on the statement of cash flows include cash provided by the following:

	2010	2009
Income taxes recovered	$ 54,925	$ 357,632
Income and premium taxes paid	$ 679,283	$ 34,017

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15. Change in Accounting Policy

Effective January 1, 2010, the company early adopted the new recommendations of the CICA Handbook Section 1582, Business Combinations, which details how to record the acquisition of a business. This standard was applied prospectively and virtually mirrors the accounting treatment under IFRS which will be adopted January 1, 2011.

16. Amalgamation

By mutual consent of both board of directors and approved at a special meeting by policyholders, effective January 1, 2010, Germania Farmers' Mutual Fire Insurance Company amalgamated with Culross Mutual Insurance Company and will operate as Germania Mutual Insurance Company. Culross Mutual Insurance Company was a Mutual Insurance Company licensed to write insurance in Ontario. This amalgamation was accounted for by the purchase method and resulted in a gain on amalgamation of $912,387. The revenue and net income of Culross Mutual Insurance Company since the amalgamation date of January 1, 2010 is not disclosed as it is impracticable to determine because income and expenses are not tracked seperately.

Net assets acquired January 1, 2010 is as follows:

Cash and cash equivalents	$ 1,499,713
Future income tax asset	93,134
Accounts receivable	1,287,420
Long-term investments	569,585
Deferred policy acquisition expenses	26,418
Capital assets	95,001
Goodwill and other intangible assets	170,926
Accounts payable and accrued liabilities	(267,949)
Unpaid claims	(1,580,768)
Unearned commissions	(198,533)
Unearned premiums	(761,097)
Income taxes payable	(12,222)
Accumulated other comprehensive income	(9,241)
	912,387
Gain on amalgamation	912,387
Cash consideration	$ -

16. Amalgamation (continued)

Opening balance sheet on January 1, 2010 amalgamation is as follows:

Cash and cash equivalents	$ 3,873,336
Future income tax asset	183,134
Accounts receivable	7,766,018
Prepaid expenses	16,059
Long-term investments	15,366,689
Deferred policy acquisition expenses	1,282,425
Capital assets	1,300,062
Goodwill and other intangible assets	265,396
Total assets	$ 30,053,119
Accounts payable and accrued liabilities	$ 1,490,520
Due to auto facility association	156,666
Unpaid claims	9,259,295
Unearned commissions	411,604
Unearned premiums	6,969,925
Income taxes payable	304,896
Total liabilities	18,592,906
Unappropriated members' surplus - Germania Mutual	9,956,134
Unappropriated members' surplus - Culross Mutual	912,387
Accumulated other comprehensive income	591,692
Total liabilities and surplus	$ 30,053,119

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SINCE 1878